



“KRBL Limited Q3 FY19 Earnings Conference Call”

**February 11, 2019**

**MANAGEMENT:MR. ANIL KUMAR MITTAL – CHAIRMAN AND  
MANAGING DIRECTOR  
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**Moderator:** Ladies and gentlemen, good day and welcome to KRBL Limited Q3 FY19 Earnings Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amandeep Singh from Ambit Capital. Thank you and over to you, sir.

**Amandeep Singh:** Thank you, Denise. Good afternoon, ladies and gentlemen. On behalf of Ambit Capital, we welcome you all to the Q3 FY19 Earnings Call of KRBL Limited. We have with us Mr. Anil Kumar Mittal – Chairman and Managing Director; Mr. Anoop Kumar Gupta – Joint Managing Director; and Mr. Rakesh Mehrotra – Chief Financial Officer of the company.

Now, I hand over the call to Mr. Rakesh for opening comments. Post which, we can set the floor open for questions and answers. Thank you and over to you, sir.

**Rakesh Mehrotra:** Good afternoon. It is my pleasure to welcome all stakeholders to a discussion on Q3 and nine months FY19 performance of KRBL Limited. A detailed investor presentation is available on the stock exchange and on our website for your easy reference.

Let me begin with the quarter three of FY19.

The revenue from operations increased by 19.5% year-on-year to Rs. 936 crores. The demand for basmati rice remains strong in India. Overall, company has achieved 7% year-on-year volume growth on back of a strong focus on branding, customer engagement and strengthened distribution network. The company has spent around 2% of sales on ad and promotional expenses during the quarter. Realization per metric ton was up by 14% year-on-year. This is a strong increase and realization per metric ton a was result of multiple factors, such as superior product mix comprising of high-end brands, rise in US dollar rate and increase in prices in the export market.

EBITDA stood at Rs. 209 crores, a 13% year-over-year increase. EBITDA margins declined marginally to 22.3%, down 130 basis points due to rise in cost of materials. The profit before tax was Rs. 165 crores, slightly lower than same period last year. Finance costs rose on account of several reasons, including higher average working capital loan utilization, notional

loss on Forex fluctuation on foreign currency, short-term loan and marginal increase in the rate of interest as compared to same period last year.

Profit after tax stood at Rs. 108 crores, a decline of 13% as compared to same period last year. The lower PAT is mainly on account of Forex fluctuation loss of Rs. 17 crores shown in the interest cost vis-à-vis M2M gain of Rs. 13 crores in the same period last year. Thus, having total impact of Rs. 30 crores and one-time power income of Rs. 12 crores in the previous year, which is not there in the current year. The effective tax rate has increased for the company as it is not investing in any wind / solar power plants for the last two years.

Moving to nine months period of FY19 performance.

Revenue from operations grew by 23.3% year-on-year to Rs. 2,924 crores. EBITDA stood at Rs. 633 crores, up 4% year-on-year. EBITDA margins stood at 21.6%, a decline of 400 basis points, which can be attributed to bulk tender sales having lesser margin as compared to other export sales. However, we would like to highlight that during the current nine months period of FY19, company has achieved the highest ever Revenue, EBITDA, PBT and PAT in value terms. The profit after tax for the nine months period stood at Rs. 367 crores.

Moving on to the balance sheet. I would like to take this opportunity to explain how the debt moves through the year. We have very little long-term debt. Most of the debt is working capital loans. The net debt starts rising with the commencement of procurement of paddy at the beginning of quarter three every year and becomes insignificantly low by September of the next year. This is a cycle which results into near zero debt by September every year for the company. The inventory days follows the above trend.

Moving into additional disclosure we made in our stock exchange filings along with our results - the company has received a demand notice under Section 153A of the Income-tax Act, 1961, with respect to assessment year 2010-2011 to 2016-2017, amounting to Rs. 757.44 crores and interest thereon of Rs. 511.76 crores. The demand is on the back of additions of Rs. 2,220.79 crores made by the department to the total income of the company for the said year. The majority of the additions are on account of disallowance, under Section 40 A(3) of Income-tax Act, 1961, for paddy purchases from the farmers. We would like to mention that the above paddy purchase has been duly disclosed in the books of accounts for respective year and has also been accepted in the assessment proceedings of the respective years. We would like to elaborate that all the purchases of paddy were made on the platform of the UP Mandi Samiti

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Yard as per the prevalent law in UP where the farmer can sell and the factory owners can purchase paddy only in the Mandi Samiti Campus. The Mandi Samiti officials have also confirmed the same to the Income Tax department.

Since it is mandatory for all farmers to sell their agriculture produce in the platform of Mandi Samiti yard, the paddy purchased by the company could only be from the farmers. No evidence has been brought on record by the IT department for the alleged breach of law by the company or the farmers or even by Mandi Samiti government officials. No reason has been given in the assessment order on disallowing the practice, which is prevalent for decades.

The company had filed writ petition before the Honorable High Court at New Delhi seeking its intervention and Honorable High Court has ordered that no course of action shall be taken against the company to enable legal remedies in accordance with the applicable law. The company has been paying all taxes promptly and is taking all the necessary legal steps to defend the case. We would like to reiterate that based on the considered legal opinions, the management is confident that it has a strong case in favor and this demand will be scrapped at appellate level as it is erroneous and has no basis.

