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A Legacy Lost

The fall and fall of the Singh brothers

Shivinder and Malvinder Singh are ex-promoters of Fortis Healthcare, **Dr Ranjan Pai** (centre) is chairman, Manipal group.

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A legacy lost

The fall and fall of the Singh brothers of the Ranbaxy-Fortis-Religare fame



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Craving for a new destiny

LT Foods has registered steady growth supported by its strong brand presence. Can it leap into the next orbit?

Can you really call it a food company? That is the question which may occupy your mind after spending three hours of intense discussion with LT Foods' senior officials at their headquarters at the heart of Gurgaon. With 70 per cent of their over ₹3,000 crore revenue coming from exports spanned across 65 countries (with the US, Europe and some Gulf countries leading the pack), its top executives' repeated assertion that the company is actually an Indian food MNC is not surprising. But equally noticeable is the fact that basmati rice and its variants continue to remain

the fulcrum of the business and it will hold its supremacy in the foreseeable future. And it is this fact that triggers the question whether it qualifies to be labelled as a food company or a leading basmati rice company?

But even as its basmati rice orientation remains too strong, the company certainly has ambitions to grow beyond it. In some other segments, it could well be a case of having taken preliminary steps (like its JV with the noted Japanese firm Kameda Seika to make and sell snacks). In others, like the organic food business, it could well have reached a decisive stage. While

Daawat brand of products remain the most visible offering of the company, its Devaaya brand comprising a bunch of non-rice food items too seem to be coming out from oblivion.

More than anything else, the company seems to be fired by the imagination that it is including valuable add-ons to its earning line which, along with its strong presence in the basmati rice division, will eventually push it to the \$1 billion annual revenue trajectory in the medium run. "I am confident that the way we grew our basmati business, which became a prominent brand, some of the other verticals too will take the same route," asserts Ashwani Arora, MD & CEO, LT Foods. "For instance, our organic food business is clearly at an inflection point".

The basmati base

It's the third generation which is in command of LT Foods today, which is nearly 80 years old and has trading and exports in its DNA. Daawat as a basmati brand had evolved in 1980s and has been on a slow growth trajectory for a long time, before it got into an explosive growth mode becoming the face of the company. Not many would recall today but popular TV actor Shekhar Suman was the first brand ambassador of Daawat brand in the early 1990s. Today, it has graduated to the extent that it is endorsed by none other than the legendary Amitabh Bachchan.

In India, the total basmati rice consumption is estimated to be in the range of 2 million tonnes annually and, Daawat, along with India Gate and Kohinoor, is well placed in the Top Three league.

But, while Daawat has been the company's flagship brand for nearly three decades, the company officials strongly underline that its basmati strength has grown beyond Daawat, with the addition of more brands with specific focus on different demographic interest and geographies. And much of this has happened in the last 10 years, which has helped the company grow its market share to 29 per cent today in the domestic basmati rice kitty and also in the international markets. To grow in size, the company has not hesitated in taking the inorganic route – both within the country and outside.

Over a period of one decade, the company has acquired some notable brands like Royal (\$13 million), Gold Seal Indus Valley & Rozana (from HUL for ₹17 crore for the brand and ₹7 crore for the inventory) and 817 Elephant (₹14 crore) – acquired through its UK subsidiary. "If you look at our basmati rice portfolio, then our two leading brands are Daawat and Royal," points out Vivek Chandra, CEO, global branded business, LT Foods. "The latter is typically a brand we are using in the North American market. Daawat is strongly positioned as number two brand across several countries, including India. We also have Heritage and Devaaya brand offerings. Heritage is doing good business in countries like Mauritius and Iraq and also some other markets in the Middle East. And



Chandra: our brands are strongly positioned

Devaaya is the brand we are pushing aggressively in the Far East".

