January 16, 2017

LT Foods Limited

Instrument*	Rated Amount (in crore)	Rating Action
Working Capital Limits	902.62	[ICRA]BBB rating reaffirmed; rating watch with negative implications removed; stable outlook assigned
Term Loans	92.50	[ICRA]BBB rating reaffirmed; rating watch with negative implications removed; stable outlook assigned
Unallocated	170.0	[ICRA]BBB rating reaffirmed; rating watch with negative implications removed; stable outlook assigned
Non Fund Based Limits	72.0	[ICRA]A3+ rating reaffirmed; rating watch with negative implications removed; stable outlook assigned
Total	**1237.12**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the [ICRA]BBB (pronounced ICRA triple B)[1] and [ICRA]A3+ (pronounced ICRA A three plus) ratings for Rs. 1237.12 crore[2] bank lines of LT Foods Limited (LTF). The rating watch with negative implications has been removed and a stable outlook has been assigned for the long-term rating.

Detailed Rationale

In assigning the rating, ICRA has taken a consolidated view of the financial and operational profile of LTF along with its other key group companies – Daawat Foods Limited[3] (DFL), Nature Bio-Foods Limited[4] (NBFL), Raghunath Agro Industries[5] (RAI), Kusha Inc. and SDC Foods India Limited, given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as LTF Group or 'the Group'.

The ratings were put on rating watch with negative implications following the anticipated pressure on the liquidity of the Group given the repudiation of the insurance claim (explained below) and the impending repayment of debt availed against the said claim. The claim was filed by DFL against the loss of paddy stock due to a fire accident at its Mandideep facility. In order to meet its funding requirements, DFL had availed additional working capital debt (secured by insurance claim receivable) and demand loans, which entailed a fixed repayment commitment. The removal of rating watch follows the funding of the gap/repayment liability partly through the internal accrual generation and through other means such as - advance received against a long term order from a group company and availment of long-term debt.

Further, the ratings continue to take into account the steady revenue growth registered by the Group and sustainability of its profitability margins in FY2016 and the current fiscal, primarily supported by its strong brand presence, increase in volumetric sales, and higher contribution from branded sales and value add products. The Group has recently also formed joint ventures with other established companies in line with its diversification/forward integration strategy. While the revenue contribution from the same is expected to be moderate, these initiatives have the potential to drive the Group's profitability. The Group continues to benefit on account of its established operational track record and long experience of the promoters in the basmati rice industry; its sizeable scale of operations; wide distribution network and its established relationships with

1 For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
2 100 lakh = 1 crore = 10 million
3 Rated [ICRA]BBB/[ICRA]A3+
4 Rated [ICRA]BBB/[ICRA]A3+
5 Rated [ICRA]BBB/[ICRA]A3+

domestic and export clients. These factors have enabled it to emerge as one of the leading players in the basmati rice industry, with strong brand recognition.

However, the ratings remain constrained by the high working capital intensity of the business as the industry participants, including the LT Group, are required to maintain sizeable inventory, given the seasonality in availability of basmati paddy (October to December). The inventory requirements are further accentuated by the need to store the rice for a period of time (called 'ageing'), as this improves the quality of rice and attracts premium pricing. Thus, any slowdown in demand and consequently the realisaitons exposes the industry to risks of inventory write-offs, as has been seen in the last two years. However, LTF has been mitigated to an extent on account of its strong brand leading to steady order inflow and its prudent procurement policies. High working capital debt to fund the inventory has resulted in high debt and gearing levels for the LT Group. However steady internal accrual generation coupled with no major debt funded capex has resulted in a decline in the Group's gearing level in recent years.

The ratings also factor in the competitive and fragmented nature of the industry which limits the pricing flexibility of the industry participants; which is further accentuated in light of continued pressure/volatility in basmati rice prices, especially in the export market. The Group's profitability remains exposed to foreign exchange rate volatility given that exports contribute around 50% of the revenue; exposure to agro climatic risks; and changes in government regulations and trade policies, both in the domestic as well as importing countries.

Key rating drivers

Credit Strengths

- Established track record of operations of the LT Group and long experience of the promoters in the basmati rice industry. Over the years, the LT Group has emerged as one of the leading basmati rice players in the country.
- Well accepted brands (Daawat, Heritage, Royal, etc) and wide geographical reach with exports to more than 50 countries.
- Diversified customer base and wide distribution network in domestic and export markets.
- Steady revenue growth over the years, with resultant increase in cash flow generation.
- Sizeable revenue contribution from branded sales supports the profitability and reduces exposure to industry volatility
- Recent initiatives by the Group to expand its geographical presence, diversify revenue base and leverage the established brand, have the potential to improve profitability
- Steady industry demand as India enjoys competitive advantage in basmati rice exports, with Pakistan being the only other basmati rice exporter.

