January 02, 2018

LT Foods Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Working Capital Limits	902.62	[ICRA]A-(Stable), upgraded from [ICRA]BBB(Stable)
Term Loans	92.50	[ICRA] A-(Stable), upgraded from [ICRA]BBB(Stable)
Unallocated	170.0	[ICRA] A-(Stable), upgraded from [ICRA]BBB(Stable)
Non Fund Based Limits	72.0	[ICRA]A2+, upgraded from [ICRA]A3+
Total	**1237.12**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating from [ICRA]BBB (pronounced ICRA triple B) to [ICRA]A- (pronounced ICRA A Minus) for Rs. 1165.12-crore[1]bank lines of LT Foods Limited†. ICRA also has upgraded the short-term rating from [ICRA]A3+ (pronounced ICRA A three plus) to [ICRA]A2+ (pronounced ICRA A two plus) for Rs. 72.0-crore non-fund based limits of LT Foods Limited (LTF or the company). The outlook on the long-term rating is Stable.

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[2] (DFL), Nature Bio-Foods Limited[3] (NBFL), Raghunath Agro Industries Private Limited (erstwhile Raghunath Agro Industries) (RAI) [4] and Kusha Inc., given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as LTF Group or 'the Group'.

LTF has come out with a Qualified Institutional Placement (QIP) issue for its equity shares only for Qualified Institutional Buyers (QIB). The issue was closed on December 21, 2017 and LTF has raised equity of Rs. 399 crore through the same.

The rating action factors in the material improvement in capital structure of the Group following fresh equity infusion of Rs. 399 crore raised by the Group through the recent QIP issue. The sizeable liquidity inflow for the Group would improve its financial flexibility as well as reduce dependence on external debt. Consequently the debt coverage metrics as well as the gearing (2.30 times as on March 31, 2017) are expected to improve meaningfully. The ratings also factor in LT Group's steady revenue growth in FY2017 and the current fiscal on the back of growth in the Basmati rice business. Further, the Group has maintained steady profitability supported by its strong brand presence, higher contribution from branded sales and healthy increase in average realisations in the export market. This has resulted in steady internal accrual generation and reduction in reliance on debt for meeting funding requirements of the business. As a result, the Group's gearing level has continued to decline (2.30 times as on March 31, 2017 as against

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[1] *100 lakh = 1 crore = 10 million*

† *For complete rating scale and definitions, please refer to ICRA's website www.icra.in. or other ICRA Rating Publications*

2 Rated [ICRA]A-(Stable)/[ICRA]A2+

3 Rated [ICRA]A-(Stable)/[ICRA]A2+

4 Rated [ICRA]A-(Stable)/[ICRA]A2+

3.56 times as on March 31, 2014) and there has been some improvement in the debt-protection metrics in FY2017 and H1FY2018. Going forward, the Group has plans to achieve revenue growth and improvement in profitability on the back of cast control initiatives, greater brand penetration, and diversification into newer lines of business. Some such initiatives include a Basmati rice processing plant in the Netherlands, a non-Basmati milling plant near Bangalore, and a joint venture with Kameda Seika to launch rice based snacks.

The ratings also take into consideration stable outlook for demand and improving realisations of Basmati rice, both domestically and internationally. After having remained under pressure in the recent years, average realisations for Basmati rice have been on an uptrend since Q4 FY2017, largely due to an increase in paddy prices during the last procurement season and partly due to improved demand in the export market. The outlook for realisations is positive due to an increase in paddy procurement price in the last as well as the ongoing procurement season. LT Group also continues to benefit from its established operational track record and long experience of promoters in the Basmati rice industry; wide distribution network and its established relationships with 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.

LT Group's ratings, however, are constrained by the intense competition in the industry which limits the pricing flexibility, and the inherent working capital-intensive nature of operations, primarily on account of high inventory levels due to 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 certain period of time (called 'ageing') as this improves the quality of rice and attracts premium pricing. As a result, the Group remains exposed to inventory price risk. Given that a sizeable part of the revenue is generated through exports, the profitability margins also remain vulnerable to adverse movements in foreign exchange rates. Moreover, the operations remain exposed to agro-climatic risks, which impact the availability and quality of paddy and hence it's pricing. LT Group also remains exposed to trade policies of importing countries, the impact of which has been seen in the past. Recently, the European Union (EU) has issued new guidelines pertaining to chemical residue levels in Basmati rice imports, the impact of which, if any, on Group's exports remains to be seen.