The two leading brands, Daawat and Royal, are the real revenue spinners for the group – Daawat contributing about ₹1,400 crore (domestic and international) and Royal, ₹900 crore from sales in the US market. In a low base but growing basmati market like the US, it has a hefty market share of 50 per cent. The company claims to be exporting to as many as 65 countries around the world, with the US, Europe and the Gulf nations being key destinations. An interesting element of LT Foods' basmati rice pattern, however, is: it is not catering to a market like Iran, which is among top two basmati consuming markets in the world. In the rice exporting fraternity, Iran has quite an unpredictable image, as it has resorted to imposing bans on basmati imports, when its domestic production has been robust. "We believe in doing business with the countries

where there is an element of certainty, which is why we are not focussing on Iran," reasons Arora.

A critical and visible change that has unfolded in the last 10 years is the company's bid to develop a broader basmati portfolio, wherein it has offerings to match different price points and also specific products for different geographies. "If you look at our basmati rice basket, you will find there are four broader categories – speciality rice (Daawat Quick Brown Rice), economy rice (Rozana and Heritage brands) and value segment (Daawat Rozana value range). We also have a specific category for HORECA customers Dawat Chef Secret," points out Monika Chawla Jaggia, VP, finance & strategy. "And our entire portfolio is available in the \$1-\$3 per kg price range. The maximum price range, of course, comes from brands like Royal, which is meant for consumers in the North American market," she adds, while underlining that the margin in



brands like Royal could be as high as 40 per cent.

LT Foods' basmati base draws major strength from the back-end infrastructure, which the company has created over the decades and which includes five processing plants in India – Bahalgarh and Kamaspur in Haryana, one big unit near Bhopal in Madhya Pradesh, and two units in Punjab in Amritsar and Varpal. Each of these units has its own commodity specific-specialisation and, on a cumulative basis, the company has a capacity base of 101 TPH within India. On the back-end management side, the company has gone much deeper by aligning with farmers in specific pockets of Haryana, Madhya Pradesh and Punjab, who are involved in growing basmati under the strict supervision of LT Foods' field officials.

Ashutosh Sinha, head, agri business, stops short of saying that it is contract farming (he would rather use the term 'controlled farming') wherein functional modalities are such that it means a win-win equation for both the company as well as farmers. "If you look at our complete business chain including organic, then we have over 1 lakh farmers. For basmati particularly which is exported to the markets like US and the EU

where specifications on pesticides and other parameters could be stringent and too demanding, we have to ensure that those standards are met right through the value chain," says he. The process includes mapping of the area, testing of the soil, providing farmers with right kind of seeds and pesticides and keeping a tab on the crop all through its seasonal journey. In lieu of their support, the partner farmers are paid a bonus of ₹500/tonne over and above the market rate for their basmati produce.

Last year was quite critical for the company, as it picked up major strength internationally by setting up plants in the markets it is keen to harness more aggressively in the future. In November last year, the company surprised the market by announcing the opening of their first manufacturing facility in Rotterdam, the Netherlands, which has been set up with an investment of \$15 million at an initial capacity of 60,000 tonnes. Just a month prior to that, LT Foods had unveiled a ready-to-heat organic rice plant in the US (in California), which has been set up with an investment of \$5 million.

"These new plants give a major boost to our operations in our key markets. In Europe, there is heavy

duty on the import of white basmati rice – E170 per tonne and we were not able to unlock the full potential. Now, with a processing unit, we will be sending brown basmati rice and there will be no duty on it. It will be processed there. We want to have 5 per cent of European branded business in two-three years and are targeting 50,000 tonnes quantity," Chawla explains. In the US (a 150,000 tonne basmati rice market), where its Royal brand is already strongly positioned, the company will be targeting to make a mark in the fast growing ready-to-heat organic rice market. The company expects to build a revenue base of over \$20 million from this plant alone over a period of next five years.

Adding new pillars

While international market operations is clearly the driving force of its business given the intrinsic positioning of commodity trading in its 80-year-old DNA, the company's top officials assert that domestic market is equally important for them contributing as much as 30 per cent of its topline, which is expected to cross ₹3,500 crore in the just concluded 2017-18. "India, the US and the EU are clearly the major thrust areas for us," underlines Chandra.



