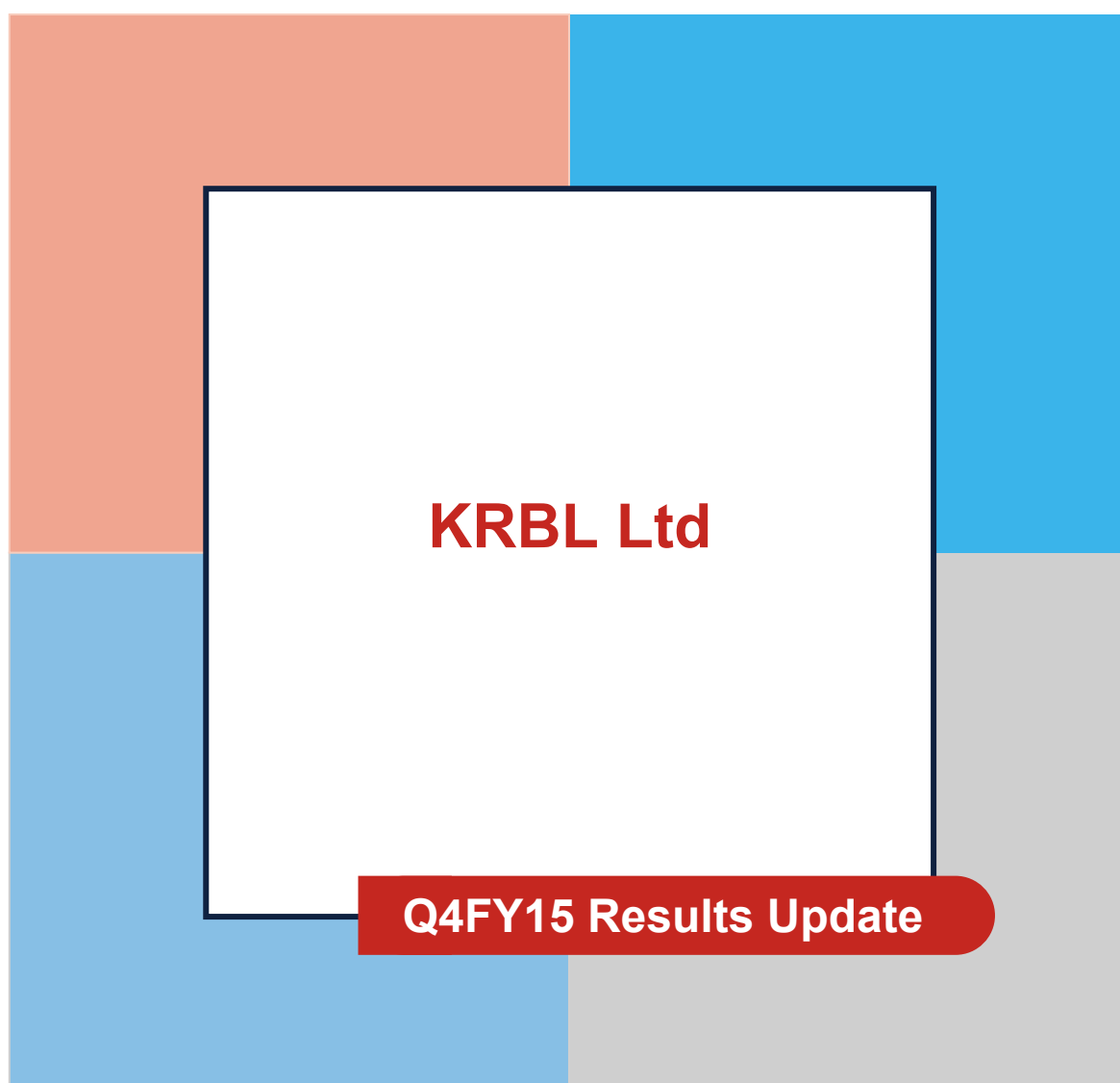


# CRISIL IER Independent Equity Research



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

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**Last updated: August, 2014**

### 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	3/5 (CMP is aligned)
Industry	Food Products

KRBL Ltd's Q4FY15 consolidated earnings were in line with CRISIL Research's expectations. Revenues grew 8% y-o-y and 21% q-o-q to ₹9.2 bn. Lower realisations due to a fall in paddy prices impacted EBITDA margin which contracted 374 bps q-o-q (up 16 bps y-o-y) to 13.7%. Adjusted PAT declined 7.5% q-o-q (up 45% y-o-y) and was in line with expectations. There was a significant increase in other operating income (mainly comprising income from Dubai-based subsidiary engaged in commodity trading activities) to ₹389 mn during the quarter from ₹13 mn in Q3FY15 and ₹43 mn in Q4FY15. Going ahead, we expect revenue growth to be driven by volumes while we expect realisation growth to stay muted in the near term. We maintain our fundamental grade of 3/5

