

## Retail Equity Research LT Foods Ltd.

Packaged Foods

BSE CODE: 532783

NSE CODE: DAAWAT

Bloomberg CODE: LTF0:IN

SENSEX: 57,629

**Buy**

12Months Investment Period

Rating as per Small Cap

CMP Rs. 98

TARGET Rs. 120

RETURN 22% 

(Closing: 20-03-23)

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

### Strong revenue growth, margin to recover...

LT Foods (LTF) is a global consumer specialty company with an explicit focus on Basmati rice, Organic Foods and Rice based Convenience Products. LTF is having a presence in more than 60 countries with significant regional exposure in the US, Europe, and the Middle East.

- We revise our target price to Rs.120 (from Rs.132), considering the current margin pressure, but upgrade to Buy rating due to strong revenue growth and the recent correction in stock price.
- LTF's revenue growth was robust at 30%YoY in Q3FY23, aided by price and volume growth. The main segment, basmati & specialty rice (82% of total revenue), grew by 29%YoY.
- Gross margin declined by 190bpsYoY to 31.3% (37.3%QoQ) due to higher input costs while a reduction in freight cost limited EBITDA margin contraction by 160bps YoY to 9.3% (10.0% QoQ).
- Higher input costs will impact margins in the short-term. However, input costs are expected to soften given growth in paddy acreage and rupee depreciation and reduction in freight rates support margins.
- Backed by strong focus on distribution & branding, LTF's India market share has improved to 29.4% (28.5% QoQ), and retail outlets have increased to 1.78 lakhs (1.76L QoQ) which will support future growth.
- We expect earnings to grow at a 18% CAGR over FY22-25E. We value LTF at 8x FY25E EPS (5Yr Avg=8x).

### Strong topline growth aided by volume and price growth.

Q3FY23 consolidated revenue grew by 30%YoY (+31%YoY in 9MFY23), aided by growth in basmati rice segment (+29%YoY, contributes ~82% of total revenue), supported by both volume and price growth. Organic foods segment (~11% of total revenue) grew by 36%YoY and Convenience & Health segment (~2.5% of total revenue) grew by 25% YoY. LTF has recently acquired 51% stake in Golden Star Trading Inc. to strengthen market share in US (Jasmine rice segment, the brand has ~10% share in US market). LTF targets a 5Yr revenue CAGR of 10-12% aided by continuous focus on expanding its product portfolio, making investments in branding and strengthening its distribution network. LTF's market share has improved to 29.4% (28.5% QoQ) and retail outlets have increased to 1.79 lakhs (1.76 lakhs QoQ), which will strongly support future growth. We expect the higher realisation to soften in FY24 with the anticipated increase in supply (growth in paddy acreage) unless any negative impact on production due to adverse weather conditions and expect a revenue CAGR of ~11% over FY22-FY25E.

### Ease in freight costs will support EBITDA margin.

Gross margin declined by 190bps YoY to 31.3%, due to higher input costs while EBITDA margin contracted only by 160bps YoY to 9.3% (10.0% QoQ), aided by reduction in freight costs. The input prices are expected to soften in FY24, given growth in paddy acreage unless any adverse weather condition leading to production shortage. LTF has strong focus on value added portfolio to improve margin in the long-term. The Health & Convenience product segment currently contributes ~2.5% of total sales (2% in FY22). LTF targets ~150bps expansion in EBITDA margin through improvements in product mix, operational efficiency, and scale.

### Valuation & Outlook:

LTF's consistent efforts on strengthening the brands, widening distribution, and region & product diversification through organic & inorganic routes have been the strategy for growth. The margin is gradually recovering due to reduction in costs and higher volumes. We value LTF at 8x FY25E (5Yr avg=8x) and arrived at a target of Rs. 120, (earlier Rs.132) upgrade to BUY rating due to recent correction in stock price.

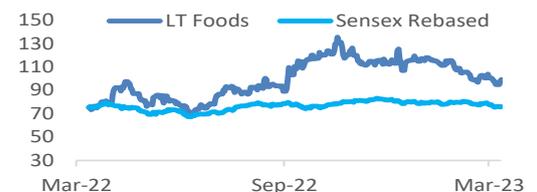
#### Company Data

Market Cap (Rs.cr)	3,134
Enterprise Value (Rs.cr)	4,619
Outstanding Shares (cr)	32.0
Free Float	43%
Dividend Yield	1.30%
52 week high (Rs.)	136
52 week low (Rs.)	67
6m average volume (Cr)	0.33
Beta	0.6
Face value Rs.	1

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	56.8	56.8	56.8
FII's	1.9	4.0	5.2
MFs/Insti	3.1	3.2	3.3
Public	29.6	29.4	28.0
Others	8.7	6.6	6.7
Total	100.0	100.0	100.0
Promotor pledge	0.0%	0.0%	0.0%

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-15.5%	-14.0%	31.7%
Absolute Sensex	-5.3%	-2.2%	0.9%
Relative Return*	-10.2%	-11.9%	30.8%