I would like to conclude by saying that we are excited about the long-term growth opportunity for our business, driven by strong industry dynamics for rice industry, KRBL's strong brand positioning, manufacturing, distribution strength and integrated business model.

With this, I now open the floor for questions.

**Moderator:** Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Rajat Khera from Smart Equity. Please go ahead.

**Rajat Khera:** Just one small question, sir. The additions made by the Income Tax department was approximately Rs. 2,200 crores. Out of that I think your press notes says that only about Rs. 2,000 crores pertain to the purchase additions. What was the remaining additions about, is there any detail given?

**Anoop Kumar Gupta:** Yes. It is Rs. 1,995 crores on the purchase amount, and the balance is Rs. 162 crores are in respect of disallowance of purchases of rice, alleging unverifiable purchases. And this is only on guesswork and summarizes. It is on some purchase of rice, they say it is unverifiable.

- Rajat Khara:** Okay. Is the management confident of only this Rs. 2,000 crores addition, or is it also confident of the remaining Rs. 200 crores addition?
- Anoop Kumar Gupta:** We are confident that it will be 0 because all the additions don't have any legal standing.
- Moderator:** Thank you. We take the next question from the line of Varun Goenka from Reliance Capital. Please go ahead.
- Varun Goenka:** Main question around the difference between our sales growth, our revenue growth and EBITDA growth. So, for example, we have done some large ad spend this quarter. If you could explain the key differences here of why the EBITDA growth is much slower than sales growth? Their ad spends or anything else that is...
- Anoop Kumar Gupta:** You see, as already told by CFO, why the EBITDA growth is less being mainly because of the Indian Accounting standards (IND-AS). The difference in interest is almost Rs. 30 crores. There was a gain of Rs. 13 crores, if you talk of year-on-year quarter. And this time there is a loss of Rs. 17 crores. So, there is a difference of Rs. 30 crores only on the account of interest. And number two, there was a gain of Rs. 12 crores in the power. And there is about Rs. 8 crores difference in the taxation rates. So, in total about Rs. 50 crores money, there is a difference between year-on-year results. So, EBITDA, if you talk in real term, according to me EBITDA is higher than the year-on-year quarter.
- Varun Goenka:** Yes. Sir just one thing here, power business, Rakesh-ji said there was some onetime income last quarter. So how was that onetime income versus, so what is our run rate to quarter...
- Anoop Kumar Gupta:** Actually, it is in 2015-2016 we had put up a plant in Maharashtra. And there was some problem with Suzlon, they could not sign the PPA. So, we have claimed the amount of Rs. 12 crores from Suzlon because for one year my machine was sitting idle. So, we were able to claim that Rs. 12 crores in last year y-on-y. So that was a onetime income.
- Varun Goenka:** Okay. Right. And on ad spend, we spent around 2% of sales this quarter. But for the nine months and for the last year, how much we have done on ad spend, if you can give us some idea?
- Anoop Kumar Gupta:** Generally, you see my budget is between 2% to 2.6%. This is my budget. But annual budget is 2.5%. We will end the year with 2.5%.

- Varun Goenka:** Okay. So, there is no one-time ad investment this year, in this quarter?
- Rakesh Mehrotra:** There is no onetime ad spend kind of thing. Only thing is we are doing ad on regular basis. In some quarter it is a little on the higher side and in some quarter it may be less.
- Varun Goenka:** But Rakesh-ji, what was it last year same quarter, if you have some number?
- Rakesh Mehrotra:** I don't have the ready number, but it was almost same.
- Varun Goenka:** Okay. My main thing now on Q4, do we have any large export order in hand or some outlook on the export orders for Q4, if some outlook can be given, sir?
- Anil Kumar Mittal:** We have very good orders in hand, and we are expecting a robust result in Q4. And actually, one of the shipments we were expecting it might take place in December, but since the LC could not be opened, so we have to ship that turnover in January. But in the last quarter, it will be very good numbers with very good results.
- Varun Goenka:** Okay. But sir, what is driving our export realization such as large jump in export realization?
- Anil Kumar Mittal:** There were two reasons, so we got the premium quality orders more than the normal segment. That was one reason. And other reason was of that during October to December, the third quarter, the paddy prices started jumping up from October onwards. So, when that was in the season the paddy prices jump, we get a little advantage in the prices because it is correlated with their new crop, new paddy, so we immediately increase our prices also.
- Varun Goenka:** Okay. Just one request, sir. Earlier you were giving our inventory data, our inventory cost, finished and paddy, maybe we could continue to give that data, it will really help us.
- Rakesh Mehrotra:** I have the numbers, should I give it?
- Varun Goenka:** I will take it off-line, Rakesh-ji.
- Rakesh Mehrotra:** Or you can send me a mail, Varun, I will send you back.
- Moderator:** Thank you. We take the next question from the line of Viraj Mehta from Equirus PMS. Please go ahead.

**Viraj Mehta:** Sir, my question was majorly regarding what is the cost of inventory for both paddy and for rice currently?

**Rakesh Mehrotra:** Our cost is Rs. 33,485 per metric ton for the paddy. And for rice is Rs. 46,905 per metric ton.

**Viraj Mehta:** Okay. And as far as this demand from Income Tax is concerned, are we going to see anything, any write-offs on the P&L in the near term? Or you believe it is completely frivolous and we do not need to make any provisions?