### Volumes drove revenues; trend to sustain

The rice business' revenues grew 5% y-o-y driven by ~20% y-o-y increase in volumes. Domestic revenues increased 14% y-o-y driven by 28% volume growth while continued subdued paddy prices in comparison to last year led to a 11% decline in realisations. Though export volumes increased 3% y-o-y, revenues fell 6% y-o-y as realisations declined 9%. Exports' contribution to revenues declined to 41% from 46% in Q4FY14. Going ahead, we expect the company to witness healthy domestic volume growth given the increasing demand for branded basmati and KRBL's strong brands and distribution reach. Management indicated that the Dubai-based subsidiary's revenue in FY16 is expected to remain at FY15 levels.

### EBITDA margin impacted primarily by lower realisations

EBITDA margin contracted primarily on account of downward pressure on basmati prices and the use of high-cost paddy procured in FY14. Consequently, the raw material cost to sales ratio increased 315 bps q-o-q (down 216 bps y-o-y) to 77%. Although we expect margins to remain under pressure over the next few quarters, we expect an improvement in H2FY16. The improvement would be driven by the impact of selling low-cost paddy procured over H2FY15 as finished rice after ageing.

### FY16 earnings estimates revised; fair value maintained at ₹165 per share

We have reduced our FY16 revenue and EBITDA margin estimates by 2% and 150 bps, respectively, to factor in the expected pressure on realisations over the next two quarters. Consequently, our EPS estimate for FY16 is reduced to ₹13.1 from ₹14.5. We continue to value KRBL based on a P/E multiple of 10x and retain the fair value of ₹165 per share. At the current market price, our valuation grade is 3/5.

### KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY13	FY14	FY15#	FY16E	FY17E
Operating income	20,741	29,053	31,999	35,453	40,738
EBITDA	2,943	4,415	5,285	5,139	6,579
Adj net income	1,300	2,505	3,259	3,095	3,896
Adj EPS (₹)	5.3	10.6	13.8	13.1	16.5
EPS growth (%)	28.9	92.8	30.1	(5.0)	25.9
Dividend yield (%)	0.6	0.9	1.0	1.0	1.1
RoCE (%)	14.5	18.6	17.3	16.8	19.3
RoE (%)	16.8	26.7	27.5	21.3	22.2
PE (x)	25.9	13.0	12.7	13.4	10.6
P/BV (x)	4.0	3.1	3.1	2.6	2.2
EV/EBITDA (x)	14.3	10.3	11.1	10.5	8.2

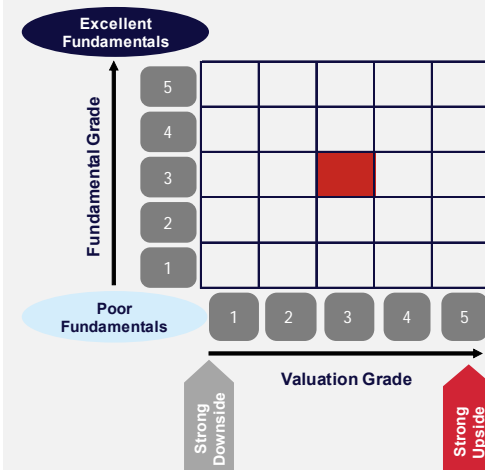
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

June 12, 2015

Fair Value ₹165  
CMP ₹167

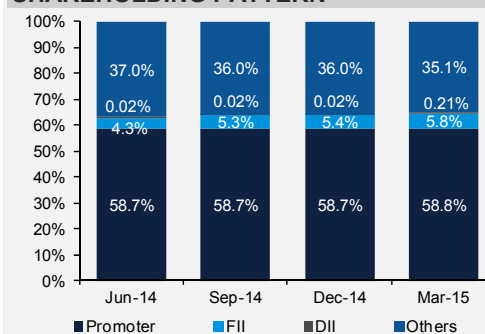
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY/SENSEX	7983/26425
NSE/BSE ticker	KRBL
Face value (₹ per share)	1
Shares outstanding (mn)	235
Market cap (₹ mn)/(US\$ mn)	39,229/613
Enterprise value (₹ mn)/(US\$ mn)	51,801/809
52-week range (₹)/(HL)	200/64
Beta	0.5
Free float (%)	41.2%
Avg daily volumes (30-days)	266,377
Avg daily value (30-days) (₹ mn)	46

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KRBL	-4%	16%	75%	109%
CNX 500	-4%	-8%	-2%	7%

