

Company Update

LT Foods Ltd

Bloomberg Code: LTFO IN

India Research - Stock Broking

HOLD

Subdued Quarterly and Full Year Operating Performance

LT Foods Limited has posted subdued set of consolidated numbers for Q4FY19 wherein its revenue at Rs. 10087 Mn (as against our estimate of Rs. 12700 Mn) registered de-growth of 5.8% against same quarter last year on YoY basis on the back of decline in branded domestic volume by 0.8% and increase in branded domestic revenue by 0.9% on YoY basis. Branded volume decreased by 0.7% whereas private label volume declined by 36.1% on YoY basis. Branded domestic realization at Rs. 54.9/kg grew by 1.7% on YoY basis.

However, branded export revenue grew by 5.2% on YoY basis whereas branded export volume decreased by 0.5% on YoY basis. Branded export realization at Rs. 101/kg grew by 5.7% on YoY basis.

EBITDA at Rs. 888 Mn in Q4FY19 de-grew by 5.1% on YoY basis whereas PAT at Rs. 218 Mn de-grew by 36.8% on YoY basis.

Full Year FY19 Performance Highlights: Full year FY19 revenue came in at Rs. 38904 Mn which grew by 7.7% over FY18 mainly on the back of 8.8% growth in branded, 5.9% growth in private label and 2.8% growth in organic business. EBITDA at Rs. 3972 Mn grew by 5.1% wherein EBITDA margins at 10.2% got contracted by 25 bps over FY18. PAT at Rs. 1375 Mn de-grew by 4.8% on account of rise in tax expense as percentage of PBT to 35.7% as against 33.1% in FY18. Branded domestic realization at Rs. 53 grew 3.3% whereas branded export realization at Rs. 104 grew at 8.0% over FY18.

Valuation and Risks

FY19 has proved to be great year for basmati rice industry at both domestic and export fronts wherein exports have grown 22% over FY18. Middle East witnessed a sharp rise in import from India. Constraints with LT Foods Ltd. are that it has low penetration in Middle East with about 75 percent of basmati import from India. We value the stock at 9 years average of PE6.1x of FY21E EPS for downwardly revised TP of Rs. 34 with potential upside of 14% and rate **"HOLD"** on stock. Risk to valuation could be slowdown in basmati demand in North America and European regions.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	32448	36137	38904	40850	42892
EBITDA	3582	3780	3972	4652	4801
EBITDA Margin (%)	11.0	10.5	10.2	11.4	11.2
Net Profit	1293	1444	1375	1714	1795
EPS (Rs.)	4.8	4.5	4.3	5.4	5.6
RoE (%)	21.5	15.7	11.0	12.1	11.4
PE (x)	13.6	19.0	9.1	5.6	5.3

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

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Recommendation (Rs.)

CMP (as on May 24, 2019)	30
Target Price	34
Previous Target Price	44
Upside (%)	14

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	9515 / 137
52-wk High/Low (Rs.)	85 / 27
3M Avg. daily value (Rs. mn)	30.1
Beta (x)	1.1
Sensex/Nifty	39435 / 11844
O/S Shares(mn)	319.8
Face Value (Rs.)	1.0

Shareholding Pattern (%)

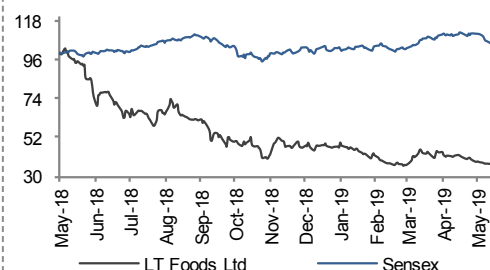
Promoters	56.0
FII	1.6
DII	9.9
Others	32.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(18)	(10)	(30)	(64)
Relative to Sensex	(19)	(18)	(38)	(69)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY20E	FY21E
Sales (%)	↓ (8.3)	↓ (13.2)
EBITDA (%)	↓ (7.8)	↓ (14.5)
PAT (%)	↓ (23.5)	↓ (31.1)

Source: Karvy Research

Analyst Contact

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Going forward, the management has adopted a focused approach of pushing branded business in overseas markets mainly in USA and Europe with the objective of improving upon EBITDA margin. The management sees great opportunities in organic foods and rice-based convenience products and it is strengthening its brands to capitalize on new opportunities of growth. The management is encouraged to see that its sales in Europe has more than doubled to Rs. 2580 Mn from Rs. 1180 Mn in last year. The company has received orders from big retail chain in Europe along with other major orders in pipeline. This is despite pesticide residue issue which has adversely affected basmati export to Europe from India. The management sees huge potential with domestic market as well amidst change in consumer behavior and spending patterns, rising affluence and urbanization.