**Anoop Kumar Gupta:** No, we don't need to make any provision. We have taken the opinion from our statutory auditors, which is Walker Chandiook & Co LLP and we do not have to pay anything, we just have to pay till 31st March only Rs. 50 crores, and that will be shown as...

**Rakesh Mehrotra:** Advanced tax under protest.

**Anoop Kumar Gupta:** Advanced tax under protest.

**Viraj Mehta:** Okay. And sir, as far as growth, if I look at India's volume growth in basmati exports this year, as can be seen we have seen considerable market share increase in exports. What will be our current market share in exports?

**Anil Kumar Mittal:** See, normally I tell you, there are two, three bottlenecks in export. One is in Europe, the exports to Europe are very, very slow compared to 2017-2018 and 2018-2019, I think the total exports to Europe will be just 40% or 35%. And presently there are no exports to Europe and everybody is concerned. And that market was of 300,000 tons for India. And for KRBL, that market was around 40,000 tons for brown rice. But let me tell you, profit wise that was not a very big profit center. The profits were very low, but we were interested and we were in that business because Europe remained a prestigious business. And everybody used to say why KRBL is not active in Europe, that was one reason. So that 300,000 tons was that loss. Another loss which came through the business was of Iran. Iran from July- September up to December, they never purchased anything because of the sanctions. Now, Iran sanctions have been opened up, up to 5th of May 2019, and we have a surplus of \$10 billion from Iran to export anything. So, Indian government and Iranian government, both are interested that this business should increase. So, from 1st of January the business has started moving to Iran. That is one thing. But we lost the business of three to four months. That is number two. Number three, there used to be every year a growth of about 6% in the global arena, every year the market used to jump

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6%. But recently, because of problems in Syria, in many Middle East countries, including Yemen and all, that has also affected the exports. Besides, there has been lot of expatriates which have left these countries, including Saudi, Doha these countries. So, the growth which used to come 6% every year might not be seen this year. So, these are the two, three reasons. But touchwood, as far as KRBL is concerned we will cross everything. Our EBITDA will also be much improved over the last year. Our quantum's will also be improved, and our top line, bottom line will also be improved.

**Viraj Mehta:** Okay. And sir, because of the general market sentiment plus there are several allegations against the company, which are not true in your opinion, the stock price of the company is at a very attractive level for both to consider a buyback. And in the past in the media interaction you have said that you have considered, but there has just not been any firm decision on this by the board and the promoters. Is there any change of view in that now?

**Anil Kumar Mittal:** See, we have discussed this matter internally and every member has a different opinion. But I am quite confident that in the next board meeting, which will happen in the first quarter of the year, we may take some decision on this issue.

**Moderator:** Thank you. We take the next question from the line of Jaspreet Singh from VA Capital. Please go ahead.

**Jaspreet Singh:** I just want to understand, the Delhi government had approved Swaminathan Committee report, which apparently feels that cost of paddy should be C2 plus 50%. So, do you envisage the same thing to be happening in Punjab and Haryana? Because apparently a lot of political organizations are creating noises out there. Now that's question number one.

**Anil Kumar Mittal:** Jaspreet, let me tell you, basmati rice is out of the ambit of any type of controls of the government. It is non-basmati rice and other cereals which government procures and they have a MSP policy and they do not want that at the Mandi yard farmer should sell less than the MSP. So, all these, whatever are provisions and statements made by the other political or by the minister or by some outsider, they are on those commodities which have got MSP and which are procured by the government. That's number one. Basmati, which is free from all, see if you look the last 20 years, many times government wanted that we should bring some MSP for basmati rice, but they could not because law doesn't permit because they do not procure it. Till the time government procures this commodity, they cannot fix any MSP or they cannot bring the provision of Swaminathan Committee.

- Jaspreet Singh:** But in case, I am taking it to be a bit positive in case it happens, because if MSP of paddy goes up then definitely MSP... there is no MSP for basmati, but yes, the cost of production of basmati would also go up, which means that your inventory would be valued at a much higher price than it used to be.
- Anil Kumar Mittal:** So, you are absolutely correct. What is the reason of this year's price is, see basmati, if you look at 2016, the price was Rs. 28, Rs. 27. Then in 2017 it became Rs. 30, then this year it became Rs. 32, Rs. 33. What was the reason of Rs. 33? Because the MSP of parmal rice was increased to Rs. 1,800-something-odd by the government. So, definitely there is no doubt there is a set principle, if parmal rice price increases, basmati price will also increase. There is no doubt about it.
- Rakesh Mehrotra:** It will be positive only for KRBL because the kind of stock inventory we are carrying, it will help us. It will help...
- Jaspreet Singh:** And sir, what is the inventory you are carrying right now?
- Rakesh Mehrotra:** We are carrying 5 lakh tons of paddy, 5,00,392 metric tons of paddy.
- Jaspreet Singh:** This is as of Feb, right?
- Rakesh Mehrotra:** Pardon?
- Jaspreet Singh:** This is as of today?
- Rakesh Mehrotra:** As of 31st December.
- Jaspreet Singh:** How much would it be valued as of today, valuation?
- Rakesh Mehrotra:** I can tell you, valuation is on 31st December. If you want to know that 31st December?
- Jaspreet Singh:** 31st December, I already know it. It is around Rs. 3300 crores as given in the presentation.
- Rakesh Mehrotra:** Yes, yes. So as on 31st December, my paddy is valued at Rs. 1,675.58 crores, and rice is valued at Rs. 1,581 crores and rice inventory is seen at 3,37,000 metric tons.