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 +91 22 3342 3561 [clientservicing@crisil.com](mailto:clientservicing@crisil.com)

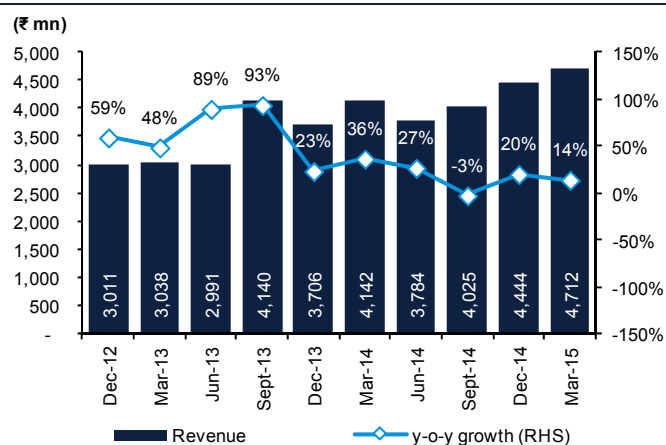
**Q4FY15 Results Summary (Consolidated)\***

(₹ mn)	Q4FY15	Q3FY15	Q4FY14	q-o-q (%)	y-o-y (%)	FY15	FY14	y-o-y (%)
<b>Net sales</b>	<b>9,239</b>	<b>7,660</b>	<b>8,596</b>	<b>20.6</b>	<b>7.5</b>	<b>31,978</b>	<b>29,105</b>	<b>9.9</b>
Raw materials cost	7,141	5,679	6,830	25.7	4.6	24,011	22,622	6.1
Raw materials cost (% of net sales)	77%	74%	79%	315 bps	(216) bps	75%	78%	(264) bps
Other expenses	681	510	493	33.7	38.1	2,160	1,621	33.2
Employee cost	155	139	114	11.6	36.9	544	456	19.2
<b>EBITDA</b>	<b>1,262</b>	<b>1,332</b>	<b>1,160</b>	<b>(5.3)</b>	<b>8.8</b>	<b>5,264</b>	<b>4,406</b>	<b>19.5</b>
<b>EBITDA margin</b>	<b>13.7%</b>	<b>17.4%</b>	<b>13.5%</b>	<b>(374) bps</b>	<b>16 bps</b>	<b>16.5%</b>	<b>15.1%</b>	<b>132 bps</b>
Depreciation	113	123	152	(8.1)	(25.8)	527	577	(8.6)
<b>EBIT</b>	<b>1,149</b>	<b>1,209</b>	<b>1,007</b>	<b>(5.0)</b>	<b>14.0</b>	<b>4,737</b>	<b>3,829</b>	<b>23.7</b>
Interest and finance charges	202	157	312	29.1	(35.0)	809	750	7.9
<b>Operating PBT</b>	<b>946</b>	<b>1,052</b>	<b>696</b>	<b>(10.1)</b>	<b>36.0</b>	<b>3,928</b>	<b>3,079</b>	<b>27.6</b>
Other income	8	13	43	(42.4)	(82.5)	55	145	(62.4)
Extraordinary income/(expense)	63	(33)	50	NM	NM	(42)	40	NM
<b>PBT</b>	<b>1,016</b>	<b>1,033</b>	<b>789</b>	<b>(1.6)</b>	<b>28.8</b>	<b>3,941</b>	<b>3,264</b>	<b>20.7</b>
Tax	160	207	191	(23.1)	(16.7)	724	713	1.4
<b>PAT</b>	<b>857</b>	<b>825</b>	<b>598</b>	<b>3.8</b>	<b>43.3</b>	<b>3,217</b>	<b>2,551</b>	<b>26.1</b>
<b>Adj PAT</b>	<b>794</b>	<b>858</b>	<b>548</b>	<b>(7.5)</b>	<b>45.0</b>	<b>3,259</b>	<b>2,511</b>	<b>29.8</b>
<b>Adj PAT margin</b>	<b>8.6%</b>	<b>11.2%</b>	<b>6.4%</b>	<b>(261) bps</b>	<b>222 bps</b>	<b>10.2%</b>	<b>8.6%</b>	<b>156 bps</b>
No. of equity shares (mn)	235	236	236	(0.2)	-	235	236	(0.2)
<b>Adj EPS (₹)</b>	<b>3.4</b>	<b>3.6</b>	<b>2.3</b>	<b>-7.3</b>	<b>45.2</b>	<b>13.8</b>	<b>10.6</b>	<b>30.0</b>

\*Note: While the company has classified its income from subsidiary as other income in Q4FY15, we have classified it as other operating income based on the explanation provided by management during our interactions.

