

Lakshmi Energy & Foods Ltd

Key Takeaways
from Conference Call

Key Takeaways from Conference Call of Lakshmi Energy & Foods Limited (LEAF) held on March 25, 2008

- LEAF is in the business of manufacturing rice from paddy. Over its 27 years of operations, LEAF has grown its capacity from 5TPH (Tonnes per Hour) to 130 TPH in 2004. In 2007 it has increased its capacity by another 120 (40x3) TPH. Current capacity post scrapping of an old 25TPH plant stands at 225 TPH (Equivalent to 1.35 Million Metric Tonnes p.a.)
- Standard operating parameters : Plant runs for 20 hours per day for 300 days at 70% utilization.
- Raw Material (Paddy) procurement is through agent at Mandis in Punjab & Haryana. Current entire sales is to Food Corporation of India (FCI) with some portion going to wholesale dealers.
- Procurement of paddy is from Mandis & Sales of rice to FCI is at MSP (Minimum Support Price), both declared by Govt. every year in September.
- Long term track record suggest that MSP prices have a rising trend and the gap between paddy & rice prices have been steadily maintained.
- Paddy MSP = Rs. 650 for 2007 & Rs. 675+100 Bonus for 2008. - per quintal
- FCI Grade Rice MSP = Rs. 1250 for 2007 and Rs. 1350 for 2008 - per quintal
- Premium grade paddy prices are relatively more volatile.
- LEAF is the largest player in India and enjoys economies of scale benefits in terms of processing byproducts being made viable (higher margin-value addition).
- Margin expansion led by benefits of economies, integration. Processing cost down from 60 paisa per kg to 35 paisa per kg.
- Company has further sizable expansion plans to increase capacity from 1.35 MMT to 2 MMT & further to 3 MMT over the next few years. The capacities to further process byproducts is also correspondingly increased.
- Plans to get into packaged & non-FCI, premium grade rice to utilize the expanded capacities. Decision to get into packaged branded rice has led the management to extend its offerings to retail clients and diversify into other products. LEAF has got into wheat flour in a small way. Packaged Sales plans in place for 4-5 varieties of rice, wheat flour & also refined rice bran oil.
- Packaged goods sale through 18 distributors and/or large format retailers.

- Global food shortage & the higher packaged goods growth of 20% continues to auger well.
- Competition threat is low in the medium term in terms of time, expertise, investment and relative opportunities in cash crop segments. Also LEAF has just 1% share despite being the largest player. New entrants are unlikely to cause any noteworthy impact in the market share & prospects of the company.
- Wholly Owned Subsidiary, Punjab Greenfield Resources Limited (PGRL) is created to look after sourcing, branded sales business, R&D and Contract Farming (cash crops & seeds only).
- 30 MW Husk based green energy power plant to commission by April end. Total capex of Rs. 105 Crs fully incurred for this plant. Total 220 million units of annual power production to be sold to PSEB at Rs. 3.59 p.u. with 3% increment p.a. for 4 years. O&M to be looked after by Shriram EPC.
- Plans to increase power plant capacity to 105 MW over next 4 years. Capacity in line with internally generated husk availability.
- Net margins in Power are higher at ~40% on account of tax benefits and ~nil raw material costs.
- 800 Crs overall capex plans. Funding 50% Debt & 50% Internal Accruals.
- FY09 - Important Year as 1st time revenues from Packaged goods and Power to flow in.
- Guidance - Rs. 250 Crs sales expected from packaged branded goods in FY09. Advertisement allocation upto Rs. 12 Crs for FY09.
- 8 lakh tonnes of production in FY09
- Deferred Tax not provided in 9MFY08. Full Year Deferred Tax provisioning in Q4FY08.

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