- Jaspreet Singh:** Yes. Sir, you would have sold some rice and paddy apparently in January. Did you buy some paddy in January?
- Anil Kumar Mittal\_:** Yes, small quantities we purchased, both rice and paddy, both we purchased in the month of January.
- Anoop Kumar Gupta:** But this season it is a record purchase for KRBL. Total, we have bought around 670,000 tons of paddy, if you talk of the seasonal. I am talking from October to January. October to till date, we have bought 675,000 tons of paddy.
- Jaspreet Singh:** Okay. And would it be right to say that by end of February, you would be debt-free as far as short-term loan is also concerned?
- Rakesh Mehrotra:** By end of September 2019, yes, even before that.
- Jaspreet Singh:** I am talking about February, because you will be selling something in January and February, right?
- Anoop Kumar Gupta:** How can we in February, I am on an inventory of Rs. 3,300 crores - Rs. 3,400 crores and my bank borrowing is about Rs. 1,500 crores - Rs. 1,600 crores, how can I be 0 in February. I will be 0 in August, September.
- Jaspreet Singh:** Okay. I was assuming that you would be making some sales of Rs. 1,000 crores or so, Rs. 1,200 crores maybe in this quarter and...
- Anoop Kumar Gupta:** No, no, then I will be buying some rice also. It is not like that 100%, the goods will go from my inventory.
- Jaspreet Singh:** Okay. Sir, buyback again, the same question is appearing that why not go for a buyback when the equity price is so low?
- Anil Kumar Mittal:** See we have discussed this internally. I think this decision of buyback, in the next board meeting on the first quarter of 2020 we may discuss and finalize it.
- Jaspreet Singh:** Particular reasons of not doing it right now?

**Anil Kumar Mittal:** Well, there is a tax demand also, there are other demands also. We do not want to put ourselves because we want to be comfortable as far as our liquidity is concerned. We do not want to enter into any bank pressure or borrowing pressure and all that.

**Anoop Kumar Gupta:** Jaspreet, we are on an inventory of Rs. 3,300 crores - Rs. 3,400 crores. And already the bank borrowing is Rs. 1,500 crores - Rs. 1,600 crores. We want to run our business in a comfort zone? Credit rating agencies, bank interest, everything. Why we are able to get today bank rate of less than 250 basis point, less than the market? Because of my balance sheet. Because today, what I am looking at the margin, I am just giving a 50% margin. Against a Rs. 3,300 crores stock, I have just borrowed Rs. 1,500 crores, Rs. 1,600 crores.

**Moderator:** Thank you. Next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

**Manish Bhandari:** Sir, my question is, one, regarding quinoa. What corrective action we have taken on our product? We started with lot of fanfare and how our ambition had changed on this because as a user, I can tell you our product has not been of a great quality versus the other products in the market, other international products. So, is there a change what we have done in our strategy? And what kind of target we can assume on the sales in next two, three years?

**Anil Kumar Mittal:** See, you are right that quinoa, because it was a very initial stage, we didn't know that quinoa quality will not be to that extent what it is been grown in Bolivia. But when you will find that quality of quinoa this year in 2018-2019, it is excellent and we are at par with Bolivia. That is number one. And because of the quality issues, what we were expecting the sales and the growth in the market, we do agree that we could not achieve that. But I think from 15th of February or by first week of March we will be in the market again. But now we came to know that the quinoa market, as far as India is concerned, is not that big what we were thinking, it is a very small market. And as far as the growth of quinoa is concerned, France have started growing, Spain have started growing, Bolivia quantities have doubled out, market prices have come down. When the market prices come down globally and everywhere, then it becomes many a time for newcomer to penetrate in the market. But this year the things would stabilize, we are confident that this year we could show some progress into quinoa.

**Manish Bhandari:** Sure. Sir, my second question is regarding the volume growth, apart from the Iran contracts and the new market which has opened. What kind of volume growth we can assume and we should assume in the Indian market in the basmati segment that we operate for next two, three

years, maybe three or four years, looking at the production of basmati versus our sales capacity and the demand?

**Anoop Kumar Gupta:** I am looking at a growth of minimum 10% to 15% per annum.

**Manish Bhandari:** So, this should be the industry growth and we would be taking market share from others? Or how we should dissect this growth?

**Anoop Kumar Gupta:** It will be industry growth. If industry grows by 10%, then KRBL grows by 15%. My growth should be 50% more than the industry. This is the benchmark of KRBL.

**Manish Bhandari:** So, by this standard we should be close to 45% market share in domestic market in next 4 years or so, 3.5 to 4 years?

**Anoop Kumar Gupta:** Yes, we are looking at that 45%, because today we are 34% - 35%, so we should increase another 10% next four years, definitely.

**Manish Bhandari:** Sir, this brings to a very important point that with a 45% market share in a single product with maybe multiple brands, but still if I look at from a basmati as a segment, there is a dire need for us to diversify or maybe to bring other lines of business in whichever line you choose from a consumable point of view. So, there were some thoughts which you had a discussion internally on some acquisition. And how do we see now, is there any thought process which has been built in the board and yourself?