Key takeaways from quarterly earnings

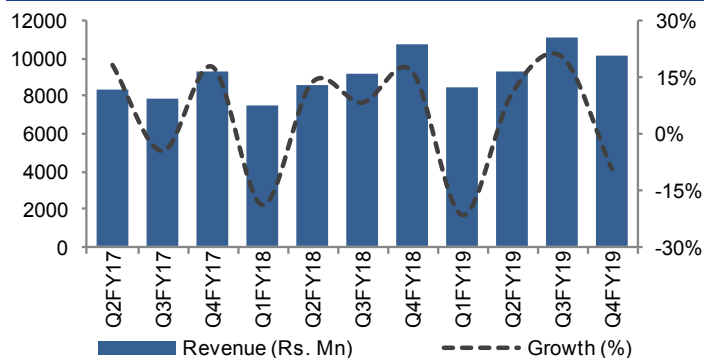
- The European operations are ramping up in line with management plan. The operations have achieved break-even at EBITDA level in Q4FY19.
- Share of US branded revenue has increased to 43% in FY19 from 41% in FY18.
- The Organic business has grown 3% in FY19 over FY18.
- Keeping pace with the changing consumer needs and preferences, the company has introduced various conveniences based products such as Kari Kari, Daawat Saute Sauces and Royal Ready-to-Heat which are getting good response.
- The management wishes to reduce company's total debt by Rs. 15000 Mn by the end of FY20.
- Capex for FY20 will be in the range of Rs. 400 Mn.
- European sales at 2500 Mn is at 50% capacity utilization and the company plans to have sales around Rs. 3200 Mn in FY20.

Exhibit 2: Q4FY19

YE Mar (Rs. Mn)	Q4FY19	Q3FY19	QoQ (%)	Q4FY18	YoY (%)
Income from Operations	10087	11139	(9.4)	10706	(5.8)
Expenditure	9199	10045	(8.4)	9771	(5.9)
EBITDA	888	1095	(18.9)	936	(5.1)
Depreciation	214	166	29.1	143	49.2
Other Income	88	29	208.1	73	21.3
Interest	439	299	46.5	402	9.1
PBT	330	656	(49.6)	460	(28.1)
Tax	112	274	(59.1)	114	(1.8)
PAT	218	382	(42.9)	346	(36.8)
EBITDA Margin (%)	9	10	(102) bps	9	7 bps
EBIT Margin (%)	6.7	8.3	(165) bps	7.4	(72) bps
Net Profit Margin (%)	2.2	3.4	(127) bps	3.2	(106) bps

