

Ref-LTF/ SE/ 2022-23/

Date: 28th September, 2022

To,

The Bombay Stock Exchange (BSE Limited)
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400 001

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051

Subject: Disclosure pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Credit Rating Information

Ref. Code: 532783. Scrip ID: DAAWAT

Dear Sir / Madam,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we wish to inform you that India Ratings and Research (Ind-Ra) has assigns LT Foods Limited short term bank facilities as **"IND A1+"** as per below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Non-fund-based limits*	-	-	-	INR970	IND A1+	Assigned

* Proposed limits of INR730 million

A copy of press release issued by India Ratings and Research is attached herewith. The same can also be assessed at : <https://www.indiaratings.co.in/pressrelease/59624>

You are requested to take the same on your record.

Thanking You,

Yours truly,

For LT Foods Limited

MONIKA JAGGIA
Digitally signed by
MONIKA JAGGIA
Date: 2022.09.28
10:03:30 +05'30'

Monika Chawla Jaggia
Company Secretary
Membership No. F5150

Enclosure: As above

India Ratings Assigns LT Foods' Short-term Bank Facilities 'IND A1+'

Sep 27, 2022 | Consumer / Retail

India Ratings and Research (Ind-Ra) has rated LT Foods Limited's (LTF) bank facilities as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Non-fund-based limits*	-	-	-	INR970	IND A1+	Assigned

*Proposed limits of INR730 million

Analytical Approach: Ind-Ra has taken a consolidated view of LT Foods and [its subsidiaries](#) on account of the strong operational and strategic linkages among them as they all operate in the similar line of business.

Key Rating Drivers

Strong Market Position: LT Foods is the second-largest branded basmati rice player in India with a market share of around 27% and the largest selling basmati brand in the US with a 50% market share in FY22, according to the management. The company has widened its footprint through organic and inorganic routes, which include acquisition of brands, including the US-based Royal (US, 2007) and Hindustan Unilever Limited's brands Gold Seal Indus Valley and Rozana (Middle East, 2016). 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 FY18. The company has a strong product portfolio of nine brands, with the flagship brand Dawaat 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 parts of India and Pakistan, and is among the most expensive varieties globally, due to which it only forms merely around 2% of the domestic consumption. However, with increasing disposable income and affluence, the demand for basmati rice is likely to increase over the medium term. Furthermore, the share of branded basmati (30%-40%) is likely to increase over the medium term with higher brand

consciousness, which augurs well for LT Foods. The company's market share increased to 27% in FY22 (FY16: 14%), on the back of 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, since establishing a brand involves significant time and marketing expenditure.

Healthy Geographical Diversification; Strong Distribution Network: LT Foods has presence in over 60 countries. 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, the Far East, among others. LT Foods does not have exposure to Iran, safeguarding it from the disruptions caused by sanctions.

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 includes over 1,50,000 retail outlets, 3,600 wholesalers and 2,500 modern trade stores in India, supported by more than 1,200 distributors with an ability to reach 93% of Indian towns with a population of more than 0.2 million.

Growing Product Diversification: While the company is largely a basmati player, it has diversified into organic and rice-based convenience foods, which have growth and margin potential. The revenue contribution from basmati rice reduced to 79% during FY22 (FY21: 86%), owing to growth in the organic and convenience and health segments. Organic business is continuing on the path of strong growth and registered a CAGR of 18% over FY18-FY22. LT Foods forayed into the organic food business in 1999; the other products under this segment include rice, pulses, soya & soya meals, oil seeds, cereal grains, spices and nuts with more than 94,000 hectares of organic farmland producing varied organic food products.

The company has also launched health and convenience food products which, despite being a small business, grew at a CAGR of 52% to INR1.3 billion during FY18-FY22. With increasing family nuclearisation and the rising population of working women, the convenience food segment is likely to witness growth over the next few years. While profitability from this business is low because of the low volumes, the segment has a high margin potential, which will be gradually realised as the company establishes its brand and sales increase.