**Anoop Kumar Gupta:** In four years if I say 40% market share that means my top-line would go to Rs. 5,000 crores. And even export will grow, in only one segment our top-line, we are expecting next five, six years to go to Rs. 6,000 crores. And we know the trade, we know everything, we are in and out of it, why to go for a new product? I think we are doing very good in basmati, and there is a lot of opportunity in basmati. Day by day biryani culture is coming in South India. Day by day biryani culture is increasing everywhere. And everybody wants to eat basmati biryani. And people are brand conscious, quality conscious. I think we have a big, big, big chance in this field only.

**Moderator:** Thank you. Next question is from the line of Varun Goenka from Reliance Capital. Please go ahead.

**Varun Goenka:** Yes. Sir, just to continue on the export part. I think our issue with the Saudi distributor probably is resolved now. So, in addition to our already very good export growth, can you comment anything on how our Saudi exports can now normalize or what is the status?

**Anil Kumar Mittal:** Varun, actually, the problem in Saudi is that many people, expatriates, have left the country. So there used to be every year a growth of 6% to 7% in Saudi Arabia. I still know when we started Saudi Arabia, the total consumption was 180,000 tons. And last year, the consumption was 850,000 tons. So, year-by-year it was increasing, but from last year it has little come to a stagnant point. That is number one. As far as the Saudi customers are concerned, we used to sell them let us say 5,000 tons a month. This is the first months in February and March, we have given the order to export 7,000 tons every month. And I am expecting, with the problems depleting and things coming into normal, we will come back to 10,000 to 12,000 tons a month within maybe 1 year, 1.5 years or 2 years.

**Varun Goenka:** Okay fine, sir. And on domestic, we had very bad period in one year due to that GST tax rate confusion. But now our volumes seem to be coming back. So, if you could give us, how aggressive we are going to be in domestic? What is working for us that without dropping our realizations we are able to get our volumes back? How big is the demand opportunity here? Because the competition also, I would assume, is the maximum domestic side, not the export side.

**Anoop Kumar Gupta:** Yes. Due to GST, what we got from GST the brands today are pretty less. Now we are competing only with four brands: Daawat, Patanjali, Adani and Kohinoor. Otherwise, there is no much competition because all the brands have vanished due to GST. The maximum percentage of share of those small brands, I think 70% of that share of small brands, which are 0.5%, 1% of India, 60% to 70% has come in the kitty of KRBL. So that is way forward we will be gaining on that account.

**Varun Goenka:** Okay. So just two more questions on this side. Sir, do you need to invest or expand anything substantially on your distribution side? Now that you have a brand advantage or manufacturing advantage, is there any scope in distribution to have a major increase?

**Anoop Kumar Gupta:** Sir, actually distribution from Kashmir to Kanyakumari, we have 484 distributors, and I think I have covered the whole of India. We have to invest now on our sale team and our sales systems where we are investing now.

- Varun Goenka:** Okay. Just to probe further, sir. Wholesale dependence distribution faced a lot of challenges during GST. So, when you said 450-odd distributors across the country, this would be super stockiest?
- Anoop Kumar Gupta:** No, these are distributors who are selling the product through retailers.
- Varun Goenka:** Okay. But we are not planning to go directly to retailers in anyway, so that will be our...
- Anoop Kumar Gupta:** No, that is not possible, because the delivery quantities are too small.
- Varun Goenka:** Okay, fine. And just a high-level thing, you just said that you are looking at Rs. 5,000 crores, approximately, turnover in four or five years out of one of the segments, let's say domestic. So, according to the vision of promoters, in terms of volume, do you think we will be able to handle, let's say, over 1 million tons or 2 million tons, we can scale up easily over the next four, five years?
- Anoop Kumar Gupta:** Today KRBL has a capacity to mill around 1.2 million tons of paddy. As far as capacities are concerned, everything is in place. It is only the question of market.
- Varun Goenka:** Okay. But sir, now at this Rs. 3,500 crores of sales, we are carrying Rs. 3,000 crores to Rs. 4,000 crores of inventory. Is it operationally possible to carry Rs. 10,000 crores worth of inventory or buyback quantity of paddy and hold it as inventory?
- Anoop Kumar Gupta:** Yes, we will be buying. We have to make certain warehouses, we have to buy certain lands. That is very minimal. Otherwise, the plant and machinery supports us.
- Moderator:** Thank you. Next question is from the line of Amit Doshi from Care Portfolio Managers. Please go ahead.
- Amit Doshi:** Sir, you did explain about the international realization improving on account of rise of paddy prices, and you could gain on that front. But similar effect was not seen in the domestic realization. Can you share the reason for the same?
- Rakesh Mehrotra:** Domestic realization has also increased marginally, but export realization it has increased faster because of this reason.

