

L T Foods Ltd

NSE Symbol: Daawat PE 12.7X

CMP Price: 171

Date: 31-07-2023

PLAY: FMCG (BASMATI RICE; premium product not commodity), ORGANIC FOOD, PROCESSED/ PACKAGED FOOD.

BUYBACK POSSIBILITY If continues to remain UNDERVALUED

Rerating on improved debt to equity mix

Increasing consumer discretionary spend in India

Company Overview:

Fundamentals:

Market Cap in Cr.	5738
Stock P/E	12.7
Industry P/E	42
Revenue in Cr.	6936
OPM (last 3 Yr.)	11%
NPM (last 3 Yr.)	6%
Sales Growth (last 3 Yr.)	19%
ROE	16%
EPS 2023	11.6
Debt to Equity	0.44

Primarily engaged in the business of milling, processing, and marketing of branded and non-branded basmati rice and manufacturing of rice food products in the domestic and overseas

Key Guidance:

Great execution so far from 3 year and lived up to management guidance (if not exceeded)

1. Target 5-year revenue CAGR of 10-12%
2. Target 5-Year EBITDA Margin Expansion of 140-150 bps
3. ROE/ROCE 20%/23% for 2025
4. EBITDA Margin in 2025 of 13.5%

This study is for educational purpose only. No Buy/Sell recommendation provided here in report.
Report by: Ankit Salgia, Pratik Salgia. Disclosure – Already Invested in stock.

Projections: Both implies 24% PAT CAGR which is consistent with past

EPS Estimate for 2023-2024	14.4	
Implied PE	11.5	Forward PE 2024 @525cr PAT
	9.3	Forward P/E 2025 @650cr PAT

Business Highlights:

- A family business with a 60-year history. Daawat inhouse brand. Acquired Roaul in US in 2007
 - Daawat Biryani broke all previous records, **achieved ever highest number** in two consecutive months (May & June).
 - Daawat Biryani Kit continues to garner consumer preference across **all platforms – E-Commerce**, Modern Trade & select Retails.
 - Becomes first-of-its-kind product to feature in the Top 5 Amazon Bestsellers list.
 - E-commerce sales grew by 158%+ in Q1 FY24 compared to Q1 FY23, with strong return on advertising across platforms and operational investment into Amazon
 - **2% market share gain YoY** due to 360 marketing campaign (all platforms). 29% in 2023 from 22% in 2016
 - Strong supply chain: 180k retails outlets presence
 - **100% independent audit committee and NRC committee**
 - Non-basmati rice is not a strategic focus for LT Foods, except for regional and specialty rice.
 - Consumers are **switching from unbranded** to branded Rice in India
 - Basmati rice consuming population as it accounts for almost 80% of total basmati consumption worldwide
 - Basmati Rice is aged up to 24 months to enhance & intensify taste, aroma, and cooking characteristics. This requires company to maintain large inventory of paddy & rice.
 - Inventory level as of March 2023 end is at 2,90,000 tons paddy and 1,25,000 tons of rice, an increase of 29,000 tons compared to March 2022.
 - India Accounts for 20% of global rice consumption and 80% of Global Basmati Exports per 2016 data
 - **Strong ESG**
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- 5X revenue in 10 years
 - **Debt to Equity mix** improved substantially
 - **Improvement in WC** Cycle.
 - 5-year volume CAGR in the branded segment is around 14%.
 - Positive about the **possibility of a buyback** in the next board meeting.
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- Identified 3 platforms for the extension of its brand, a specialty rice, health, and convenience platform.
 - Prioritizing digital transformation assets to enhance operations.
 - Investing in green power generation, solar power, and warehouses in the past year.
 - Positive outlook for their business and aim to build a sustainable and profitable global business.
 - Increasing capacity by roughly 100,000 tons through capex investment in power generation, warehouse, and capacity enhancement.
 - Focus on expanding its portfolio by leveraging its brand equity and distribution.
 - Building up its portfolio under the convenience platform and aims to have 9-10% revenue coming from this platform in the next 5 years.

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Middle East Rice consumption.: 9.1mn MT. Basmati cons.: 37.8% of total rice. The Middle East has the largest basmati rice consuming population as it accounts for almost 80% of total basmati consumption worldwide

- **5-10% market share targeted in Middle East**
- **SALIC - partnership in Saudi** and their ~10% stake in company
- \$1m tonne market is Saudi, LT doing only 20k tonne
- Sufficient inventory built up
- Paddy purchased in Oct - Dec a year in advance. Aged 9-12 months. Sales in Year 2 October onwards. Pricing can be passed through in this time gap. Natural pricing hedge

Clientele:

Exporting to 60+ countries

MOAT:

Enjoy leadership positions in the market of Basmati Rice (India Market share @29% and America (U.S.) @ 50%). Strong distribution network & Mgmt. Execution.