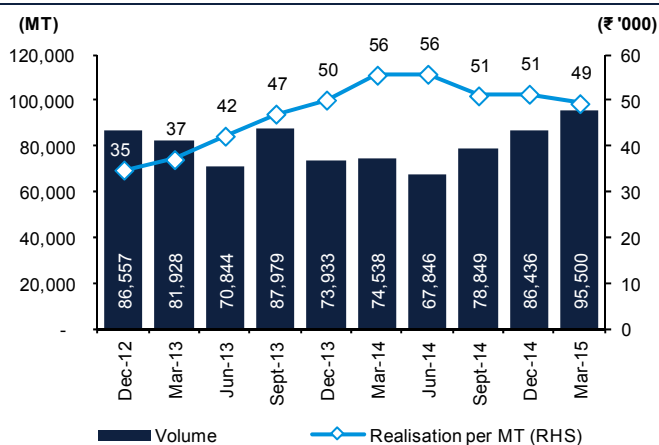
Source: Company, CRISIL Research

**Domestic revenues increased 14% y-o-y...**



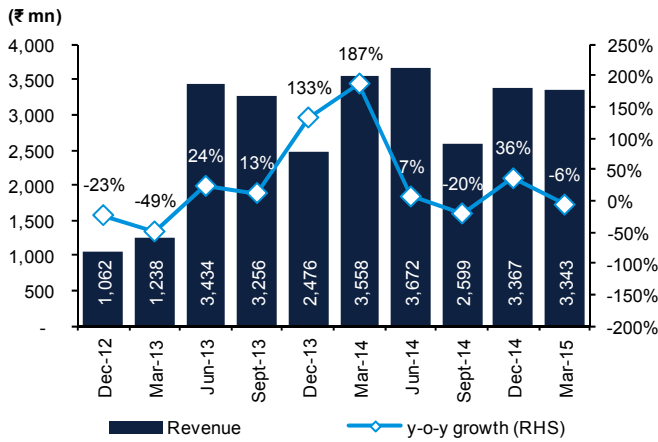
Source: Company, CRISIL Research

**... driven by volumes**



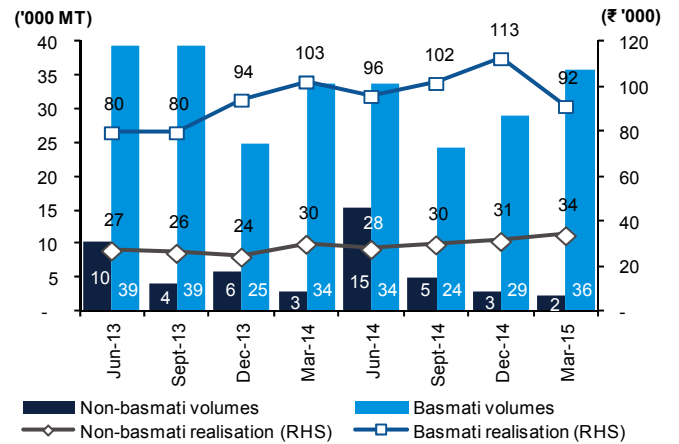
Source: Company, CRISIL Research

**Export revenues declined 6% y-o-y...**



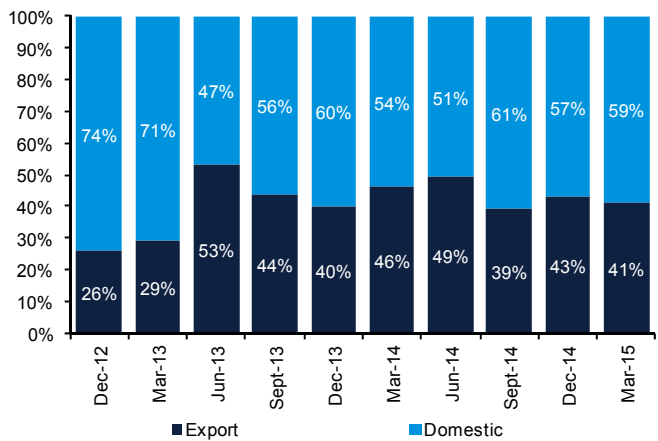
Source: Company, CRISIL Research

**... because of fall in basmati realisations**



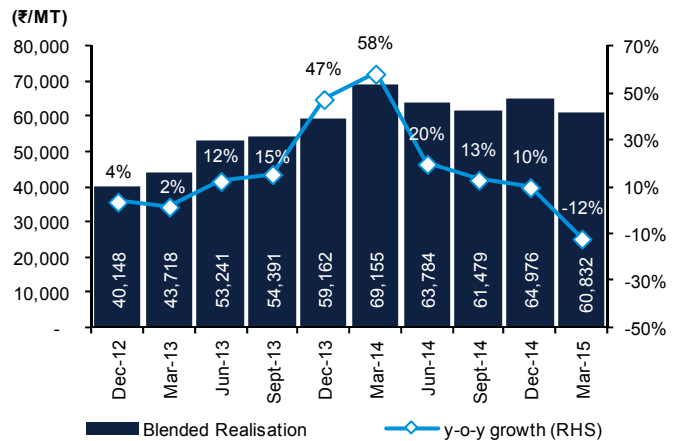
Source: Company, CRISIL Research

**Share of exports remained flat q-o-q**



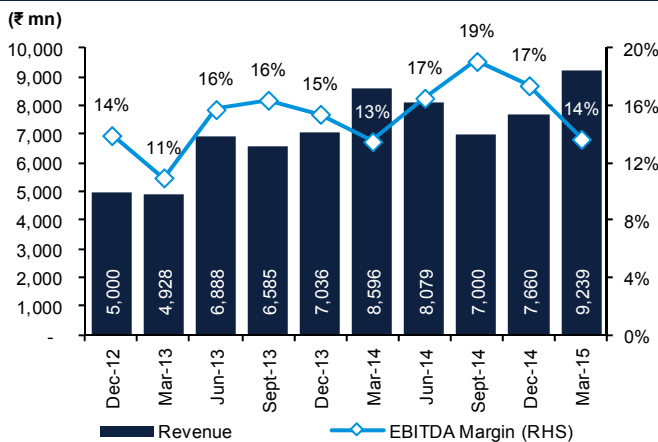
Source: Company, CRISIL Research

**Blended realisations declined 12% y-o-y**



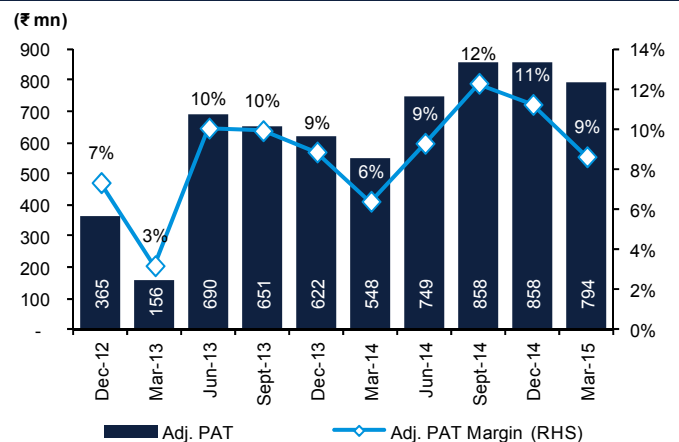
