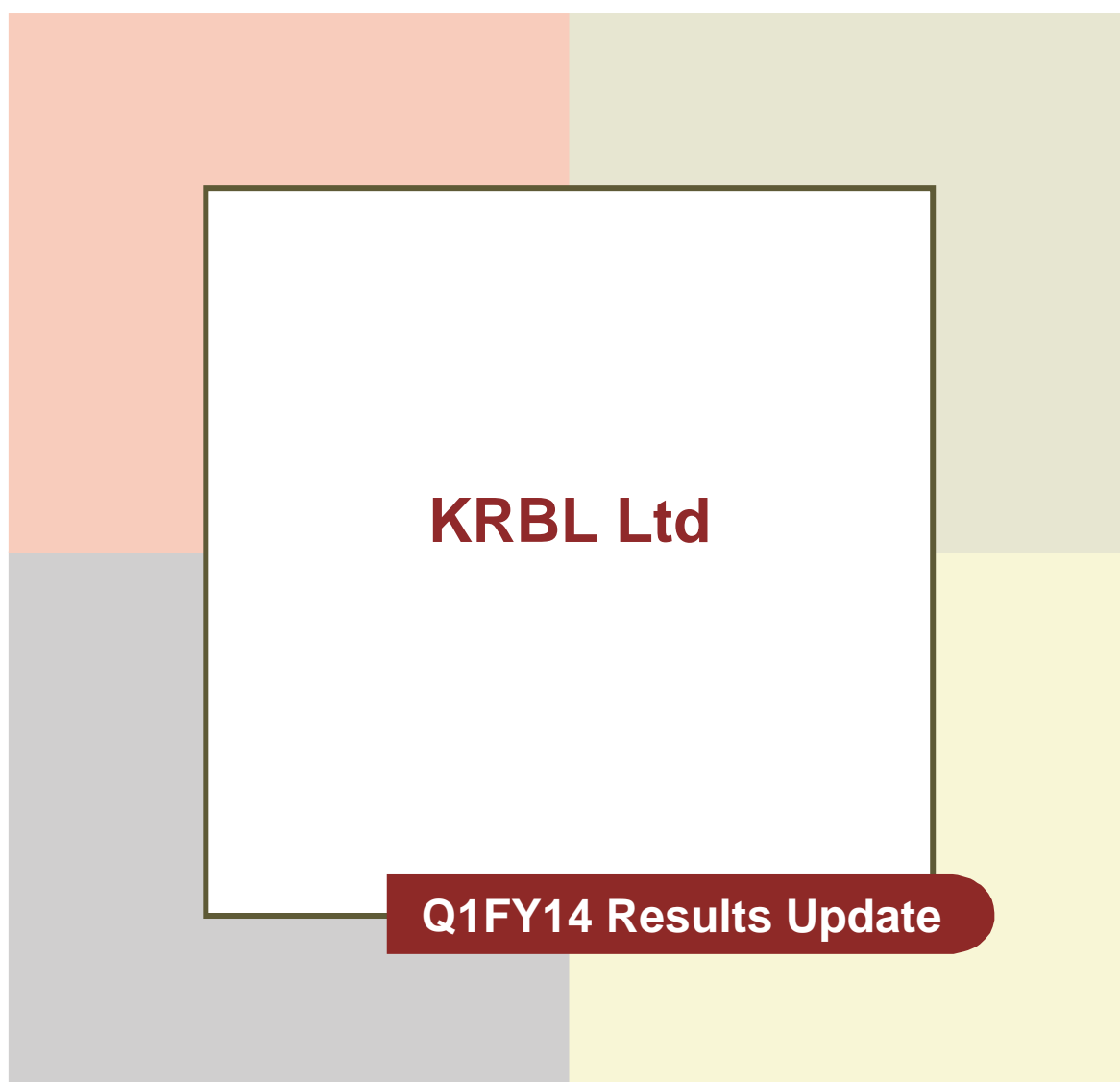


CRISIL IER Independent Equity Research



KRBL Ltd

Q1FY14 Results Update

Enhancing investment decisions



Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Last updated: May, 2013

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Food products

KRBL Ltd's (KRBL's) Q1FY14 revenues exceeded CRISIL Research's estimates due to strong growth in both domestic and export segments; revenues increased 33% y-o-y to ₹7 bn. However, EBITDA margin contracted by 286 bps due to higher raw material costs and other expenses and was in line with our estimates. We expect KRBL to post healthy growth over the next two to three quarters on the back of robust domestic demand for basmati rice. We maintain our fundamental grade of **3/5**, indicating that the fundamentals are **good** relative to other listed securities in India.

