

**NOT
RATED**
LT FOODS

| Consumer Staples

| 02 January 2024

Appetite for growth

- **Leading domestic player in basmati rice with strong presence in export markets and popular brands, including Daawat, Royal and Ecolife**
- **Investments and strategies aligned towards improving domestic volume market share by 300bps to 33% within 6 quarters**
- **India revenue guided to double in 3-4 years accompanied by 500bps gross margin expansion in ~5 years**

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We visited two of LT Foods' (LTFO IN, Not Rated) plants in Sonipat, Haryana, to understand the manufacturing process and business operations. Key takeaways:

Established player in basmati rice: LTFO is a leading player in the rice business with strong brands such as *Daawat* (30%+ market share), *Royal* (50%+ market share), *Golden Star*, *Devaaya*, and *Ecolife*. The company is engaged in the basmati & other specialty rice, organic food & ingredients, and health & convenience segments. In addition to a broad domestic footprint, LTFO exports to over 80 countries.

Strategically located plants: LTFO has five processing facilities in India (Punjab, Haryana and Madhya Pradesh), two packaging units and one ready-to-eat facility in the US, and one processing facility in Rotterdam (Netherlands). The company is setting up a new manufacturing unit in the UK due to be commercialised by mid-2024. We visited two of its manufacturing units in Sonipat (Haryana) – one dedicated to conventional rice & ready-to-eat products and the other to organic food processing.

Sprawling organic facility: LTFO has one of the largest organic food processing facilities in India with 125,000 metric tonnes (mt) of state-of-the-art grain processing capacity. Organic foods and ingredients contribute ~11% of its consolidated revenue (FY23) and the business has logged a 30%+ CAGR since FY11, backed by extensive farmer relationships. The conventional rice processing unit we visited has 300,000mtpa of automated paddy milling capacity and caters to the company's *Daawat* brand for India and international markets and private premium sales for Australia.

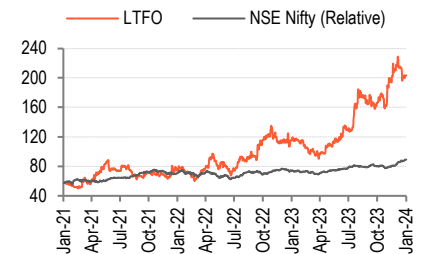
Focus on expanding India business: LTFO expects to double its revenue from India business in the next 3-4 years and is targeting a 300bps increase in volume market share over the next 18 months to 33% via a focus on modern trade and e-commerce along with expansion of retail outlet reach. The company will continue to improve its product mix and expects gross margin to expand by 500bps in the next 4-5 years driven by premiumisation.

Valuation: As per Bloomberg consensus estimates, LTFO is trading at 14.85x/12.85x FY24E/FY25E EPS. We do not have a rating on the stock.

Ticker/Price	LTFO IN/Rs 203
Market cap	US\$ 849.1mn
Free float	41%
52wk high/low	Rs 234/Rs 90
Promoter/FPI/DII	51%/6%/43%

Source: NSE | Price as of 1 Jan 2024

Stock performance



Source: NSE



Plant visit takeaways

We visited two of LTFO's manufacturing units in Sonipat, Haryana – one dedicated to organic food processing and the other to conventional rice and ready-to-eat products.

Organic food processing unit

- LTFO's Sonipat plant is one of the largest organic food processing facilities in India, spread across five acres and fully automated using machinery from world-class manufacturers, such as Satake, Buhler and Cassel.
- The plant, which has 125,000mtpa of grain processing capacity and 60,000mtpa of rice processing capacity, is operated by Nature Bio Foods – a subsidiary of LTFO engaged in organic operations, farm production, manufacturing, packaging and marketing.
- Organic foods and ingredients contribute ~11% of LTFO's consolidated revenue (FY23) and the business has grown at over 30% CAGR since FY11. The company commands 15% of the domestic market for organic grains by volume and 75% of the export market for organic rice.
- Over the last 28 years of operations, LTFO has established a presence in 14 states in India and has 94,000 hectares of certified organic registered land.
- The company's organic portfolio includes organic rice, cereal grains, soya-based products, flour, pulses, oil & oil seeds, nuts and spices. It also exports ingredients to reputed organic food manufacturers from subsidiary companies in the US and Europe.
- In India, the company has 131 farming groups that supply organic food products and is associated with 64,000 farming families. Each group is set up to have a maximum of 500 farmers with a maximum of four hectares per farmer. According to management, its farmer dropout rate is below 5% despite competition.
- Once the company onboards farmers, it takes three years for the land to become organic. Per management, output reduces by 92% in the first two years, but sustained implementation of organic practices results in a 109% rise in output in the third year.
- Subsidiary Nature Bio recently forayed into Uganda for organic food processing and now has 30,000 acres of certified organic land with 12,000mtpa of grain processing capacity and relationships with 15,000 farming families.

Fig 1 – Organic grain processing



Source: Company, BOBCAPS Research

Conventional rice processing unit

- LTFO’s conventional rice processing unit is its largest and has three milling lines with 300,000mtpa of paddy milling capacity, including 220,000mt for raw/steamed rice and 80,000mtpa for parboiling.
- The plant has 13 packaging lines with 300,000mtpa of capacity along with storage capacity of 40,000mtpa for rice and 130,000mtpa for paddy. It is fully automated and uses imported machinery from Satake, Japan, which specialises in equipment for the processing and sorting of agricultural products, such as rice, grains and beans.
- The facility caters to the company’s *Daawat* brand for India and international markets and private premium sales for Australia. It specialises in various categories of rice, such as golden, steamed and raw rice, along with a range of convenience food products and snacks.
- LTFO procures 70-75% of its annual rice requirement during the *Kharif* (summer crop) season and the rest during the year as needed.

- During the visit, management indicated that it is targeting 2x revenue from India business in 3-4 years with a focus on improving the product mix. LTFO also aims to increase the gross profit margin in India business by 500bps over the next 4-5 years largely through premiumisation.
- The company plans to increase its domestic volume market share in rice by 300bps to 33% from current levels of 30% supported by a thrust on e-commerce and modern trade.

Fig 2 – Conventional rice processing



Source: Company, BOBCAPS Research

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