Source: Company, CRISIL Research

**EBITDA margin declined sequentially...**



Source: Company, CRISIL Research

**...so did adjusted PAT margin**



Source: Company, CRISIL Research

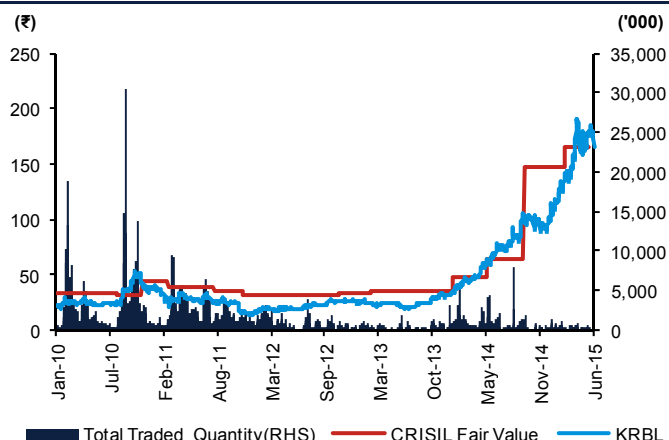
### Share price movement



-Indexed to 100

Source: Company, CRISIL Research

### Fair value movement since initiation



Source: Company, CRISIL Research

## Earnings Estimates Revised

Particulars	Unit	FY16E			FY17E		
		Old	New	% change	Old	New	% change
Revenue	(₹ mn)	36,085	35,453	-2%	40,738	40,738	0%
EBITDA	(₹ mn)	5,773	5,139	-11%	6,740	6,579	-2%
EBITDA margin	%	16.0%	14.5%	(150) bps	16.5%	16.1%	(40) bps
PAT	(₹ mn)	3,416	3,095	-9%	3,896	3,896	0%
PAT margin	%	9.5%	8.7%	(75) bps	9.6%	9.6%	(0) bps
EPS	₹	14.5	13.1	-9%	16.5	16.5	0%