Strong growth in both domestic and export revenues

Domestic revenues increased by 89% y-o-y aided by 58% y-o-y growth in sales volumes of basmati rice. As per the management, strong domestic growth is attributable to increasing market share owing to strong recall of KRBL's brands. Export revenues (excluding non-basmati rice) also increased by 14% y-o-y due to better realisations. Though export volumes declined 16% y-o-y, 35% y-o-y jump in realisation cushioned the decline. We believe depreciation of the Indian rupee resulted in KRBL garnering higher realisations. We expect basmati rice exports to recover in subsequent quarters owing to strong demand from Iran. However, higher basmati prices may act as a deterrent for international buyers and may result in postponement of purchases. The company's blended realisation (ex non-basmati) grew by 18% y-o-y owing to a larger proportion of high-margin export sales.

EBITDA margin contracted by 286 bps y-o-y; expect EBITDA margin at ~15%

EBITDA margin contracted by 286 bps y-o-y due to higher raw material costs and increased proportion of low-margin domestic sales (49% contribution to KRBL's basmati sales during the quarter against 36% in Q1FY13). Also, higher other expenses pulled down EBITDA margin to 15.8% against 18.7% in Q1FY13. We expect operating margin at ~15% over the next two years. The company posted mark-to-market forex loss of ₹194 mn. Reported PAT during the quarter increased by 44% y-o-y to ₹490 mn owing to lower interest cost.

FY14 and FY15 estimates revised upwards; fair value maintained

We have revised our revenue estimates for FY14 and FY15 upwards by 5% and 3%, respectively. We continue to value KRBL by a P/E multiple of 5x and maintain the fair value of ₹35 per share. At the current market price of ₹24, our valuation grade is **5/5**.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
Operating income	15,391	16,229	20,804	22,750	24,838
EBITDA	2,277	2,292	2,934	3,283	3,608
Adj net income	1,128	1,009	1,221	1,601	1,760
Adj EPS (₹)	4.6	4.1	5.0	6.6	7.2
EPS growth (%)	(9.8)	(10.6)	21.1	31.1	9.9
Dividend yield (%)	1.6	1.6	3.6	2.3	2.3
RoCE (%)	14.3	11.5	14.6	15.6	15.8
RoE (%)	19.1	14.8	15.8	17.8	16.7
PE (x)	4.8	5.4	4.4	3.7	3.3
P/BV (x)	0.8	0.8	0.7	0.6	0.5
EV/EBITDA (x)	6.3	6.4	4.6	4.8	4.2