- Anoop Kumar Gupta:** A lot of premium rice goes into exports. And the kitty in this quarter, the percentage of premium rice was more. You see, in domestic market a lot of broken rice is being sold. So that is the difference between domestic and exports.
- Amit Doshi:** But the rising paddy price is passed only in the premium segment is what you...
- Anoop Kumar Gupta:** Yes. 70% of it goes into premium segment. The broken pricing doesn't affect that much.
- Amit Doshi:** Okay. So, do you believe that we will see improved realizations in the coming quarters for that domestic part as well or it will be in the similar range? I mean, because there is a sharp cut out because now a distinction between the domestic and international is significant?
- Anoop Kumar Gupta:** The domestic realization for the fourth quarter would be of the similar range.
- Amit Doshi:** Okay. And second on the demand front you mentioned that Rs. 50 crores is what we have to pay by March for protest, so that is all or do we anticipate more? Because I think as per Income Tax I think there is some 15% to 20% of the demand has to be paid.
- Anoop Kumar Gupta:** We have taken the order from the Income Tax department.
- Amit Doshi:** Okay. So that Rs. 50 crores is the final. There is nothing else that you have to pay till the time this appeal...
- Anoop Kumar Gupta:** We have to pay Rs. 12 crores month after 31st March. Till the hearing of appeals.
- Amit Doshi:** Rs. 12 crores per month?
- Anoop Kumar Gupta:** After 31st March till the hearing of appeals. I am expecting my appeal to be heard in March only.
- Moderator:** Thank you. Next question is from the line of Aditya Yadav from Transcend Capital. Please go ahead.
- Aditya Yadav:** Sir, regarding the income tax addition. Sir, as explained in the notification you've given out on the exchanges that the company has been in full compliance with the UP Krishi Mandi Laws and the two or three statutes which are there. Was this addition made specifically regarding the

purchases from UP? Or is this regarding purchases from all the state's like Haryana, Punjab and others, or is it specifically regarding UP?

**Anoop Kumar Gupta:** We have a big contract farming operation in UP, and we have registered ourselves in every Mandi of UP. And Haryana, Punjab, we are buying through arthiyas, not directly from farmers. In UP we are allowed to buy directly from the farmer as per UP Krishi Utpadan Mandi Samiti Adhiniyam. And I tell you very strong point, Krishi Utpadan government of UP issues two type of forms, one is 9R and one is 6R. When 6R is issued, it is proved that this purchase is from a farmer. When 9R is issued it is proved that this purchase is from arthiyas. So, whenever KRBL purchases through 9R the payment is made through proper banking channels. Whenever the company purchases through 6R, which according to UP Krishi Utpadan Samiti is a purchase from a farmer, the company pays the farmer in cash, because that was the prevailing practice in that state. So that is Rs. 2,000 crores is the purchase of seven years from the farmers.

**Aditya Yadav:** From UP? To 6R form the purchase from farmers...?

**Anoop Kumar Gupta:** Through 6R forms wherein we have paid 2% Mandi cess to the government of UP. And the 6R proves itself that this is a purchase from a farmer. It is a legal statutory form. And why government had made two forms, 6R for farmer and 9R for arthiyas or a trader. That proves itself that government is also doing the farmer separate and arthiyas separate. And it proves itself when I purchase against 6R it is a farmer purchase. Sir, I have got a very, very strong case. It will go away in the first hearing at CIT. This is not my opinion, this is the legal opinion I got from every advocate. I must have gone to 10, 12 places.

**Aditya Yadav:** Yes, yes. Because it is a big demand that I am sure it must have caused you to get like very active mode.

**Anoop Kumar Gupta:** Yes. For the whole January, we were working on this only. How come there is so much of addition has come?

**Aditya Yadav:** Sure. And secondly, so this is regarding the six assessment years which you mentioned in the disclosure. And in the current practice, have we made any sort of modifications to...?

**Anoop Kumar Gupta:** Yes, Modi Government in 2017 came out that you cannot pay more than 2 lakhs in a year in cash. So, now every farmer is accepting cheque. Now there is no problem, we are paying by

cheque. At that time, during 2010-2011 to 2016-2017 in the trade everyone was giving cash, and there was no bank account of farmers. Today every farmer has a bank account.

**Aditya Yadav:** Okay. So currently the purchases we are making through this form 6R are directly from the farmers, most of it...

**Anoop Kumar Gupta:** And we are paying by cheque.

**Aditya Yadav:** Okay, most of them. Let's say above 90% or below that?

**Anoop Kumar Gupta:** No, we are paying 100% by cheque. But the purchase in UP, still from farmers is about 70%, 80% of the purchases from UP.

**Moderator:** Thank you. Our next question is from the line of Rajat Khera from Smart Equity. Please go ahead.

**Rajat Khera:** This question is more an industry question, specially in the context of your competitors. As I understand, a few of your competitors don't really have too much financial strength. So, would it be safe to assume that KRBL has actually added disproportionately to the paddy inventory and competitors have really not added much? I understand it is not a specific question to the company, but if you could throw some light.

**Anil Kumar Mittal:** I just could not understand your question, could you repeat?

**Rajat Khera:** Sure, sir. So basically, as we understand that KRBL has been quite aggressively adding inventory for this quarter, and it also plans to add some more. But as I understand that the industry's financial position, except for some big players, it is not really that savvy. So, would it be safe to assume that KRBL has added much more inventory than the industry in general?

**Anoop Kumar Gupta:** We are a company wherein we require minimum for certain SKUs we require two-year ageing, for certain SKUs we require 14 months ageing. So being a company which is directly serving to the consumer, we want to have comfortable stocks for ageing, because brand hampers, sometimes if you are out of the aged stock, brand hampers. So, we have to maintain an inventory, irrespective of what the price is.