Credit Weakness

- High competitive intensity of the industry limits pricing flexibility of the industry participants.
- High working capital requirements in order to maintain inventory of paddy and basmati rice for ageing, exposes the company to inventory price risk, as evident over the last two years
- High reliance on working capital borrowings and high limit utilisations, resulting in elevated gearing levels and moderate debt coverage metrics.
- Exposure to foreign exchange risk as majority of the turnover is contributed to by exports. However the LT Group follows a selective hedging policy.
- Operating in an agro-based industry, the company's operations and profitability remain vulnerable to raw material availability, its quality and pricing which further depend on climatic conditions.

Detailed description of key rating drivers highlighted above:

LT Group is an established basmati rice miller/exporter of the country and has a diverse portfolio of rice products (brown rice, white rice, steamed rice, parboiled rice, organic rice, etc). The LT Group has been promoted by members of the Arora family, who have long experience in the industry. LT Group's manufacturing facilities are located in Haryana, Punjab and Madhya Pradesh with a combined milling capacity of ~84 tons per hour (TPH). These states account for majority of the country's basmati rice production, thus ensuring easy access to the basmati paddy. Over the years, the Group has emerged as one of the leading basmati rice players in the country with established brands, both in the domestic and the export market; supported by a well entrenched distribution network.

The basmati rice industry is highly competitive and fragmented in nature, marked by the presence of some established players and numerous medium to small sized players. Further, the industry faces sizeable inventory price risks on account of high inventory levels and volatility in realisations, especially in the export market. Given that majority of the basmati paddy is procured during the months of October-December (procurement season) and is held for 8-12 months for ageing purposes (which fetches higher realisations), the business is inherently working capital intensive. However, this risk is partly mitigated by strong brand strength which ensures steady order inflow. For LT Group, branded sales account for ~70% of total basmati rice sales which has supported its margins. The group has recently taken various initiatives with resultant benefits, such as – leasing of basmati rice processing in Netherlands (geographic expansion), JV with Future group to mill and sell non-Basmati rice (product diversification and expansion of distribution reach) and JV with Japanese company Kamada Seika to manufacture and sell rice-derivative food products (product diversification). These initiatives are not expected to entail significant funding commitments in medium term. While the revenue contribution from these is expected to be moderate, these initiatives are likely to support the Group's profitability margins.

Given that the LT Group operates in the agro-based industry, it remains exposed to the inherent cyclicality, volatility in prices, and changes in government regulations, not just domestically but also the regulations of the export destinations. Additionally as a significant portion of the turnover is contributed to by export revenues, the LT Group faces risk of adverse movement in foreign exchange rates. The LT Group manages its exchange risk by availing working capital limits in foreign currency and through booking of forward contracts, for part of the foreign exchange exposure.

Analytical approach:

For arriving at the ratings, ICRA has taken a consolidated view of the financial and operational profile of LTF along with its other key group companies – Daawat Foods Limited (DFL), Nature Bio-Foods Limited (NBFL), Raghunath Agro Industries (RAI), Kusha Inc. and SDC Foods India Limited, given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as LTF Group or 'the Group'.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Incorporated in the year 1990, LT Foods Limited (erstwhile LT overseas Ltd.) is engaged in the business of milling, processing and marketing of basmati rice. LTF has been promoted by three brothers – Mr. Vijay Kumar Arora, Mr. Ashwini Arora and Mr. Surinder Arora. The company has established brand presence, both in the domestic and international markets with well known brands including 'Daawat' and 'Heritage'. LTF's manufacturing facilities are located in Haryana and Punjab. On a consolidated basis, the Group has a milling capacity of around 84.0 TPH.

In FY2016, the company reported an operating income of Rs. 1846.8 crore (Rs. 2973.4 crore on consolidated basis) and profit after tax of Rs. 30.4 crore (Rs. 72.5 crore on consolidated basis).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2016		Date & Rating in FY2015	Date & Rating in FY2014
				January 2017	March 2016	September 2015	January 2015	October 2013
1	Working Capital Limits	Long Term	902.62	[ICRA]BBB (Stable)	[ICRA]BBB@	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	92.50	[ICRA]BBB (Stable)	[ICRA]BBB@	[ICRA]BBB (Stable)	ICRA] BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long Term	170.0	[ICRA]BBB (Stable)	[ICRA]BBB@	[ICRA]BBB (Stable)	ICRA] BBB (Stable)	[ICRA]BBB (Stable)
4	Non Fund Based Limits	Short Term	72.0	[ICRA]A3+	[ICRA]A3+@	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

@ - under rating watch with negative implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Working Capital Limits	-	-	-	902.62	[ICRA]BBB (Stable)
Term Loan	NA	NA	NA	92.50	[ICRA]BBB (Stable)
Unallocated	-	-	-	170.0	[ICRA]BBB (Stable)
Non Fund Based Limits	-	-	-	72.0	[ICRA]A3+

Analyst Contacts

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Harsh Jagnani
+91-124-4545394
harshj@icraindia.com

Deepak Jotwani
+91-124-4545870
deepak.jotwani@icraindia.com

Relationship Contact
L Shivakumar
+91-22-61143406
shivakumar@icraindia.com

About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
For more information, visit **www.icra.in**

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500