NM: Not meaningful; CMP: Current market price

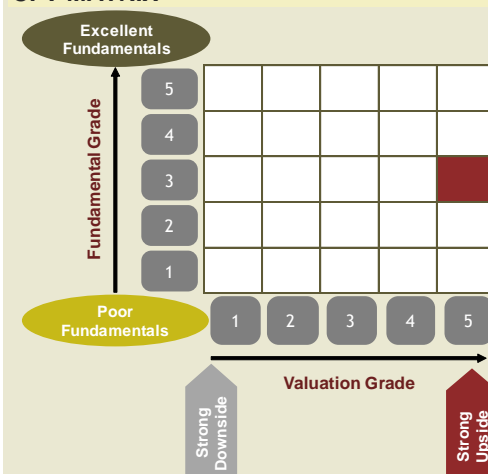
Abridged financials

Source: Company, CRISIL Research estimates

September 17, 2013

Fair Value ₹35
CMP ₹24

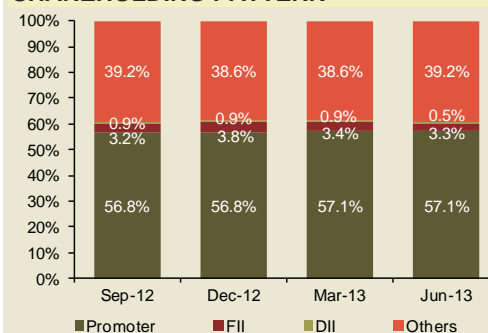
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5850/ 19804
NSE/BSE ticker	KRBL
Face value (₹ per share)	1
Shares outstanding (mn)	244
Market cap (₹ mn)/(US\$ mn)	5,857/95
Enterprise value (₹ mn)/(US\$ mn)	13,909/226
52-week range (₹)/(H/L)	29/19
Beta	1.3
Free float (%)	42.9
Avg daily volumes (30-days)	276,972
Avg daily value (30-days) (₹ mn)	5.7

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KRBL	10%	-8%	-15%	-4%
NIFTY	-5%	-5%	-4%	7%

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Q1FY14 Results Summary

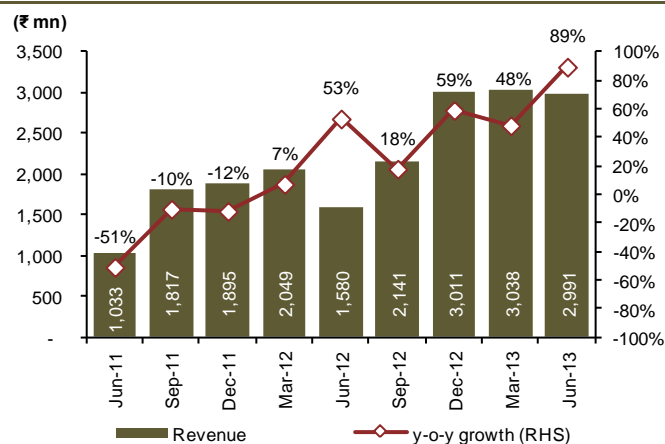
(₹ mn)	Q1FY14	Q4FY13	Q1FY13	q-o-q (%)	y-o-y (%)
Operating income	6,888	4,928	5,165	39.8	33.3
Consumption of raw materials	5,347	3,929	3,681	36.1	45.3
Raw material as a % of sales	78%	80%	71%	(209) bps	638 bps
Other expenses	105	102	423	3.1	(75.1)
Employee cost	346	357	98	(3.1)	254.0
EBITDA	1,090	541	965	101.5	12.9
EBITDA margin	15.8%	11.0%	18.7%	485 bps	(286) bps
Depreciation	134	125	123	7.6	9.5
EBIT	955	416	842	129.6	13.5
Interest and finance charges	144	201	225	(28.2)	(35.9)
Operating PBT	811	215	617	277.1	31.4
Other income	3	48	20	(93.5)	(84.6)
Extraordinary income/(expense)	(194)	50	(170)	NM	14.6
PBT	620	313	468	98.3	32.6
Tax	130	107	128	21.2	2.0
PAT	490	205	340	138.7	44.0
Adj PAT	684	156	510	339.2	34.2
Adj PAT margin	9.9%	3.2%	9.9%	677 bps	7 bps
No. of equity shares (mn)	244	244	244	-	-
Adj EPS (₹)	2.8	0.6	2.1	339.2	34.2

Revenues grew by 33.3% y-o-y aided by strong growth in the domestic market

Lower interest expenses cushioned the decline in PAT margin

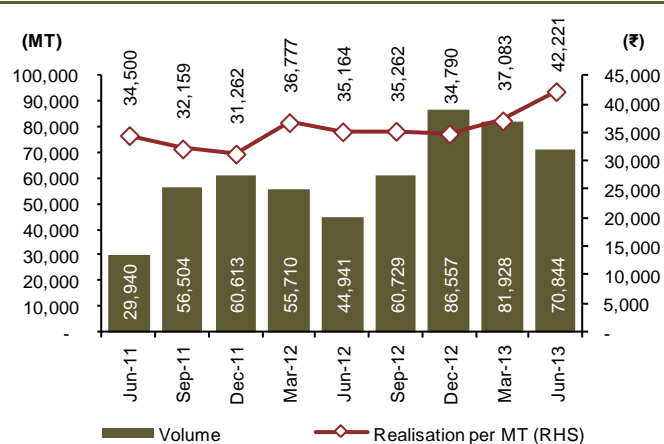
Source: Company, CRISIL Research

Domestic revenues grew 89% y-o-y...