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 discounts in times of low raw material prices, which are reduced/withdrawn when the prices increase. Furthermore, basmati being 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.

High Revenue Growth with Stable Margin Profile: LT Foods' revenue grew 14% yoy in FY22 to INR53.9 billion aided by 9% yoy growth in the realisation from rice business to INR80.1/kg). The volumes from the rice business were flat yoy at 5,37,346MT in FY22. The company's health and organic segment, whilst small, contributed 15% to the overall revenue as well during FY22. The revenue from the company's health & convenience food segment grew 53% yoy to INR1.2 billion while the organic segment registered an 18% yoy growth to INR7.1 billion. LT Foods' EBITDA margins ranged between 10.5% and 12% during FY14-FY22 (FY22: 11%), indicating the company's reasonable ability to pass on the fluctuations in raw material prices to its customers, given the presence of a strong brand. The margin fell slightly yoy in FY23 due to the increased freight cost during the year. 1QFY23 registered a further dip in the margins to 10.4% due to the same reason.

Strong Credit Metrics: LT Foods has been able to finance a higher proportion of its inventory through available funds over the last four years with the completion of major capex in India and overseas. Its reduced debt and continued EBITDA growth led to the net leverage improving to 1.7x at FYE22 (FYE21: 2.2x, FY20: 2.9x); Ind-Ra expects it to stay in the range of 1.5x-2x over the near term. Around 85% of the debt is the form of working capital borrowings used to finance the inventory of rice. The EBITDA interest coverage (EBITDA/gross interest expense) improved to 8.7x in FY22 (FY21: 6.4x, FY20: 3.8x) and is likely to remain comfortable over the near-to-medium term.

Liquidity Indicator - Adequate: Notwithstanding a yoy decline in the company's margins in FY22, its stable capacity utilisation (FY22: 65.3%, FY21: 65.1%) with a shorter yoy net working capital cycle (FY22: 228 days, FY21: 251 days), led to an increase in the cash flow from operations to INR5.2 billion in FY22 (FY21: INR4.4 billion). Consequently, with no major capital expenditure, the free cash flows increased to INR3.7 billion in FY22 (FY21: INR3.3 billion). With the inventory levels likely to remain stable and no major planned capex, Ind-Ra expects both the cash flow from operations and the free cash flow to remain robust over the near term. The company had maintained a cash balance of INR71 million at FYE22 (FYE21: INR131 million). The company's average use of the fund-based working capital limits was low at around 40% during the 12 months ended August 2022. With limited long-term debt and repayments of around INR0.3 billion and INR0.2 billion in FY23 and FY24, respectively, its debt service coverage ratio is likely to remain strong over the near-to-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 ageing for 12-24 months to enhance 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 long at 240 days in FY22 (FY21: 257 days, FY20: 215 days, FY19: 235 days). LT Foods, on average, has a receivable period of 40-50 days and a net working capital cycle of 230-250 days. The payable days increased to 72 owing to higher purchases in 4QFY22 (FY21: 58 days) but are likely to moderate in FY23.

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 a 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: LT Foods' standalone revenue increased 23% yoy to INR28.4 billion in FY22, while EBITDA margin declined 250bp yoy to 6.4%. With higher revenue and a reduction in interest expense, the interest coverage improved to 7.9x in FY22 (FY21: 6.1x) and the net leverage to 1.5x (1.8x).

Rating Sensitivities

Negative: A significant fall in the profitability and/or an increase in the debt, leading to net leverage increasing above 2.25x on a sustained basis could lead to a negative rating action.

Company Profile

LT Foods 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)	FY22	FY21
Revenue	54.3	46.4
Operating EBITDA	6.0	5.6
EBITDA margin	11.0	12
Net leverage	1.7	2.2
Source: LT Foods, Ind-Ra		

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Non-fund-based working capital limits	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

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Parent and Subsidiary Rating Linkage

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