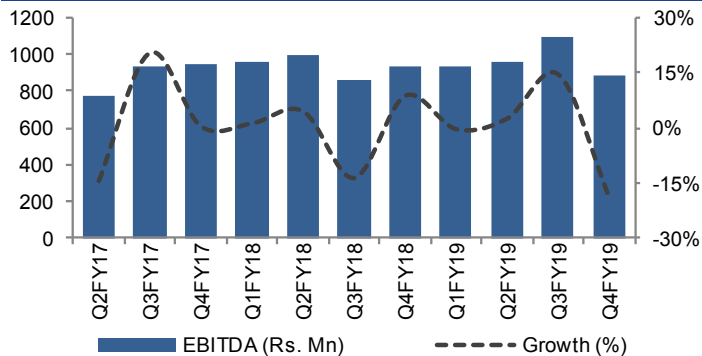
Source: Company, Karvy Research

Exhibit 3: Revenue and Revenue Growth Trend



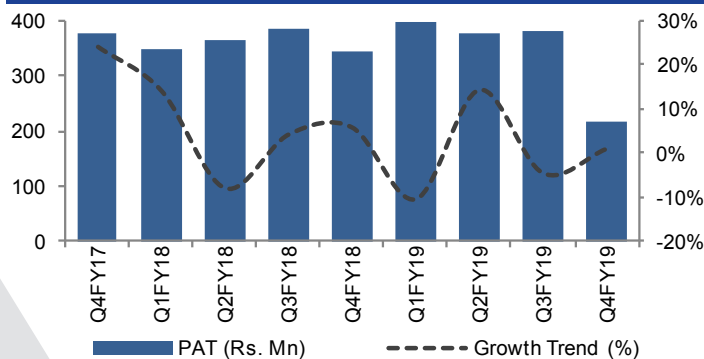
Source: Company, Karvy Research

Exhibit 4: EBITDA and EBITDA Growth Trend



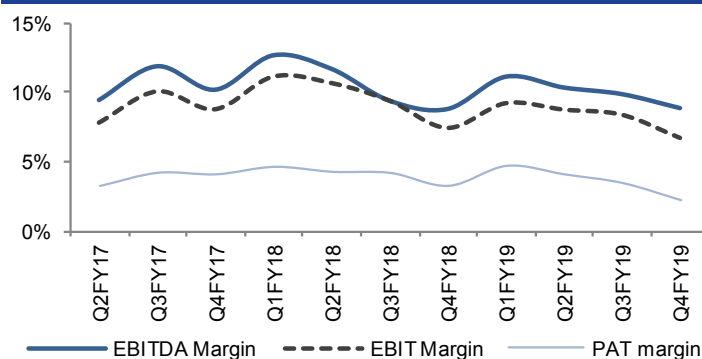
Source: Company, Karvy Research

Exhibit 5: PAT and PAT Growth Trend



Source: Company, Karvy Research

Exhibit 6: QoQ Margins Trend (%)



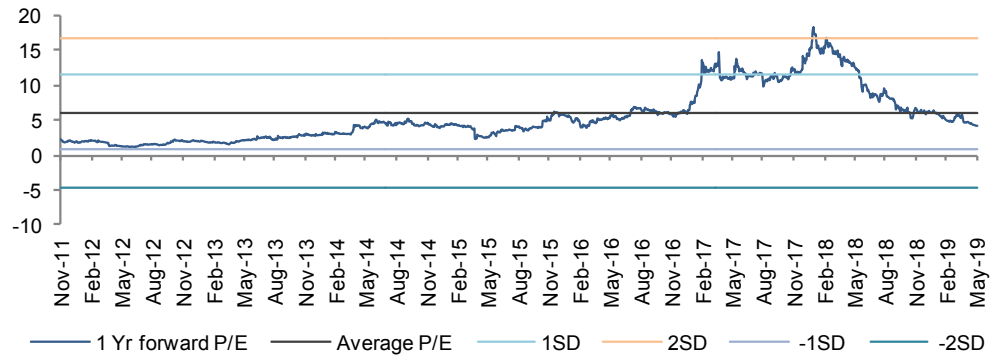
Source: Company, Karvy Research

Exhibit 7: Change in Earnings Estimates

YE Mar - Standalone (Rs. Mn)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	44524	40850	(8.3)	49422	42892	(13.2)	Management is focused more on US and European sales with objective of improving upon EBITDA margins in the process it believes sales might get compromised. Stagnant sales may have negative bearing on EBITDA and PAT as well.
EBITDA	5045	4652	(7.8)	5616	4801	(14.5)	
EBITDA Margin (%)	11.3	11.4	9 bps	11.4	11.2	(21) bps	
Adj. PAT	2241	1714	(23.5)	2606	1795	(31.1)	
EPS (Rs.)	7.0	5.4	(23.5)	8.1	5.6	(30.7)	