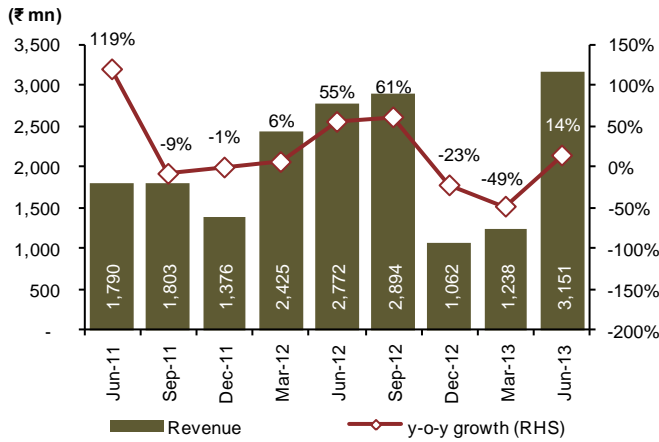
Source: Company, CRISIL Research

... driven by higher volumes and realisations



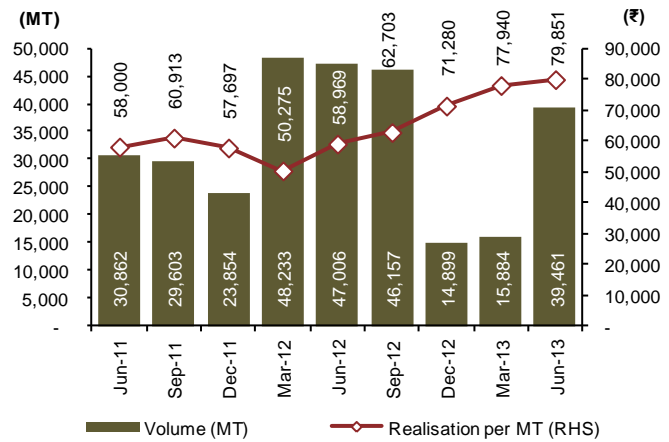
Source: Company, CRISIL Research

Export revenues grew 14% y-o-y...



