

India Ratings Upgrades LT Foods's Debt Facilities to 'IND AA-'/Stable; Rates Additional Limits

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India Ratings and Research (Ind-Ra) has taken the following rating actions on LT Foods Limited's (LTF) debt instruments:

Instrument Type	Coupon Rate	Date of Issuance	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Commercial paper (CP)*	-	-	-	INR500*	IND A1+	Affirmed
Fund-based working capital limit	-	-	-	INR6,980 (reduced from INR7,150)	IND AA-/Stable/ IND A1+	Long-term upgraded; short-term affirmed
Non-fund-based working capital limit	-	-	-	INR1,950	IND A1+	Affirmed
Non-fund-based working capital limit	-	-	-	INR170	IND A1+	Assigned

* Yet to be issued; carved out of lower of sanctioned fund-based working capital limits or drawing power

ANALYTICAL APPROACH: Ind-Ra continues to take a consolidated view of LTF and [its subsidiaries](#) on account of the strong operational and strategic linkages among them as they all operate in the similar line of business.

The upgrade reflects a sustained improvement in LTF's business and financial profile in FY23, with its scale of operations increasing while maintaining healthy margins and a lower net leverage.

Key Rating Drivers

Sustained Growth in Scale of Operations with Robust Profitability: LTF's consolidated revenue grew 28% yoy in FY23 to INR69.0 billion (FY22: INR53.9 billion), aided by 20% yoy growth in the realisation from the rice business to INR95.8/kg (INR80.1/kg). The company witnessed 9.5% yoy growth in volumes in FY23. The company's health and organic segment contributed 11% (INR7.8 billion) to the overall revenue in FY23 (FY22: 10%; INR7.1 billion). Its revenue grew about 13% yoy to INR37,559 million in 1HFY24 (1HFY23: INR33,359

million), on account of the company's better-than-Ind-Ra-estimated scale-up in its distribution in the basmati and other specialty rice business.

The consolidated EBITDA grew 20% yoy to INR7.3 billion in FY23 (FY22: INR6.0 billion), with the increase in the scale of operations. Its 1H FY24 EBITDA increased 34% yoy to INR4.5 billion. LTF's EBITDA margins stood at 10.5%-12% during FY14-FY23 (FY23: 10.6%; FY22: 11.2%), with the company's ability to pass on fluctuations in raw material prices, given its strong brand. The decline in its margins in FY23 was due to increased freight costs. However, its EBITDA margins improved yoy to 12.1% in 2QFY24 and 12.2% in 1H FY24 (1QFY23: 10.2%; 2QFY23: 10.0%), due to a reduction in the freight costs and its improved efficiency following its increased scale of operations. Ind-Ra expects the margins to remain healthy and sustain growth over the near- to medium term.

Improvement in Credit Metrics: LTF has been able to finance a higher proportion of its inventory through available funds over the past four years with the completion of its major capex in India and overseas. Its net leverage (net debt/EBITDA) reduced to 1.2x in FY23 (FY22: 1.7x; FY21: 2.2x; FY20: 2.9x), due to its reduced net debt and the growth in its absolute EBITDA. Its net leverage reduced considerably to 0.6x in 1H FY24 (1H FY23: 1.6x). The group repaid its long-term borrowings (primarily in LTF America) worth INR2,074 million in 1H FY24 through internal accruals. The gross interest coverage (EBITDA/gross interest expenses) reduced to 8.5x in FY23 (FY22: 8.7x; FY21: 6.4x; FY20: 3.8x) and is likely to remain comfortable over the near- to medium-term. The interest coverage stood healthy at 11.1x in 1H FY24, better than Ind-Ra's estimates. Ind-Ra expects the net leverage to sustain below 1x and the coverage to sustain above 10x over the medium term. Around 75% of the company's debt remained in the form of working capital borrowings used for financing the inventory of rice.