- Rajat Khara:** No, I completely understand that. In fact, I was actually asking of whether the competitors are actually getting weaker in that context, because maybe they don't have the financial strength. In fact, I heard that a few of them actually have paddy at a much higher rate under books of accounts.
- Anoop Kumar Gupta:** Definitely, our cost of inventory is always lower to the industry, there is no doubt about it. Number one, because of the contract farming operation; number two, we are financially quite strong so we pay within 24 hours. And number three, our system of procurement and our offices throughout Northern India for paddy procurement, these things are much, much better than the competitor.
- Rajat Khara:** Okay. And does KRBL have any systematic kind of adding, let's say, x thousand farmers every year in contract farming or there is no such hard and fast rule?
- Anil Kumar Mittal:** No, we are trying, we are trying every year. No doubt about it. We are trying every year.
- Moderator:** Thank you. Next question is from the line of Mihir Kiran Sanket Prasad from Karvy Stock Broking. Please go ahead.
- Kiran Shankar Prasad:** This is regarding import order from Iran. Have you received the order or it is still in talk?
- Anil Kumar Mittal:** No, we have received the LC and the order, both.
- Kiran Shankar Prasad:** So, what is the size of order, sir?
- Anil Kumar Mittal:** The order is 33,000 tons.
- Kiran Shankar Prasad:** 33,000 tons, it's a regular kind of order?
- Anil Kumar Mittal:** See, you put us on the mail, because these are all competition answers and it is not advisable to give an internal secret. I do not know what the other man has got from Milan today openly to the market, I tell you everybody is hearing this conference call, and it goes to the public domain. These are not the information to be given in public domain, that how much order, what price, these are secretive talks.

**Kiran Shankar Prasad:** Okay, sir. And secondly, you talked about European market getting stagnant or so. I believe, that brown rice is very much popular over there. So why is that KRBL has not been able to push brown rice order?

**Anil Kumar Mittal:** No, we are selling brown rice. It is not that we are not selling brown rice. But yes, the quantum, maybe another company has a better quantum than us. But we are selling brown rice. It is not that we are not selling brown rice.

**Kiran Shankar Prasad:** And the regarding this, finance cost has spurt this time around, can I have more clarity on this please?

**Anil Kumar Mittal:** For which?

**Kiran Shankar Prasad:** Finance cost, interest cost that has spurt this time around.

**Rakesh Mehrotra:** On interest cost, there is a foreign exchange fluctuation MTM loss of Rs. 16.71 crores as compared to gain of Rs. 13.82 crores same quarter last year. If we remove this, then our actual interest cost is just Rs. 11.91 crores in this quarter as compared to Rs. 9.83 crores same quarter last year. So, this is just because of the notional entry in accounting practice.

**Kiran Shankar Prasad:** The impression that I have gathered, that Saudi Arabian market has become stagnant in terms of basmati rice. So, whether it is because of pesticide issues becoming more serious over there?

**Anil Kumar Mittal:** No, this issue has been taken off, but it has been resolved. Exports are taking place without any problem. I told that why it has become stagnant because about more than 3 million, 4 million people in last two have left Saudi Arabia which were expatriates, because they have come out with a new law that their employment will be given to local Saudi and not to the outsiders. Because of that only about 6% growth, which was coming every year in Saudi, for last two years it has stopped. But what happened due to that is there were more than 60, 70 importers in Saudi Arabia who were importing rice. Now out of that 70, 30 have vanished and 30 are left and; and out of that also 10, 15 will go away. So, the major business will remain to the old big players.

**Kiran Shankar Prasad:** Okay. So, it is a serious concern going forward I believe, then thanks for the clarification.

**Moderator:** Thank you. Next question is from the line of Varun Goenka from Reliance Capital. Please go ahead.

**Varun Goenka:** I have final two questions, sir. The kind of growth that we are seeing forward and our ad spend investments are going to be in the range of 2% to 2.5%, and we don't need any fixed capital investment. So, our margin should actually significantly increase from the current 20% - 21%.

**Anoop Kumar Gupta:** Varun, if I am talking of taking a market share of another 10%, I have to do something to the pricing also. I mean, I have to take the pressure on the margins also. If I have to go for a top-line of Rs. 5,000 crores or a market share of 45%, maybe I have to take EBITDA hit of 1%, 2%.

**Varun Goenka:** Fair enough. And this National Bulk Handling Corporation has released some data out. They are talking about a very large decrease in acreage in basmati, 9.5% or something there. Over the period of time, if you can give us a two, three-year view of the industry that how will the acreage move and how will that impact us in procurement in basmati prices, etc.? That would really help.

**Anil Kumar Mittal:** Varun, it is a very good question, the most intelligent question. As far as basmati production is concerned, it is directly connected to the farm income. If the farmer feels that we have received... see, he calculates his income based on income per acre. For example, if 30 quintals is production of parmal and government has fixed the MSP of Rs. 18,000, so it is a Rs. 54,000 per acre income of the farmer. Now since the 1121 is let us say 18 quintals and the price is Rs. 33, then it is about Rs. 58,000 - Rs. 59,000 per acre. So, he is making Rs. 6,000 per acre more profit on basmati over parmal rice. That's number one. Number two, the parmal rice has one advantage that it is being purchased by the government. So, the farmer says, whatever I will grow will be taken away by the government, and I will get the price in time because government pays within one or two days. Whereas in basmati rice, the problem is that if quality is lower, then you get a lower price; and if the quality is good, then you get a better price. Moreover, there are about 20% of the rice millers or paddy purchasers who make the payment to the Mandi in one month, two months, three months. So that is also a big question mark. But on the other side, the cost of production of basmati is lower than the cost of production of parmal rice. So, many things are minus, many things are plus. So, ultimately the thing is the income per acre what the farmer gets. For example, this year the farmer is very happy with growth of 1509, there was a variety, where really farmers and everybody have

made money. Next year we are thinking that this crop might jump to another, whatever was the production this year, it might jump by 20%. So, this is how the farmer decides to sow the field.