Integrated business model (farm to fork),

Heavy IT use,

100% quality checks

Latest Results: June Quarter is STRONG - 10% YoY growth in Sales and 44% in Profit.

Latest Qtrly Results (in crore) of June 2023			Growth		
	June 2023	Mar 2023	Jun 2022	over PQ	over LYQ
Sales	1778	1821	1611	-2.4%	10.4%
PAT	137	132	95	3.8%	44.2%
Margin	7.7%	7.2%	5.9%		

Future Growth Plan:

Fixed Asset 600 cr. in Mar 2019 in 2021 to 995 cr. in 2023. Multiple Acquisitions and captive power plant, warehouses.

Investor:

Promoters	51%
FII	6%
DII	3%
Public	39%

Dividend policy:

Yield 0.55 %

Anti Thesis:

Highly competitive industry thus low margins. Rain impacting crop (risk mitigated in LT Food by organised farming and irrigation). Rice Price and Government Interventions on Export; usually does not happen in premium rice segments.

Special items:

Working Capital debt that is required to purchase paddy in the season and age it for minimum 12 months. Reason for high inventory

Conclusion:

Growth Stock at value with tailwinds in short term. Multiple verticals (Organic food, Convenience food, Middle East Market).

Higher disposable income in India to boost consumption of premium rice.

Appendix from company report:

Right-to-Win

LT Foods has well defined strategies in place for further Growth, Margin Expansion and Strengthening of Financial Metrics

- Strong Global Brands to Provide Superior Consumer Experience**
 - Flagship Brands "Daawat" and "Royal" enjoy leadership positions in India, US and other geographies
 - Other brands such as Heritage, Davaaya, Gold Seal Indus Valley, 817 Elephant, Rozana also enjoy leadership position in other countries
- Robust Global Supply Chain**
 - Complete control on the value chain from "Farm to Fork"
 - Global Supply chain hubs and strategically located manufacturing units across India
 - Automated state of the art manufacturing units with less dependence on labour
- Distribution & Marketing**
 - Well entrenched distribution network in 60+ countries with 1500+ Distributors across globe
 - New Route to Market Approach to strengthen Brand Distribution and Availability across geographies to ensure high productivity and coverage expansion
 - Holistic Marketing Approach to ensure Brand Visibility and to strengthen connect with the audience by being aggressively available in ATL platforms like TV, YouTube, Radio, Outdoor, etc.
- Culture of Excellence**
 - Resilient implementation of the strategies by LT Group's Team Members
 - Create a culture of entrepreneurship and winning strategies to achieve the goals of the Company

LT Foods Investor presentation, 5M FY22 & Q3 FY22

Specific Deal Contours

- CLIC SALIC**
 - Preferential issuance of shares for 7.89% stake at INR 142.23 per share
 - Subscription Amount – INR 388.8 Cr
- LT Foods**
 - In a related transaction, LT Foods will use INR 175.8 Cr from the above proceeds to purchase SALIC's entire 29.52% stake in Davaat Foods Ltd and Davaat Foods to become a wholly owned subsidiary of LT Foods Limited
- CLIC SALIC**
 - Secondary share purchase from promoter group for additional 1.33% stake
 - Purchase Consideration - INR 65.7 Cr

The relevant transactions are subject to necessary regulatory and other customary approvals

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LT Foods to enter into a Strategic Partnership with SALIC



- SALIC is a Saudi joint stock company that is owned by the Public Investment Fund of the Kingdom of Saudi Arabia
- SALIC is investing INR 455.5 Cr to become a 9.22% equity partner in LT Foods



Successful partnership with SALIC at Daawat Foods Ltd. since 2020

Now, SALIC is tripling its investment in LT Foods as a testimony to its continued faith in the strength of our business model

Strategic Rationale to partner with SALIC



- SALIC fits the criteria of a long term strategic partner with aligned objectives, investment expertise and deep understanding of the global rice, staples and food market
- Has proven to be a trusted partner for LT Foods since 2020 when it invested in Daawat Foods Limited
- Will help accelerate LT Foods' organic and inorganic expansion plans across business segments, open doors for strengthening its business presence specifically in the Middle East and Saudi Arabia region and fortify its position as one of the leading players in the industry

Potential Strategic Growth Opportunities



Catalyzes expansion in the Middle East, Saudi Arabia

- ✓ In FY22, 78% of India's total Basmati rice exports worth INR 254 Bn to MENA region!
- ✓ At INR 48 Bn, Saudi Arabia is the 2nd largest destination of India's Basmati rice exports!
- ✓ Significant room for growth for LT Foods as its exports to Middle East only accounted for c.6% of its total revenue in FY22

Partner to drive long-term growth in the Middle East

- ✓ Entered into a Strategic Supply & Cooperation Agreement giving LT Foods significant access to the large market of Saudi Arabia

Strengthens financial position to leverage future growth prospects

- ✓ Fresh capital will further strengthen its balance sheet and other financial metrics to act on any organic or inorganic opportunity