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
- 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.
- 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.

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.

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			Gr	owth	
	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:

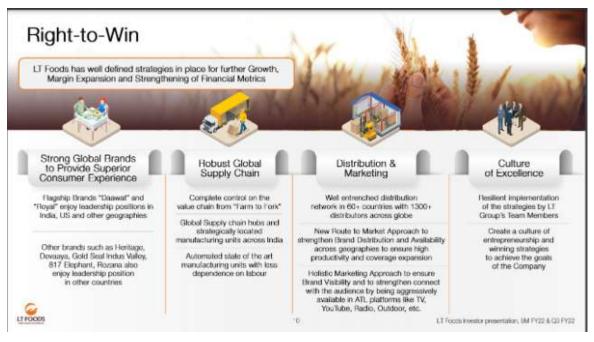
Working Capital debt that is required to purchase paddy in the season and age it for minimum 12 months. Reason for high inventory

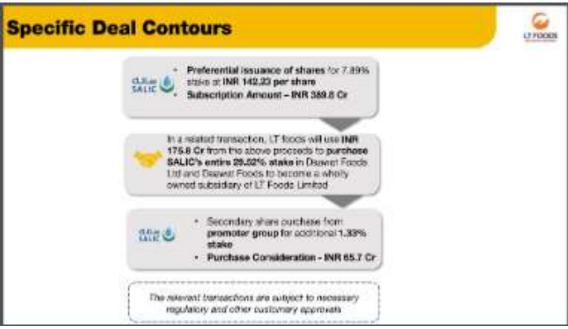
Conclusion:

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:





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.

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