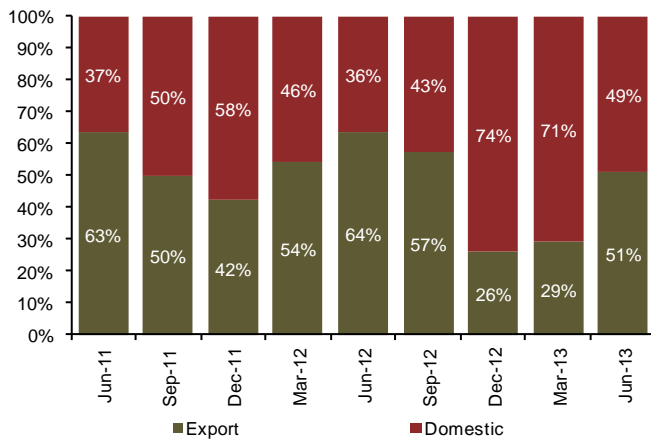
Source: Company, CRISIL Research

... aided by better realisations



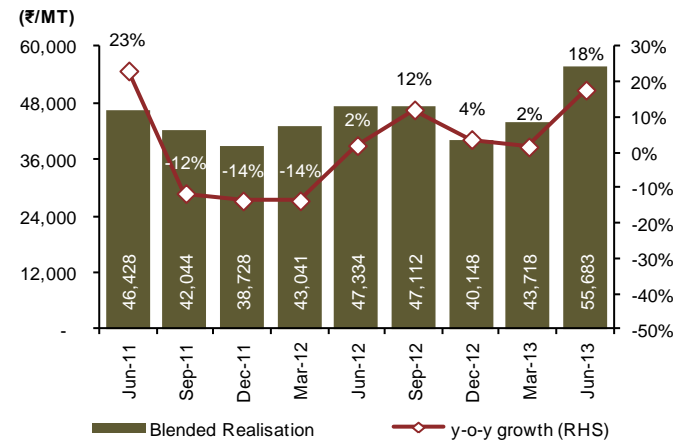
Source: Company, CRISIL Research

Higher export revenues as compared to domestic sales



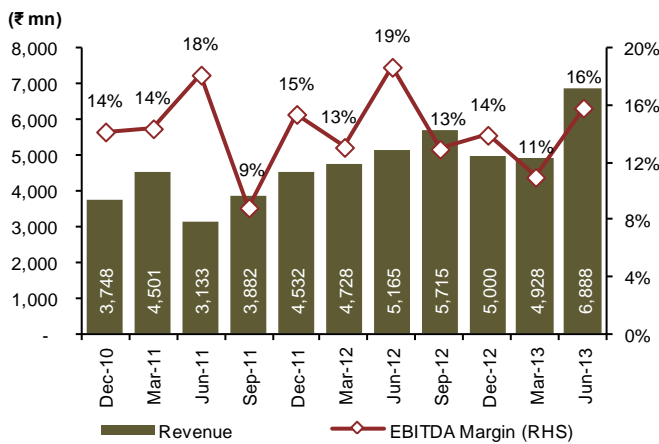
Source: Company, CRISIL Research

Blended realisation (ex non-basmati) grew 18% y-o-y



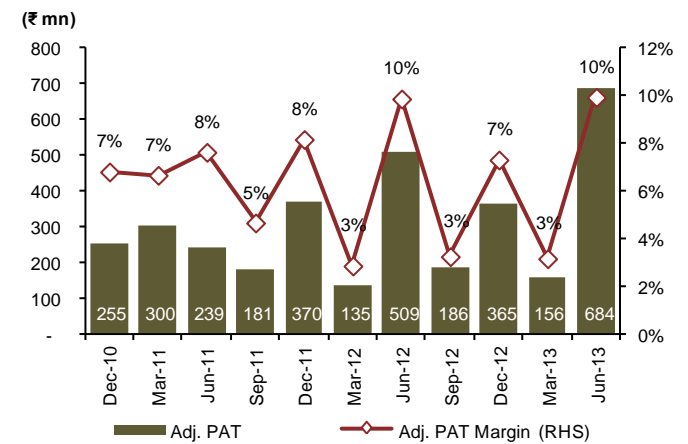
Source: Company, CRISIL Research

EBITDA margin lower by ~300 bps y-o-y

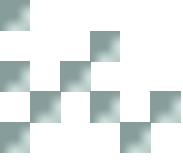


Source: Company, CRISIL Research

Adjusted PAT up 34% y-o-y due to lower interest cost



Source: Company, CRISIL Research



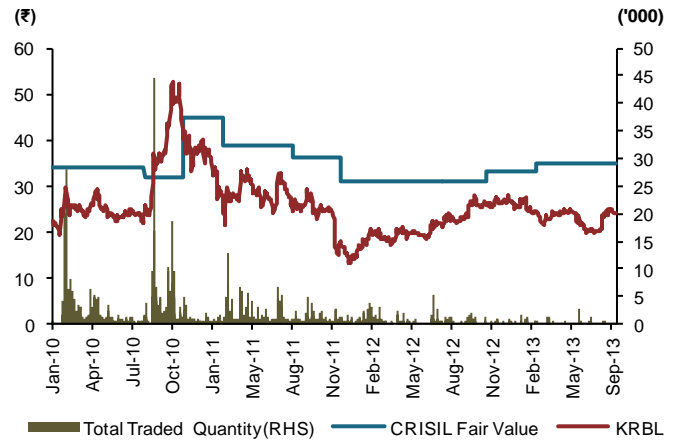
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