Strong Market Position: LTF is the second-largest branded basmati rice player in India with a market share of 30.2% in India as of September 2023 and is the largest selling basmati brand in the US with more than 50% market share in FY23 and among the market leaders in European union, East Asia and Israel, according to the management. The company has widened its footprint through organic and inorganic routes, which include acquisitions of brands such as US-based Royal (2007), Hindustan Unilever Limited's brands Gold Seal Indus Valley and Rozana (Middle East, 2016), 817 Elephant brand (Canada, 2017) and Golden Star brand (the US, 2022). It set up a manufacturing unit in the Netherlands to cater to the European market, and a ready-to-heat facility in the US in 2018. The company has a strong product portfolio of more than nine brands, with the flagship brand, Daawat, commanding a high recall. The group has a track record of more than five decades in the basmati rice industry.

Basmati rice is a geographical indication product, grown only in a certain part of India and Pakistan, and is among the most expensive varieties globally; as a result, it only forms merely around 2% of the domestic consumption. However, as per the management, with increasing disposable income and affluence, the demand for basmati rice is likely to increase over the medium term. Furthermore, Ind-Ra believes that the share of branded basmati (FY23: 30%-40%) is likely to increase over the medium term with higher brand consciousness, which augurs well for LTF. The company's market share in India increased to 30.2% in September 2023 (FY23: 29.6%; FY22: 27%; FY16: 14%), led by its strong distribution network and marketing initiatives across television, print and digital media. The presence of established brands acts as an entry barrier in the basmati rice industry, as establishing a brand involves significant time and marketing expenditure.

Healthy Geographical Diversification; Strong Distribution Network: LTF has a presence in over 78 countries (added five new countries until September 2023). It has five rice milling units in India, in addition to a manufacturing facility in Europe (the Netherlands), and three packaging units and a ready-to-heat facility in the US. The company generates 30%-36% of its revenue from India and the US each, commanding a leading position in these geographies, while the balance is contributed by countries in the Middle East, Europe, East Asia, among others.

The company's distribution network is spread across channels such as mainstream, retail outlet, hotel restaurants and caterers, and e-commerce platforms. Its product reach comprised 1,76,741 retail outlets

(growth of 9.1%), over 3,600 wholesalers and 2,500 modern trade stores in India, supported by 1300 distributors as of March 2023. The consumption of Daawat by households in India grew growth 24% yoy in 1HFY24.

Growing Product Diversification: While the company is largely a basmati player, it has diversified into organic and rice-based health and convenience foods, which have growth and margin potential. The basmati rice continued to command a dominant revenue contribution at 81% in FY23 (FY22: 79%; FY21: 86%). The organic business is continuing its strong growth and registered a CAGR of 20% over FY19-FY23. LTF forayed into the organic food business in 1999, and the other products under this segment include rice, pulses, soya and soya meals, oil seeds, cereal grains, spices and nuts with more than 94,000 hectares of organic farmland producing varied organic food products. However, the organic segment's revenue declined about 10% on yoy in 1HFY24 due to anti-dumping duty on organic soya imports in the US.

The company has also launched health and convenience food products which, despite being a small business, expanded at a CAGR of 51% to INR1.6 billion in FY19-FY23. With increasing numbers of nuclear families and the rising population of working women, the agency believes the convenience food segment is likely to witness growth over the next few years with the segment growing at 19% yoy in September 2023. While profitability from the business is low because of the low volume, the segment has a high margin potential, which would be gradually realised as the company establishes its brand and increases its sales.

Established Brand Cushions Impact of Raw Material Price Fluctuations: Given the stable demand growth, paddy prices fluctuate based on the output, while prices for branded consumer rice tend to be less volatile. The company's strategy is mostly to offer minor discounts in times of low raw material prices, which are reduced/withdrawn when the prices increase. Furthermore, basmati, which is a relatively premium product, is less price sensitive and a mild increase in the prices does not dent sales significantly. Also, buyers often have a higher brand loyalty. However, there could be a lag in passing the price changes in the branded business.

Liquidity Indicator - Adequate: Notwithstanding the yoy decline in the company's margins in FY23 and the increase in the working capital requirements due to the increasing scale of operations and its capacity utilisation (FY23: 80%; FY22: 65.3%; FY21: 65.1%), the cash flow from operations remained positive at INR1.4 billion in FY23 (FY22: INR4.7 billion; FY21: INR4.4 billion). The company's cash balance stood at INR68 million at FYE23 (FYE22: INR71 million; FYE21: INR131 million). The company's average maximum utilisation of the fund-based working capital limits was low at around 29% during the 12 months ended September 2023, as its net working capital cycle reduced to 179 days in FY23 (FY22: 209; FY21: 228). With limited long-term debt and repayments of around INR0.2 billion to 0.24 billion over FY24-26, its debt service coverage ratio is likely to remain strong over the near- to medium term.