Source: CRISIL Research estimates

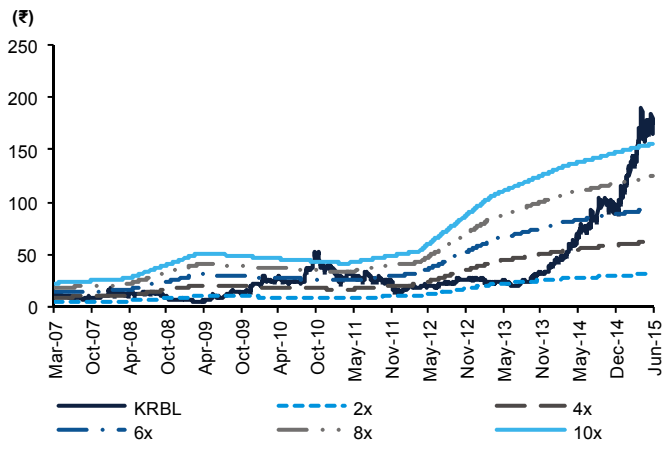
### Reasons for changes in estimates

Line item	FY16E	FY17E
Revenue	Lowered as we expect realisations to remain under pressure owing to subdued paddy prices over the next two quarters	No change
EBITDA margin	Lowered to factor in pressure on realisations	
PAT margin	Lowered in line with reduction in EBITDA which has been partially offset by a reduction in tax outgo to factor in lower-than-expected tax outgo	Reduction in tax outgo has mitigated the impact of reduced EBITDA
EPS	Lowered in line with PAT estimate	

**Valuation** **Grade: 3/5**

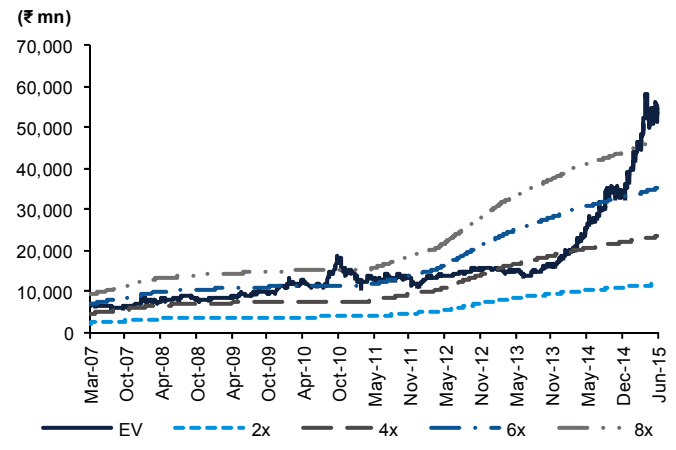
Based on a P/E multiple of 10x applied to FY17 EPS estimate of ₹16.5, we maintain our fair value of ₹165 per share. At the current market price, the valuation grade is **3/5**.

**One-year forward P/E band**



Source: NSE, CRISIL Research

**One-year forward EV/EBITDA band**



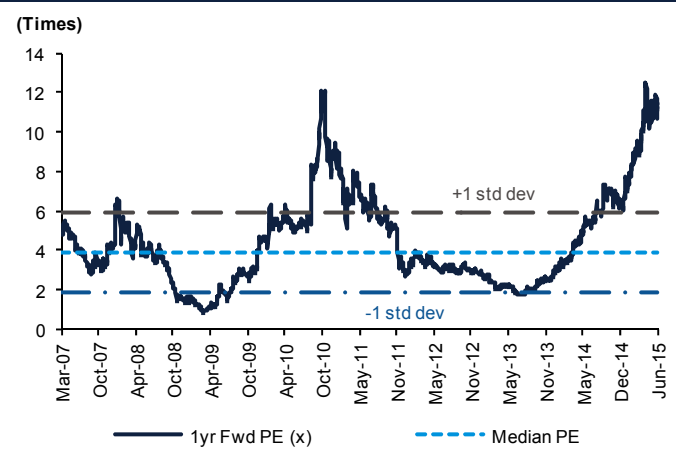
Source: NSE, CRISIL Research

**P/E – premium / discount to CNX 500**



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
03-Jan-14	Detailed Report	3/5	₹48	5/5	₹34
27-Jan-14	Q3FY14 result update	3/5	₹48	4/5	₹41
12-May-14	Q4FY14 result update	3/5	₹64	3/5	₹61
22-Sep-14	Detailed Report	3/5	₹147	5/5	₹100
28-Oct-14	Q2FY15 result update	3/5	₹147	5/5	₹98
20-Feb-15	Q3FY15 result update	3/5	₹165	4/5	₹138
12-June-15	Q4FY15 result update	3/5	₹165	3/5	₹167