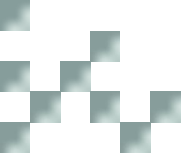
Earnings Estimates Revised

Particulars	Unit	FY14E			FY15E		
		Old	New	% change	Old	New	% change
Revenues	(₹ mn)	21,667	22,750	5.0%	24,115	24,838	3.0%
EBITDA	(₹ mn)	3,132	3,283	4.8%	3,499	3,608	3.1%
EBITDA margin	%	14.5%	14.5%	-	14.5%	14.5%	-
PAT	(₹ mn)	1,509	1,601	6.1%	1,702	1,760	3.4%
PAT margin	%	7.0%	7.0%	-	7.1%	7.1%	-
EPS	₹	6.2	6.6	6.1%	7.0	7.2	3.4%

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY14E	FY15E
Revenues	Strong domestic and export demand for basmati rice will result in higher revenue growth	We expect the demand for basmati rice to remain strong during FY15 aided by increase in domestic and overseas consumption
EBITDA margins	No change	
PAT	Raised owing to higher revenue growth assumptions	

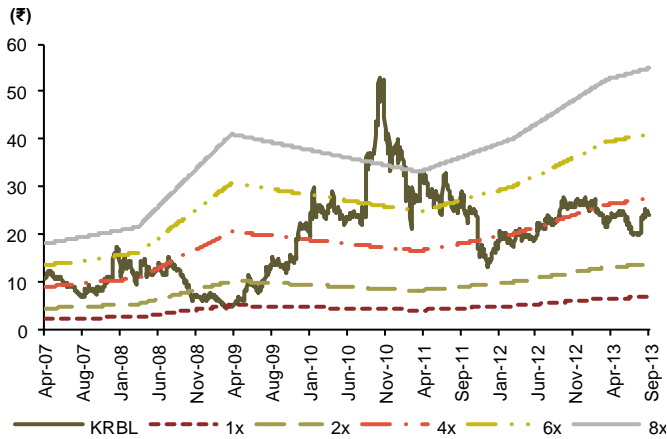


Valuation

Grade: 5/5

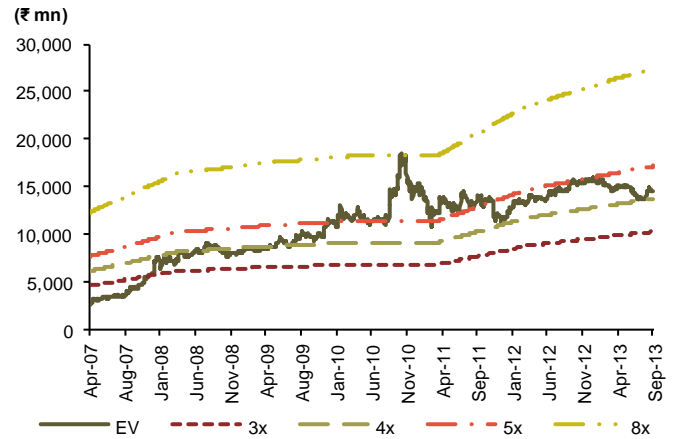
We have used the P/E multiple method to value KRBL and have applied a P/E multiple of 5x to KRBL's FY15 EPS. We maintain the fair value of ₹35 per share. Based on the current market price, the assigned valuation grade is **5/5**.

One-year forward P/E band



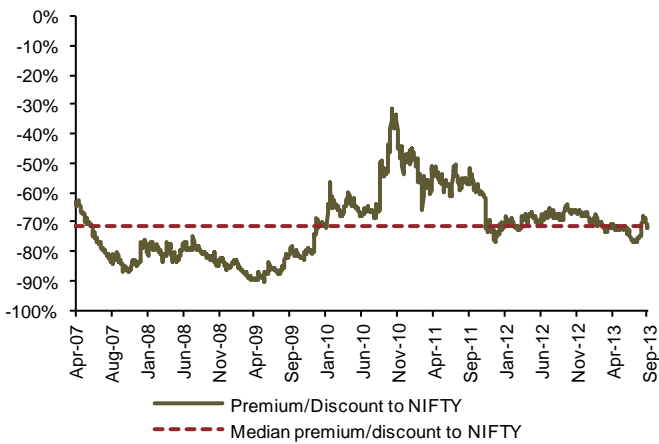
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