During FY23, the group made a strategic deal with Saudi sovereign fund, Saudi Agricultural and Livestock Investment Company (SALIC). Through a main and secondary investment of INR4,555 million, SALIC held a 9.22% stake LTF as on 30 September 2023. The management expects SALIC's stake to accelerate LTF's organic and inorganic expansion plans across its business segments. It will increase the company's growth ambitions, notably in the Middle East, to reinforce the leading position in the industry. Despite the equity issuance, the promoters are likely to maintain a controlling stake of 51% in LTF. Ind-Ra expects LTF's cash flow from operations and the free cash flow to remain robust over the near term, as the elevated inventory levels would be funded through equity stake sale proceeds and the company does not have any major capex plans over the medium term.

High Inventory Business: The company's working capital intensity remains high, primarily due to high inventory levels, given the seasonality in the availability of basmati paddy and the need to store rice for 12-24 months for ageing to enhance its taste, aroma and cooking characteristics. Basmati is sowed during July-August and harvested from October, resulting in high inventory requirements and debt in the second half of the year. Furthermore, companies also try to tap the benefit of lower paddy prices by stocking up. As a result, the inventory holding period remained elongated at 247 days in FY23 (FY22: 240 days; FY21: 257 days; FY20: 215 days; FY19: 235 days). LTF, on an average, has the receivable period of 40-50 days and a net working

capital cycle of 230-250 days. The payable days increased to 88 in FY23, owing to higher purchases during year end (FY22: 72 days, FY21: 58 days) due to purchase order-based booking with farmers for future deliveries.

Susceptible to Changes in Trade Policies and Forex Fluctuations: With around 60% of its revenue originating outside India, the company remains exposed to a risk of changes in trade policies and regulations of importing countries, as well as forex fluctuations. Developed economies such as Europe are likely to keep reducing maximum residue level and any sudden change can impact sales. However, in addition to rice being an essential commodity of consumption, strong market shares provide some cushion and flexibility. The company also has a defined forex policy to hedge its exposure. Furthermore, being an agri commodity, the output and quality are dependent on climatic conditions, pest infestations, among others.

Comfortable Standalone Profile: LTF's standalone revenue increased 38% yoy to INR39.1 billion in FY23, while EBITDA margin declined to 5.8% (FY22: 6.4%). With higher revenue and better absorption of overheads, the interest coverage improved to 9.5x in FY23 (FY22: 7.9x; FY21: 6.1x) and the net leverage to 0.2x (1.5x; 1.8x) due to notable reduction in the short-term debt.

Rating Sensitivities

Positive: Significant and sustained growth in the scale of operations, profitability and an improvement in the market position, along with the net leverage falling below 1x, all on a sustained and consolidated basis, could lead to a positive rating action.

Negative: A significant fall in the profitability and/or an increase in the debt, leading to the net leverage exceeding 1.5x, on a sustained and consolidated basis, would lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on LTF, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please [click here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please [click here](#).

Company Profile

LTF is primarily engaged in milling, processing and marketing of rice with a combined milling capacity of 113 tonnes per hour in India and 8 tonnes per hour in Europe. The company's portfolio comprises branded basmati rice and other speciality rice in addition to organic food and rice-based convenience products.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR billion)	FY23	FY22
Revenue	68.97	53.90
Operating EBITDA	7.32	6.03
EBITDA margin (%)	10.6	11.2
Net leverage (x)	1.2	1.7
Interest coverage (x)	8.9	8.8
Source: LTF, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook	
				9 December 2022	27 September 2022
CP	Short-term	INR500	IND A1+	IND A1+	-
Fund-based working capital limits	Long-term/Short-term	INR6,980	IND AA-/Stable/IND A1+	IND A+/Positive/IND A1+	-
Non-fund-based working capital limits	Short-term	INR2,120	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
CP	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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