And the company claims that, with its brands including Devaaya (which began offering staple food items like maida, suji, daliya, poha, besan and atta in 2016) as part of its re-invention exercise increasingly becoming more prominent, the criticality of its domestic business is not lost to anyone. "In the last three years, we have almost doubled our distribution reach in terms of number of retail outlets and distributors," points out Chawla.

"Today, we are present in 150,000 outlets and in the next three-five years, our target is to touch 2,00,000 outlets. We are present across all the price points and sales channels – modern retail, wholesale, etc. It shows our focus on the domestic market," he adds. According to him, the domestic business also stands at the centre point in all future considerations of the company.

LT Foods' top officials reveal that there are several sub-plots to the company's larger design but all of them converge to this key ambition of assuming a new identity – transition to the well-accepted status of a food company, with a comprehensive portfolio, rather than just being known as the leading premium rice exporter. "We want to become a leading food company and we are moving in that

direction," Arora puts it succinctly.

Discounting basmati (either exported or sold in the domestic market), the biggest weapon in LT's armour today seems to be its organic food division christened EcoLife. A 20-year-old division, its offerings (a clutch of variants in categories like ancient grains, pulse, rice and beans) have largely been export-oriented but the company claims it has become a niche vertical in its own right, with its contribution to the topline now going up to 7 per cent (roughly ₹250 crore). And much of this owes to the fact that LT Foods, almost in a stealth mode, has been doing things to build a large scale for it. "Not many people would know that we have become the second largest exporter of organic ingredients," says Arora. "As a category, it may appear out to be a small business. But EcoLife will probably be the most interesting element of our next level of journey. In the next seven-eight years, it will a strong brand in the market".

The company claims its organic business has registered a healthy CAGR in excess of 55.3 per cent between 2010-11 and 2015-16 and, today, its primary strength stems from gradually establishing one of the largest procurement ecosystems for organic

foods that is sourced from 80,000-odd farmers that cultivate 160,000 acres of land. "Our organic business has mostly been in the typical B2B mode. But after the successful launch of EcoLife as a consumer brand in the US, it will be expanded to Europe, the Middle East and India. In the Middle East and India, it will be gradually launched in the next 12-18 months," adds Chandra.

Foray into snacks

Another major sub-plot which is slated to unfold soon is the company's large-scale foray in the snacks business. "They have been talking about it for long," says a senior official of a rival basmati rice exporting firm. "But nothing concrete has emerged on this front". But LT Foods' executives are exuding confidence that this vertical will soon be going live. For a decisive foray in the rice-based food snacks segment, the company has entered into a JV with Kameda Seika – a Japanese snack food major, to make and market rice-based snacks in India.

"We are really excited about the 'Kari Kari' brand and our collaboration with LT Foods in India," says Michiyasu Tanaka, chairman & CEO, Kameda Seika. "After the successful launch of our snacks in four countries



Jaggi: we have definitive plans to add more items

(US, Thailand, Vietnam and China), India is the fifth country outside Japan where we have launched Kameda Seika products. We see a huge uptrend in the demand for healthy snacks market and our products are catering to that demand. Through our association with LT Foods, we have been able to harness their deep distribution network and experience of India market to test the products". The company officials say that the product is

under a test-run now and there has been encouraging feedback after the first round and the management is in the process of taking a final call on its launch date, probably sometime during the course of this fiscal itself.

LT Foods is promising to build another major sideshow in collaboration with domestic retail giant, Future group. It had inked an equal partnership JV agreement with the Future group during 2015-16, for processing

and distributing Sona Masoori and rice into the southern and other regional markets in India. Under the arrangement, Future group will invest and set up the processing unit and then lease it out to the JV. About 50 per cent of the produce will be sold under Future group's private label, while LT Foods will distribute the remaining portion as one of the Daawat's variant brands. And the company is also promising more action in strengthening of Devaaya brand, which comprises a bunch of staple items. "We have definitive plans to add more items to this basket and take it to more countries in the world (presently it is exported to 10 countries). Devaaya brand is already contributing over ₹100 crore to our kitty and we feel it has immense potential," says Chawla.