\*over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	6,971	7,131	7,470
Growth (%)	29.3	2.3	4.8
EBITDA	654	734	814
EBITDA Margin (%)	9.4	10.3	10.9
Adj. PAT	361	412	478
Growth (%)	23.4	14.0	16.2
Adj. EPS	11.3	12.9	15.0
Growth (%)	23.4	14.0	16.2
P/E	8.7	7.6	6.6
P/B	1.4	1.2	1.0
EV/EBITDA	7.4	6.1	5.1
ROE (%)	16.7	16.4	16.4
D/E	0.8	0.5	0.4

Vincent Andrews  
Research Analyst



## Quarterly Financials (Consolidated)

### Profit & Loss

Rs cr)	Q3FY23	Q3FY22	YoY Growth	Q2FY23	QoQ Growth	9MFY23	9MFY22	YoY Growth (%)
Sales	1778	1368	30.0%	1725	3.1%	5114	3901	31.1%
EBITDA	166	149	11.0%	172	-3.4%	503	432	16.4%
EBITDA margins %	9.3%	10.9%	(40bps)	10.0%	(90bps)	9.8%	11.1%	90bps
Depreciation	32	30	7.6%	30	6.2%	92	88	4.3%
EBIT	134	119	11.9%	141	-5.5%	412	344	19.5%
Interest	22	17	29.6%	18	24.0%	56	50	12.7%
Other Income	13	0	3621.4%	7	80.6%	30	21	42.9%
Exceptional Items	0	0	0.0%	0	0.0%	0	0	0.0%
PBT	133	103	29.6%	131	1.6%	394	316	24.7%
Tax	33	26	26.9%	36	-7.9%	103	82	25.8%
Share of profit from associates	0	0	NA	0	NA	0	0	NA
Minority interest	5	6	-7.3%	6	-13.4%	16	13	24.3%
Reported PAT	95	71	33.4%	90	6.4%	274	221	24.4%
Adjustments	0	0	0.0%	0	0.0%	0	0	0.0%
Adj PAT	95	71	33.4%	90	6.4%	274	221	24.4%
No. of Shares	32	32	0.0%	32	0.0%	32	32	0.0%
Adj EPS (Rs)	3.0	2.2	33.4%	2.8	6.4%	8.6	6.9	24.4%

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	6,634	7,295	6,971	7,131	5.1%	-2.3%
EBITDA	677	824	654	734	-3.4%	-10.9%
Margins (%)	10.2%	11.3%	9.4%	10.3%	(80bps)	(100bps)
Adj. PAT	363	467	361	412	-0.5%	-11.8%
EPS	11	15	11	13	-0.9%	-11.8%

**PROFIT & LOSS**

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>4,140</b>	<b>4,734</b>	<b>5,391</b>	<b>6,971</b>	<b>7,131</b>	<b>7,470</b>
% change	6.3	14.4	13.9	29.3	2.3	4.8
<b>EBITDA</b>	<b>472</b>	<b>559</b>	<b>561</b>	<b>654</b>	<b>734</b>	<b>814</b>
% change	17.7	18.6	0.3	16.6	12.3	10.9
Depreciation	91	108	123	123	130	137
<b>EBIT</b>	<b>380</b>	<b>451</b>	<b>438</b>	<b>530</b>	<b>604</b>	<b>677</b>
Interest	132	87	69	78	84	67
Other Income	32	37	59	41	43	45
<b>PBT</b>	<b>280</b>	<b>400</b>	<b>428</b>	<b>493</b>	<b>564</b>	<b>656</b>
% change	32.3	42.8	7.0	15.3	14.2	16.3
Tax	78	109	114	130	148	172
Tax Rate (%)	27.7%	27.2%	26.7%	26.3%	26.3%	26.3%
<b>Reported PAT</b>	<b>184</b>	<b>275</b>	<b>293</b>	<b>361</b>	<b>412</b>	<b>478</b>
Adj*	1	2	0	0	0	0
<b>Adj PAT</b>	<b>184</b>	<b>272</b>	<b>293</b>	<b>361</b>	<b>412</b>	<b>478</b>
% change	47.6	48.1	7.6	23.4	14.0	16.2
No. of shares (cr)	32.0	32.0	32.0	32.0	32.0	32.0
<b>Adj EPS (Rs.)</b>	<b>5.8</b>	<b>8.6</b>	<b>9.2</b>	<b>11.3</b>	<b>12.9</b>	<b>15.0</b>
% change	47.6	48.1	7.6	23.4	14.0	16.2
DPS (Rs.)	1	1	1	1	1	1
CEPS (Rs.)	8.6	11.9	13.0	15.2	16.9	19.2