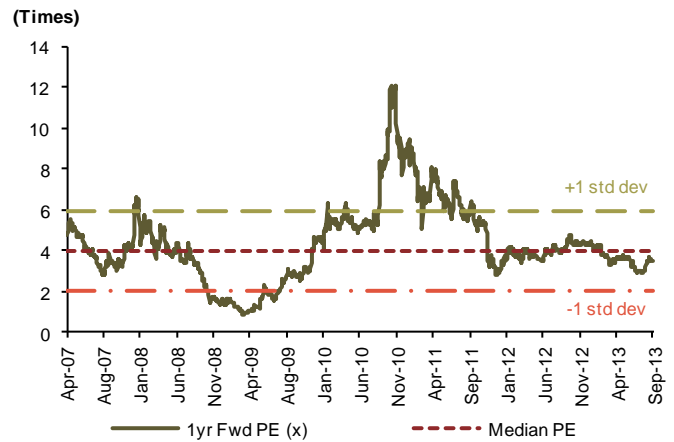
Source: NSE, CRISIL Research

P/E – premium / discount to NIFTY



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on KRBL Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
11-Jan-10	Initiating coverage	3/5	₹34#	5/5	₹22#
01-Feb-10	Q3FY10 result update	3/5	₹34#	5/5	₹19#
02-Jun-10	Q4FY10 result update	3/5	₹34	5/5	₹24
19-Aug-10	Q1FY11 result update	3/5	₹32	5/5	₹24
22-Nov-10	Q2FY11 result update	3/5	₹45	4/5	₹38
24-Feb-11	Q3FY11 result update	3/5	₹39	5/5	₹24
20-Apr-11	Detailed Report	3/5	₹39	4/5	₹32
01-Jun-11	Q4FY11 result update	3/5	₹39	5/5	₹28
12-Aug-11	Q1FY12 result update	3/5	₹36	5/5	₹27
29-Nov-11	Q2FY12 result update	3/5	₹31	5/5	₹18
16-Feb-12	Q3FY12 result update	3/5	₹31	5/5	₹20
17-Apr-12	Detailed Report	3/5	₹31	5/5	₹20
12-Jun-12	Q4FY12 result update	3/5	₹31	5/5	₹19
21-Aug-12	Q1FY13 result update	3/5	₹31	5/5	₹22
12-Nov-12	Q2FY13 result update	3/5	₹33	5/5	₹26
11-Mar-13	Q3FY13 result update	3/5	₹35	5/5	₹24
11-June-13	Q4FY13 result update	3/5	₹35	5/5	₹24
17-Sep-13	Q1FY14 result update	3/5	₹35	5/5	₹24