#After adjusting for stock split of ₹10 to ₹1



## Annexure: Financials

### Income statement

(₹ mn)	FY13	FY14	FY15#	FY16E	FY17E
<b>Operating income</b>	<b>20,741</b>	<b>29,053</b>	<b>31,999</b>	<b>35,453</b>	<b>40,738</b>
<b>EBITDA</b>	<b>2,943</b>	<b>4,415</b>	<b>5,285</b>	<b>5,139</b>	<b>6,579</b>
<b>EBITDA margin</b>	<b>14.2%</b>	<b>15.2%</b>	<b>16.5%</b>	<b>14.5%</b>	<b>16.1%</b>
Depreciation	506	577	527	550	751
<b>EBIT</b>	<b>2,437</b>	<b>3,838</b>	<b>4,758</b>	<b>4,589</b>	<b>5,828</b>
Interest	694	760	809	798	788
<b>Operating PBT</b>	<b>1,743</b>	<b>3,078</b>	<b>3,949</b>	<b>3,790</b>	<b>5,040</b>
Other income	99	136	34	177	189
Exceptional inc/(exp)	(1)	46	(42)	-	-
<b>PBT</b>	<b>1,841</b>	<b>3,260</b>	<b>3,941</b>	<b>3,968</b>	<b>5,229</b>
Tax provision	542	709	724	873	1,333
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>1,299</b>	<b>2,551</b>	<b>3,217</b>	<b>3,095</b>	<b>3,896</b>
Less: Exceptionals	(1)	46	(42)	-	-
<b>Adjusted PAT</b>	<b>1,300</b>	<b>2,505</b>	<b>3,259</b>	<b>3,095</b>	<b>3,896</b>

### Ratios

	FY13	FY14	FY15#	FY16E	FY17E
<b>Growth</b>					
Operating income (%)	27.8	40.1	10.1	10.8	14.9
EBITDA (%)	28.4	50.0	19.7	(2.8)	28.0
Adj PAT (%)	28.9	92.8	30.1	(5.0)	25.9
Adj EPS (%)	28.9	99.1	30.3	(5.0)	25.9
<b>Profitability</b>					
EBITDA margin (%)	14.2	15.2	16.5	14.5	16.1
Adj PAT Margin (%)	6.3	8.6	10.2	8.7	9.6
RoE (%)	16.8	26.7	27.5	21.3	22.2
RoCE (%)	14.5	18.6	18.9	16.8	19.2
RoIC (%)	12.6	16.9	16.7	15.1	16.3
<b>Valuations</b>					
Price-earnings (x)	31.1	15.6	12.0	12.6	10.0
Price-book (x)	4.9	3.7	2.9	2.5	2.0
EV/EBITDA (x)	16.7	11.8	9.8	10.0	7.8
EV/Sales (x)	2.4	1.8	1.6	1.5	1.3
Dividend payout ratio (%)	14.7	11.0	12.7	13.7	9.7
Dividend yield (%)	0.5	0.7	1.0	1.1	1.0
<b>B/S ratios</b>					
Inventory days	274	262	275	270	274
Creditors days	55	35	54	52	51
Debtor days	37	38	39	42	43
Working capital days	222	228	212	206	207
Gross asset turnover (x)	3.0	3.6	3.1	3.0	3.3
Net asset turnover (x)	4.7	5.7	4.8	4.6	5.3
Sales/operating assets (x)	4.7	5.5	4.7	4.7	5.4
Current ratio (x)	5.3	7.7	5.2	5.3	5.6
Debt-equity (x)	1.0	1.3	1.0	0.8	0.7
Net debt/equity (x)	1.0	1.3	0.9	0.8	0.6
Interest coverage (EBIT/Interest)	3.5	5.0	5.9	5.7	7.4
Interest coverage (EBITDA/Interest)	4.2	5.8	6.5	5.7	7.4

### Per share

	FY13	FY14	FY15#	FY16E	FY17E
Adj EPS (₹)	5.3	10.6	13.8	13.1	16.5
CEPS	7.4	13.1	16.1	15.5	19.7
Book value	34.1	44.3	56.3	67.3	82.0
Dividend (₹)	0.8	1.2	1.7	1.8	1.6
Actual o/s shares (mn)	244	236	235	235	235