**CASH FLOW**

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net inc. + Deprn.</b>	<b>276</b>	<b>383</b>	<b>416</b>	<b>485</b>	<b>542</b>	<b>615</b>
Non-cash adj.	3	2	5	19	21	23
Other adjustments	143	97	92	97	104	90
Changes in W.C	33	-54	-1	-897	-110	-161
<b>C.F. Operation</b>	<b>474</b>	<b>445</b>	<b>518</b>	<b>-316</b>	<b>536</b>	<b>544</b>
Capital exp.	-89	-114	-158	-65	-80	-80
Change in inv.	3	14	4	-65	0	0
Other invest.CF	5	0	8	0	0	0
<b>C.F - Investment</b>	<b>-81</b>	<b>-100</b>	<b>-145</b>	<b>-130</b>	<b>-80</b>	<b>-80</b>
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-248	-225	-278	550	-325	-350
Dividends paid	-25	-32	-32	-39	-39	-39
Other finance.CF	-131	-89	-47	-78	-84	-67
<b>C.F - Finance</b>	<b>-404</b>	<b>-346</b>	<b>-358</b>	<b>433</b>	<b>-447</b>	<b>-455</b>
Chg in cash	-11	-2	15	-13	9	8
Closing cash	19	17	32	19	28	36

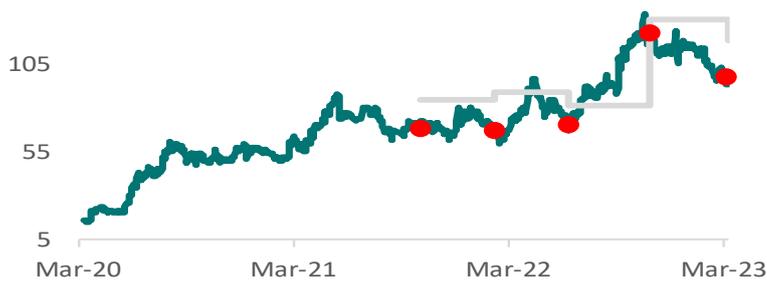
**BALANCE SHEET**

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	25	30	39	26	35	44
Accounts Receivable	627	494	618	764	781	819
Inventories	1,750	2,223	2,352	2,854	3,154	3,280
Other Cur. Assets	238	211	165	315	322	338
Investments	33	29	25	90	90	90
Gross Fixed Assets	1,289	1,331	1,429	1,509	1,589	1,669
Net Fixed Assets	811	794	822	778	728	671
CWIP	17	33	35	20	20	20
Intangible Assets	95	86	84	84	84	84
Def. Tax (Net)	35	28	24	24	24	24
Other Assets	198	201	209	330	338	354
<b>Total Assets</b>	<b>3,828</b>	<b>4,128</b>	<b>4,372</b>	<b>5,286</b>	<b>5,577</b>	<b>5,723</b>
Current Liabilities	477	683	911	929	1,151	1,184
Provisions	6	11	12	10	10	10
Debt Funds	1,713	1,506	1,262	1,812	1,487	1,137
Other Liabilities	128	145	159	184	205	228
Equity Capital	32	32	32	32	32	32
Reserves & Surplus	1,449	1,724	1,966	2,288	2,662	3,102
Shareholder's Fund	1,505	1,783	2,029	2,352	2,725	3,165
<b>Total Liabilities</b>	<b>3,828</b>	<b>4,128</b>	<b>4,372</b>	<b>5,286</b>	<b>5,577</b>	<b>5,723</b>
<b>BVPS (Rs.)</b>	<b>44</b>	<b>53</b>	<b>61</b>	<b>71</b>	<b>82</b>	<b>96</b>

**RATIOS**

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profitab. &amp; Return</b>						
EBITDA margin (%)	11.4	11.8	10.4	9.4	10.3	10.9
EBIT margin (%)	9.2	9.5	8.1	7.6	8.5	9.1
Net profit mgn.(%)	4.4	5.7	5.4	5.2	5.8	6.4
ROE (%)	13.1	16.8	15.6	16.7	16.4	16.4
ROCE (%)	7.2	8.0	8.0	8.7	8.7	9.4
<b>W.C &amp; Liquidity</b>						
Receivables (days)	51.2	43.2	37.7	36.2	39.6	39.1
Inventory (days)	160.5	153.2	154.9	136.3	153.8	157.2
Payables (days)	34.0	46.0	63.6	54.8	59.0	64.6
Current ratio (x)	1.5	1.7	1.8	1.9	2.1	2.4
Quick ratio (x)	0.4	0.3	0.4	0.4	0.4	0.5
<b>Turnover &amp; Leverage</b>						
Gross asset T.O (x)	3.7	3.6	3.9	4.7	4.6	4.6
Total asset T.O (x)	1.1	1.2	1.3	1.4	1.3	1.3
Int. coverage ratio (x)	2.9	5.2	6.4	6.8	7.2	10.1
Adj. debt/equity (x)	1.2	0.9	0.6	0.8	0.5	0.4
<b>Valuation</b>						
EV/Sales (x)	1.2	1.0	0.8	0.7	0.6	0.6
EV/EBITDA (x)	10.4	8.4	7.9	7.5	6.2	5.2
P/E (x)	17.4	11.8	10.9	8.9	7.8	6.7
P/BV (x)	2.2	1.8	1.6	1.4	1.2	1.0

## Recommendation Summary-(Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
12-Oct-21	Buy	85
17-Feb-22	Buy	90
21-June-22	Accumulate	82
07-November-22	Hold	132
21-March-23	Buy	120

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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