After adjusting for stock split of 10:1

Annexure: Financials

Income statement						Balance Sheet					
(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E	(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
Operating income	15,391	16,229	20,804	22,750	24,838	Liabilities					
EBITDA	2,277	2,292	2,934	3,283	3,608	Equity share capital	244	244	244	244	244
EBITDA margin	14.8%	14.1%	14.1%	14.4%	14.5%	Reserves	6,226	6,928	8,051	9,457	11,074
Depreciation	359	445	506	480	464	Minorities	9	9	9	9	9
EBIT	1,918	1,847	2,428	2,803	3,143	Net worth	6,478	7,180	8,304	9,709	11,327
Interest	514	719	771	804	789	Convertible debt	-	-	-	-	-
Operating PBT	1,403	1,128	1,657	2,000	2,354	Other debt	9,020	9,380	8,356	9,580	9,210
Other income	105	100	107	114	124	Total debt	9,020	9,380	8,356	9,580	9,210
Exceptional inc/(exp)	76	(278)	78	-	-	Deferred tax liability (net)	131	162	160	162	162
PBT	1,584	949	1,842	2,113	2,478	Total liabilities	15,630	16,722	16,819	19,451	20,698
Tax provision	381	219	543	512	719	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	3,834	4,169	4,268	3,938	3,623
PAT (Reported)	1,203	730	1,299	1,601	1,760	Capital WIP	259	130	130	130	130
Less: Exceptionals	76	(278)	78	-	-	Total fixed assets	4,093	4,298	4,398	4,067	3,753
Adjusted PAT	1,128	1,009	1,221	1,601	1,760	Investments	90	72	75	72	72
						Current assets					
						Inventory	12,085	12,377	12,603	15,225	17,067
						Sundry debtors	1,577	2,389	1,947	3,253	3,403
						Loans and advances	840	765	765	1,137	1,242
						Cash & bank balance	51	168	313	(243)	(115)
						Marketable securities	-	-	-	-	-
						Total current assets	14,553	15,700	15,628	19,372	21,597
						Total current liabilities	3,123	3,363	3,281	4,076	4,739
						Net current assets	11,430	12,336	12,346	15,296	16,858
						Intangibles/Misc. expenditure	17	16	-	16	16
						Total assets	15,630	16,722	16,819	19,451	20,698
						Cash flow					
						(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
						Pre-tax profit	1,509	1,228	1,764	2,113	2,478
						Total tax paid	(333)	(188)	(546)	(510)	(719)
						Depreciation	359	445	506	480	464
						Working capital changes	(3,882)	(787)	150	(3,522)	(1,433)
						Net cash from operations	(2,347)	697	1,874	(1,438)	791
						Cash from investments					
						Capital expenditure	(929)	(651)	(605)	(150)	(150)
						Investments and others	(86)	18	(3)	3	-
						Net cash from investments	(1,016)	(633)	(608)	(147)	(150)
						Cash from financing					
						Equity raised/(repaid)	(2)	57	52	(52)	-
						Debt raised/(repaid)	2,971	360	(1,024)	1,224	(370)
						Dividend (incl. tax)	(85)	(85)	(228)	(142)	(142)
						Others (incl extraordinary)	85	(278)	78	-	-
						Net cash from financing	2,969	53	(1,122)	1,029	(512)
						Change in cash position	(394)	118	144	(556)	129
						Closing cash	51	168	313	(243)	(115)
						Quarterly financials					
						(₹ mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
						Operating income	5,165	5,715	5,000	4,928	6,888
						Change (q-o-q)	9%	11%	-12%	-1%	40%
						EBITDA	965	735	696	541	1,090
						Change (q-o-q)	56%	-24%	-5%	-22%	101%
						EBITDA margin	18.7%	12.9%	13.9%	11.0%	15.8%
						PAT	340	545	208	205	490
						Adj PAT	509	186	365	156	684
						Change (q-o-q)	277%	-64%	97%	-57%	339%
						Adj PAT margin	9.9%	3.3%	7.3%	3.2%	9.9%
						Adj EPS	2.1	0.8	1.5	0.6	2.8

Source: CRISIL Research

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Our Capabilities

Making Markets Function Better

Economy and Industry Research

- Largest team of economy and industry research analysts in India
- Coverage on 70 industries and 139 sub-sectors; provide growth forecasts, profitability analysis, emerging trends, expected investments, industry structure and regulatory frameworks
- 90 per cent of India's commercial banks use our industry research for credit decisions
- Special coverage on key growth sectors including real estate, infrastructure, logistics, and financial services
- Inputs to India's leading corporates in market sizing, demand forecasting, and project feasibility
- Published the first India-focused report on Ultra High Net-worth Individuals
- All opinions and forecasts reviewed by a highly qualified panel with over 200 years of cumulative experience

Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 15,000 securities
- Largest provider of fixed income valuations in India
- Value more than ₹53 trillion (USD 960 billion) of Indian debt securities, comprising outstanding securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 12 standard indices and over 100 customised indices
- Ranking of Indian mutual fund schemes covering 70 per cent of assets under management and ₹4.7 trillion (USD 85 billion) by value
- Retained by India's Employees' Provident Fund Organisation, the world's largest retirement scheme covering over 60 million individuals, for selecting fund managers and monitoring their performance

Equity and Company Research

- Largest independent equity research house in India, focusing on small and mid-cap companies; coverage exceeds 125 companies
- Released company reports on 1,442 companies listed and traded on the National Stock Exchange; a global first for any stock exchange
- First research house to release exchange-commissioned equity research reports in India
- Assigned the first IPO grade in India

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