

RESEARCH
BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: December 2023

LT FOODS | NOT RATED

Appetite for growth

Daily macro indicators

Indicator	29-Dec	1-Jan	Chg (%)
US 10Y yield (%)	3.84	3.88	3bps
India 10Y yield (%)	7.17	7.20	2bps
USD/INR	83.21	83.24	0.0
Brent Crude (US\$/bbl)	78.4	77.0	(1.7)
Dow	37,710	37,690	(0.1)
Hang Seng	17,044	17,047	0.0
Sensex	72,240	72,272	0.0
India FII (US\$ mn)	28-Dec	29-Dec	Chg (\$ mn)
FII-D	105.4	164.3	58.9
FII-E	679.7	253.6	(426.1)

Source: Bank of Baroda Economics Research

SUMMARY
INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

US economy continues to show divergent trends in growth, with consumer demand holding ground, labour market cooling and real estate sector signalling marginal improvement in conditions. On the other hand, other major economies such as China and Eurozone continue to struggle more. PMIs indicate that manufacturing and services activity is losing steam in both regions. Drop in business sentiment index in Germany is another sign of firms losing confidence in economic outlook of the region. In UK as well, central bank has pencilled in stagnation in their forecasts, but inflation will still remain above bank's targeted level. As a result, BoE has hinted that rate cuts might not be on the cards in the early part of CY24 at least.

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LT FOODS

- Leading domestic player in basmati rice with strong presence in export markets and popular brands, including Daawat, Royal and Ecolife
- Investments and strategies aligned towards improving domestic volume market share by 300bps to 33% within 6 quarters
- India revenue guided to double in 3-4 years accompanied by 500bps gross margin expansion in ~5 years

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MONTHLY ECONOMIC BUFFET

02 January 2024

Economic Round-up: December 2023**Sonal Badhan**

Economist

US economy continues to show divergent trends in growth, with consumer demand holding ground, labour market cooling and real estate sector signalling marginal improvement in conditions. On the other hand, other major economies such as China and Eurozone continue to struggle more. PMIs indicate that manufacturing and services activity is losing steam in both regions. Drop in business sentiment index in Germany is another sign of firms losing confidence in economic outlook of the region. In UK as well, central bank has pencilled in stagnation in their forecasts, but inflation will still remain above bank's targeted level. As a result, BoE has hinted that rate cuts might not be on the cards in the early part of CY24 at least.

ECB is also of a similar view and has reiterated that rate cut talks are premature. Fed on the other hand is expected to cut rates thrice this year. India remains a brighter spot amongst all, as manufacturing activity continues to improve (Nov'23 PMI), inflation is coming down and GDP in H1FY24 has surpassed expectations. This week, first advance estimates of GDP for FY24 will shed further light on our growth trajectory.

Global growth: Major economies have entered CY24 with a gloomier outlook. As economic activity remains bleak in Eurozone, UK and China, in the US, economy is on track for soft landing. Labour market weaknesses are becoming more visible in the US, while balance sheet of consumers remain healthy so far. Real estate sector appears to be benefiting from dovish Fed outlook, which has led to significant drop in 30Y fixed mortgage rates (currently at lowest since Jun'23). In the year ahead, while Eurozone is expecting mild recession, UK economy is expected to stagnate. Growth in US and China is estimated to slowdown. India will remain the fastest growing major economy in FY25, despite noting some moderation.

Global Central Banks: In Dec'23, US Fed, ECB, BoE, and BoJ continued to keep their respective rates on hold. Fed's policy statement was considered to be more dovish than anticipated, as dot plot shows that the central bank might cut rates thrice this year. However analysts are pencilling in aggressive rate cuts by Fed, on account of cooling inflation and labour market. In contrast, BoE and ECB have hinted that talks of rate cuts are premature at this stage, leading analysts to price in rate cuts only from H2CY24 onwards. BoJ is also expected to move away from its ultra-loose policy this year, beginning with increasing short term rates.

Key macro data releases: India's CAD recorded a deficit of US\$ 8.3bn (1.0% of GDP) in Q2:2023-24, lower than US\$ 9.2bn (1.1% of GDP) in Q1:2023-24 and US\$ 30.9bn (3.8% of GDP) a year ago (Q2:2022-23). The two critical factors driving the CAD have been software services, which have reached around US\$ 70bn in first half, and remittances, that are now close to US\$ 48bn. On the side of capital account, FPIs have been more buoyant than FDIs so far this year.



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LT FOODS

| Consumer Staples

| 02 January 2024

Appetite for growth

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- **Investments and strategies aligned towards improving domestic volume market share by 300bps to 33% within 6 quarters**
- **India revenue guided to double in 3-4 years accompanied by 500bps gross margin expansion in ~5 years**

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We visited two of LT Foods' (LTFO IN, Not Rated) plants in Sonipat, Haryana, to understand the manufacturing process and business operations. Key takeaways:

Established player in basmati rice: LTFO is a global FMCG player focused on specialty rice business with strong brands such as *Daawat* (30%+ market share), *Royal* (50%+ market share), *Golden Star*, and *Ecolife*. LTFO is engaged in the basmati & other specialty rice, organic food & ingredients, and health & convenience segments. In addition to a broad domestic footprint, LTFO exports to over 80 countries.

Strategically located plants: LTFO has five processing facilities in India (Punjab, Haryana and Madhya Pradesh), two packaging units and one ready-to-eat facility in the US, and one processing facility in Rotterdam (Netherlands). The company is setting up a new manufacturing unit in the UK due to be commercialised by mid-2024. We visited two of its manufacturing units in Sonipat (Haryana) – one dedicated to conventional rice & ready-to-eat products and the other to organic food processing.

Sprawling organic facility: LTFO has one of the largest organic food processing facilities in India with 125,000 metric tonnes (mt) of state-of-the-art grain processing capacity. Organic foods and ingredients contribute ~11% of its consolidated revenue (FY23) and the business has logged a 30%+ CAGR since FY11, backed by extensive farmer relationships. The conventional rice processing unit we visited has 300,000 mtpa of automated paddy milling capacity and caters to the company's *Daawat* brand for India and international markets and private premium sales for Australia.

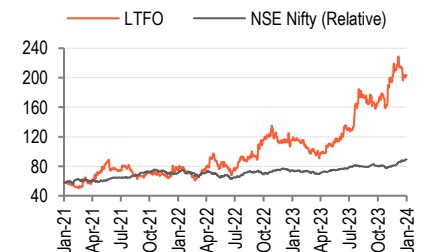
Focus on expanding India business: LTFO expects to double its revenue from India business in the next 3-4 years and is targeting a 300bps increase in volume market share over the next 18 months to 33% via a focus on modern trade and e-commerce along with expansion of retail outlet reach. The company will continue to improve its product mix and expects gross margin to expand by 500bps in the next 4-5 years driven by premiumisation.

Valuation: As per Bloomberg consensus estimates, LTFO is trading at 14.85x/12.85x FY24E/FY25E EPS. We do not have a rating on the stock.

Ticker/Price	LTFO IN/Rs 203
Market cap	US\$ 849.1mn
Free float	41%
52wk high/low	Rs 234/Rs 90
Promoter/FPI/DII	51%/6%/43%

Source: NSE | Price as of 1 Jan 2024

Stock performance



Source: NSE



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