Will it make it there?

With its captive strength of basmati rice export, a well-established backend network, a clear brand identity in the marketplace and now marked attempts to push new verticals, especially organic, does the company have the right attributes to graduate to its desired destination – becoming a food company? The opinion seems to be divided. "Food manufacturing is a different ballgame altogether, when compared to commodity exports. In the former, you need consistent innovation to offer value-added products to stay in the race and compete with heavyweights. There aren't too many examples of commodity trading firms becoming full-fledged successful food companies," points out Deven Choksey, MD, KR Choksey Investment Managers.

LT Foods' officials, on their part, maintain that value addition is a well-understood fact for the management and, though they have not spoken much about it, they have developed over 600 SKUs across their product categories. They cite the thrust on ready to heat or convenient rice product as a clear example of their innovative drive, which is increasingly becoming popular globally. The company is also testing a specific kind of sauce, which can be quickly mixed with the leftover rice and can be used. "It is the first product of its kind and it could be a major winner for us," Chandra says.



According to Arora, as the publicly listed company marches ahead to emerge as a food major, the larger target is: \$1 billion turnover by 2022. And some observers believe that the company can make a serious attempt to chase this ambitious target, given the strengths of its existing platform. "They seem to have the right kind of financial size, back-end infrastructure, distribution network (both national and international) and the ability to leverage them to introduce more products. In the near-to-medium run, marketing and branding will be playing a critical role for their further growth," observes Nalin Sood, former CMO, SC Johnson and a noted FMCG expert, who adds that the company needs to build further momentum on the organic side. "Organic space has huge headwinds and a lot of companies are jumping in the fray," cautions Sood. "It's difficult to say how many of them will do well but those who will crack this code can expect high margins."

With the company pushing out more consumer-centric products in the future, branding drive, of course, would become increasingly important. Supratik Sengupta, assistant VP, marketing, asserts that the company

has not only been quite alert to this imperative but will also up the ante in the future. "We have consistently improved our brand recall value in all prestigious surveys in the recent past," says Sengupta. "Daawat is a known brand in the Indian market. And even in the US, which is a major market for us, we have started a diaspora-specific, ground level activation exercise. The endorsement by Amitabh Bachchan has helped us immensely," he adds, while affirming that the branding drive would be more intensive in the coming years.

Debt level

And now comes the most critical element – the financial health of the company to carry forward its leap into the next orbit! On the year-to-year performance front, the company has continuously shown growth in both topline and bottomline, maintaining a 10-12 per cent trajectory during the last five years. However, the level of debt on its balance sheet is quite high, with Arora himself pegging it in the vicinity of ₹1,500 crore in a recent television interview, after the company had raised ₹399 crore through the QIP route. Part of the proceeds will be used to retire the debt. In a

business, where the inventory management cost is on the higher side (premium basmati rice needs storage running into months) and there is the currency fluctuation risk too, given the high export orientation, LT Foods' debt level is cited by many as its weakest spot.

ICRA, the credit rating agency, however, has come out with a report on the company which maintains that LT Foods has its head comfortably above the water. The company's rating was upgraded by the agency. "Steady internal accrual generation has resulted in no major addition in debt levels," says the report. "This has resulted in a steady decline in gearing level and some improvement in debt-protection metrics in 2016-17. Moreover, fresh equity raised through the QIP issue is likely to result in further decline in reliance on debt... the group has registered steady revenue growth over the years, supported by strong brand presence, higher contribution from branded sales and healthy increase in average realisations in the export market". For Arora and his team, these words would offer considerable comfort.

♦ RITWIK SINHA

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