### Balance Sheet

(₹ mn)	FY13	FY14	FY15#	FY16E	FY17E
<b>Liabilities</b>					
Equity share capital	242	236	235	235	235
Reserves	8,052	10,204	13,012	15,611	19,066
Minorities	9	9	9	9	9
<b>Net worth</b>	<b>8,304</b>	<b>10,449</b>	<b>13,257</b>	<b>15,855</b>	<b>19,310</b>
Convertible debt	-	-	-	-	-
Other debt	8,703	13,795	12,815	12,815	12,615
<b>Total debt</b>	<b>8,703</b>	<b>13,795</b>	<b>12,815</b>	<b>12,815</b>	<b>12,615</b>
Deferred tax liability (net)	160	159	127	127	127
<b>Total liabilities</b>	<b>17,167</b>	<b>24,402</b>	<b>26,198</b>	<b>28,797</b>	<b>32,051</b>
<b>Assets</b>					
Net fixed assets	4,412	5,613	7,532	7,481	7,480
Capital WIP	188	334	-	-	-
<b>Total fixed assets</b>	<b>4,599</b>	<b>5,947</b>	<b>7,532</b>	<b>7,481</b>	<b>7,480</b>
<b>Investments</b>	<b>66</b>	<b>67</b>	<b>66</b>	<b>66</b>	<b>66</b>
<b>Current assets</b>					
Inventory	12,603	16,900	18,597	20,816	23,833
Sundry debtors	2,044	2,970	3,400	4,009	4,718
Loans and advances	631	578	822	922	1,222
Cash & bank balance	141	671	243	392	107
Marketable securities	-	-	-	-	-
<b>Total current assets</b>	<b>15,420</b>	<b>21,120</b>	<b>23,062</b>	<b>26,139</b>	<b>29,880</b>
<b>Total current liabilities</b>	<b>2,934</b>	<b>2,745</b>	<b>4,463</b>	<b>4,891</b>	<b>5,377</b>
<b>Net current assets</b>	<b>12,486</b>	<b>18,375</b>	<b>18,599</b>	<b>21,248</b>	<b>24,504</b>
Intangibles/Misc. expenditure	15	13	2	2	2
<b>Total assets</b>	<b>17,167</b>	<b>24,402</b>	<b>26,198</b>	<b>28,797</b>	<b>32,051</b>

### Cash flow

(₹ mn)	FY13	FY14	FY15#	FY16E	FY17E
Pre-tax profit	1,842	3,214	3,983	3,968	5,229
Total tax paid	(545)	(710)	(756)	(873)	(1,333)
Depreciation	506	577	527	550	751
Working capital changes	(176)	(5,356)	(641)	(2,500)	(3,541)
<b>Net cash from operations</b>	<b>1,626</b>	<b>(2,275)</b>	<b>3,113</b>	<b>1,145</b>	<b>1,105</b>
<b>Cash from investments</b>					
Capital expenditure	(807)	(1,924)	(2,111)	(500)	(750)
Investments and others	5	(1)	1	-	-
<b>Net cash from investments</b>	<b>(801)</b>	<b>(1,926)</b>	<b>(2,110)</b>	<b>(500)</b>	<b>(750)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	15	(125)	0	(0)	-
Debt raised/(repaid)	(676)	5,092	(980)	-	(200)
Dividend (incl. tax)	(191)	(281)	(409)	(496)	(441)
Others (incl extraordinary)	(1)	46	(42)	-	-
<b>Net cash from financing</b>	<b>(853)</b>	<b>4,731</b>	<b>(1,431)</b>	<b>(496)</b>	<b>(641)</b>
Change in cash position	(27)	530	(428)	149	(285)
Closing cash	141	671	243	392	107

### Quarterly financials

(₹ mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
<b>Operating income</b>	<b>8,596</b>	<b>8,079</b>	<b>7,000</b>	<b>7,660</b>	<b>8,858</b>
Change (q-o-q)	31%	-6%	-13%	9%	16%
<b>EBITDA</b>	<b>1,160</b>	<b>1,335</b>	<b>1,336</b>	<b>1,332</b>	<b>880</b>
Change (q-o-q)	8%	15%	0%	0%	-34%
<b>EBITDA margin</b>	<b>13.5%</b>	<b>16.5%</b>	<b>19.1%</b>	<b>17.4%</b>	<b>9.9%</b>
PAT	598	729	806	825	857
<b>Adj PAT</b>	<b>548</b>	<b>749</b>	<b>858</b>	<b>858</b>	<b>794</b>
Change (q-o-q)	-16%	37%	15%	0%	-7%
<b>Adj PAT margin</b>	<b>6.4%</b>	<b>9.3%</b>	<b>12.3%</b>	<b>11.2%</b>	<b>9.0%</b>
<b>Adj EPS</b>	<b>2.3</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>	<b>3.4</b>

# Based on abridged financials

Source: CRISIL Research

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- Assigned the first IPO grade in India; graded more than 100 IPOs till date
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