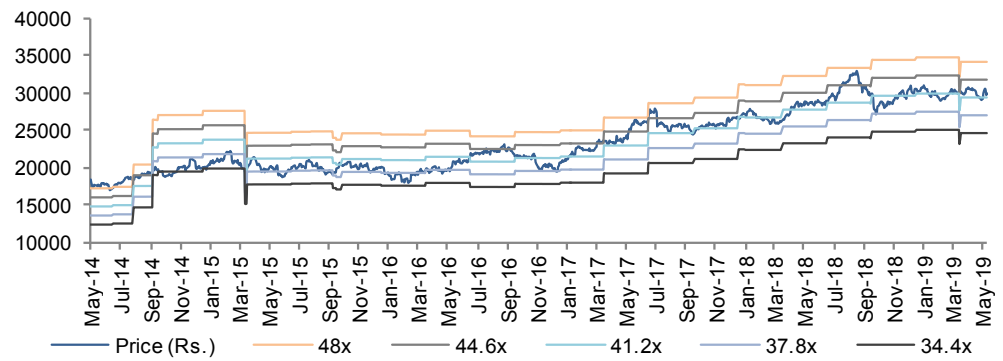
Source: Karvy Research

Exhibit 8: 8 year PE Band for LT Foods Ltd



Source: Bloomberg, Karvy Research

Exhibit 9: 5year PE Band for Nift FMGC Index



Source: Bloomberg, Karvy Research

Financials

Exhibit 10: Income Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	32448	36137	38904	40850	42892
Growth (%)	9.1	11.4	7.7	5.0	5.0
Operating Expenses	28866	32357	34932	36198	38091
EBITDA	3582	3780	3972	4652	4801
Growth (%)	0.5	5.5	5.1	17.1	3.2
Depreciation & Amortization	551	501	690	773	861
EBIT	3031	3279	3282	3878	3940
Other Income	481	362	241	408	515
Interest Expenses	1568	1466	1387	1606	1646
PBT	1942	2158	2136	2663	2790
Tax	649	714	762	949	995
PAT	1293	1444	1375	1714	1795
Growth (%)	78.4	11.7	(4.8)	24.7	4.8

Source: Company, Karvy Research

Exhibit 11: Balance Sheet

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & Cash Equivalents	415	291	377	678	877
Trade receivables	4628	4680	5349	5171	5875
Inventory	14470	17287	18912	19461	20831
Other Current Assets	1768	2272	2254	2673	3223
Net Block	4230	6037	6756	7005	7587
Other Non Current Assets	1840	2053	2206	2285	2417
Total Assets	27351	32620	35854	37274	40810
Current Liabilities	4410	4949	4562	3823	5096
Debt	15762	15162	16704	17180	17670
Other Liabilities	530	715	1297	1323	1358
Total Liabilities	20702	20825	22563	22326	24125
Equity capital	267	320	320	320	320
Reserves & Surplus	6382	11475	12971	14627	16365
Total Networth	6649	11794	13291	14947	16685
Total Networth & Liabilities	27351	32620	35854	37274	40810

Source: Company, Karvy Research

Exhibit 12: Cash Flow Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19P	FY20E	FY21E
PBT	1942	2158	2136	2663	2790
Depreciation	551	501	690	773	861
Interest	1440	1288	1387	1606	1646
Tax Paid	(507)	(1035)	(762)	(949)	(995)
Changes in WC	(1106)	(2567)	(2739)	(1573)	(1450)
Others	(53)	105	(241)	(484)	(506)
Cash flow from operating activities	2267	451	472	2036	2346
Inc/dec in capital expenditure	(795)	(2386)	(1409)	(1022)	(1443)
Inc/dec in Others	(25)	63	34	484	519
Cash flow from investing activities	(820)	(2324)	(1375)	(538)	(924)
Inc/dec in borrowings	742	(656)	1542	476	490
Dividend paid	(48)	(48)	(58)	(58)	(58)
Interest paid	(1443)	(1307)	(1387)	(1606)	(1646)
Others	(624)	3760	680	0	0
Cash flow from financing activities	(1372)	1749	777	(1188)	(1214)
Net change in cash	75	(124)	(126)	310	209

Source: Company, Karvy Research

Exhibit 13: Key Ratios

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin (%)	11.0	10.5	10.2	11.4	11.2
EBIT Margin (%)	9.3	9.1	8.4	9.5	9.2
Net Profit Margin (%)	4.0	4.0	3.5	4.2	4.2
Dividend Payout Ratio (%)	3.1	3.3	3.5	2.8	2.7
Net Debt/Equity (x)	2.3	1.3	1.2	1.1	1.0
RoE (%)	21.5	15.7	11.0	12.1	11.4
RoCE (%)	14.0	13.3	11.5	12.5	11.9

Source: Company, Karvy Research


Exhibit 14: Valuation Parameters

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs.)	4.8	4.5	4.3	5.4	5.6
DPS (Rs.)	0.2	0.2	0.2	0.2	0.2
BVPS (Rs.)	24.9	36.9	41.6	46.7	52.2
PE (x)	13.6	19.0	9.1	5.6	5.3
P/BV (x)	2.6	2.3	0.9	0.6	0.6
EV/EBITDA (x)	9.3	11.3	7.5	5.8	5.7
EV/Sales (x)	1.0	1.2	0.8	0.7	0.6

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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