Going forward, LT Group's ability to maintain its revenue growth and profitability amidst competitive pressures and price volatility; and deleveraging of the balance sheet through deployment of equity raised remain the key rating sensitivities.

Outlook: Stable
ICRA believes LT Group will continue to benefit from its established operational track record, extensive experience of its promoters and its established brand presence. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management further strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major debt funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit Strengths

- **Established operational track record; several-decade-long experience of promoters in the Basmati rice industry –** LT Group is an integrated rice miller with an operational track record of over three decades. Moreover, the company's promoters have several-decades-long experience in the Basmati rice industry.
- **Strong brand presence; position among leading Basmati rice exporters in India –** The Group benefits from its established operational track record, experienced promoters, wide distribution network and established client base. These factors have enabled it to emerge as one of the leading players in the Basmati rice industry.
- **Funds raised through QIP expected to further reduce gearing levels and improve in debt-protection metrics -** Steady internal accrual generation has resulted in no major addition in debt levels. This has resulted in a steady decline in gearing level and some improvement in debt-protection metrics in FY2017. Moreover fresh equity raised through the QIP issue is likely to result in further decline in reliance on debt.
- **Steady revenue growth –** 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.
- **Forward integration initiatives** - Recent initiatives by the Group to expand its geographical presence, diversify revenue base and leverage the established brand, have the potential to improve profitability

Credit Weakness

- **High working capital intensity –** The Group's working capital intensity remains high, primarily due to high inventory levels (given the seasonality in the availability of Basmati paddy and need to store the rice for ageing). This improves the quality of rice and attracts premium pricing.
- **Intense competition** – The Basmati rice industry is highly fragmented and is marked by the presence of numerous players. This intensifies competition and limits the pricing flexibility of the industry participants. However, LT Group benefits to an extent on account of its strong brand presence.
- **Exposure to foreign exchange risk -** As exports constitute a significant percentage of the turnover, the Group remains exposed to currency fluctuations to the extent of unhedged exposure. However, it has a hedging mechanism in place to reduce any impact of fluctuation in foreign exchange rates.
- **Exposure to agro-climatic risks and changes in trade policies -** Given its operations in an agro-based industry, LT Group is exposed to agro-climatic risks such as raw material availability, its quality and pricing. Moreover, the company is exposed to changes in trade policies of key importing countries, which can impact export revenues.
- **Chemical residue guidelines issued by of EU -** Recently, EU has issued new guidelines pertaining to chemical residue levels in its Basmati rice imports. EU so far, has allowed a maximum residue limit (MRL) of 1 ppm (parts per million). However, it has recently issued new guidelines as per which, from January 1, 2018, Basmati rice imports with an MRL above 0.01 ppm will not be accepted. The impact of the same, if any, on Group's exports remains to be seen.

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 –DFL, NBFL, RAI and Kusha Inc. given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as LTF Group or 'the Group'. Also for arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable Criteria
[Corporate Credit Rating Methodology]
[Rating Methodology for Issuers in the Indian Rice Industry]

About the Company
Incorporated in the year 1990, LTF 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.

Key financial indicators – LT Group (Consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	2,973.4	3,309.4
PAT (Rs. crore)	72.5	128.7
OPBDIT/ OI (%)	12.0%	11.8%
RoCE (%)	12.4%	15.7%
Total Debt/ TNW (times)	2.8	2.3
Total Debt/ OPBDIT (times)	4.5	4.1
Interest Coverage (times)	2.4	2.5
NWC/ OI (%)	58.5%	54.6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years
Table

S. No	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016		Date & Rating in FY2015
					January 2018	January 2017	March 2016	September 2015	January 2015
1	Working Capital Limits	Long Term	902.62		[ICRA] A- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB@	ICRA] BBB (Stable)	ICRA] BBB (Stable)
2	Term Loan	Long Term	92.50	92.50	[ICRA] A- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB@	ICRA] BBB (Stable)	ICRA] BBB (Stable)
3	Unallocated	Long Term	170.0		[ICRA] A- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB@	ICRA] BBB (Stable)	ICRA] BBB (Stable)
4	Non Fund Based Limits – LC/BG	Short Term	72.0		[ICRA] A2+	[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

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Limits	-	-	-	902.62	[ICRA]A- (Stable)
NA	Term Loan	2016		2021	92.50	[ICRA]A- (Stable)
NA	Unallocated	-	-	-	170.0	[ICRA]A- (Stable)
NA	Non Fund Based Limits	-	-	-	72.0	[ICRA]A2+

Source: LT Foods Limited

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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.

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