**Varun Goenka:** Okay. But in our contract farming operations do we guide the farmers, sir? Or the farmer makes a choice on the seed, depending upon our end market demand?

**Anil Kumar Mittal:** See, there are about 50% farmers who agree what we tell them to grow this, grow like this. 50% of the farmers who say, no Mr. Mittal, we want 1509, we want Pusa basmati. So, 50% is 100% what we say and 50% is the farmer's demand.

**Moderator:** Thank you. Next question is from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

**Resham Jain:** Yes. Sir, just one question. Post GST we have seen the tax rate being different for a branded guy versus someone who is just selling basmati rice. So, has there been any developments on that side?

**Anoop Kumar Gupta:** Well, definitely, we have a challenge, especially on a bulk pack, we have a challenge of 5%. But you see, after GST my sales have gone up. There is more of consumer demand and in consumer market as I told before also that there are very less brands, so my competition is limited to three, four brands. So, demand of India Gate has increased. But GST has really, the wholesale sale which is institutional sale, which is 25kg packed biryani rice, it has created some problem for us.

**Resham Jain:** Okay. So, has the margin got impacted? Because you have said volume is almost same. So, has the margin got impacted because of this

**Anoop Kumar Gupta:** We have passed the total GST to the consumer.

**Resham Jain:** Okay. How big is this category, sir, in your overall scheme of things in the domestic business?

**Anoop Kumar Gupta:** You mean in KRBL?

**Resham Jain:** Yes.

**Anoop Kumar Gupta:** It is 50% of the top-line.

**Resham Jain:** Okay. And sir, on more question, I don't know whether you have answered this during the call. But this European pesticide related issues, which we have been reading in the newspapers and all, how is the current status in terms of the European retailers, how are they seeing the pesticide issue?

**Anil Kumar Mittal:** They have become more stringent, exports have definitely fallen. This year they have purchased their 70% demand from Pakistan. Pakistan is not able to offer to any other country other than Europe. And in recent gulf food, already the Basmati Rice Association of Europe has kept one meeting with the Indian exporter, and let us see what they have to say during that meeting.

**Resham Jain:** So, what is the issue they are finding in India versus buying from Pakistan?

**Anil Kumar Mittal:** Pesticides residues, because people do not use pesticides in the Pakistan because farmer is much poorer than India. In India, the farmers, especially the Basmati growing farmer in Punjab and Haryana and UP are comparatively much, much richer and they use pesticide, because the cost of the pesticide is just Rs. 1,000 an acre. So, what the farmer is doing is that to save his farm he is using 1.5x, he says, okay, let the Rs. 500 be more, but my farm should be saved, which we have been teaching them for the last two years that you are losing Rs. 500, plus you are spoiling your crop. So, this year we find that comparatively we see four, five years the pesticide residues are much lower, but not in confirmation to the European standards. I think it might take another one year to come to the European standards.

**Resham Jain:** Okay. And is it possible for you, when you procure the rice, to check and verify whether how much residue is there or not?

**Anil Kumar Mittal:** No. It can be through contact farming at the time of purchase, it is not possible. We have thrown a tender worldwide that if somebody can give us a lab model whereby on the spot we can find out the pesticide residue. But we have not received any positive answer till date.

**Moderator:** Thank you. Next question is from the line of Ashish Jugani from Kotak Asset Management. Please go ahead.

**Ashish Jugani:** Yes. I had a question with regards to this demand notice that you mentioned. From what I understand, you mentioned that the primary reason for the demand notice has been on disallowance for the paddy purchase. So, just wanted to understand if you had any information

whether this kind of practice was used for other players as well where, because it is something which is an industry issue that has come up or is it only specific to KRBL?

**Anoop Kumar Gupta:** Tell me, I told you in Punjab, Haryana, I am buying through a proper banking channel. But those arthiyas are paying to the farmer in cash. According to the Income tax, those all arthiyas income should be added, and that amount would be in lakh crores. 2010 to 2017, in India payment for agriculture produced to the farmer must be to the tune of Rs. 2 lakh crores, Rs. 3 lakh crores, even more. So, everybody in the trade is giving cash payment to the farmer only. It is only Mr. Modi, due to Mr. Modi in 2018 when all farmers got their bank accounts, 2016 or 2018 whatever where all farmers got their bank accounts opened and everyone started accepting cheque.

**Ashish Jugani:** Sure. No, my only reason to check was that this disallowance is only, I mean, you have only seen it with regards to KRBL or also some other industry people have also witnessed the same?

**Anoop Kumar Gupta:** No, according to me I have seen for the first time, I was surprised.

**Anil Kumar Mittal:** It is a maiden order.

**Anil Kumar Mittal:** And let me tell you, it is also out of the context, it should not be told in public domain. Even people, those who have written this order were themselves confused why this order has been made. I don't want to discuss this thing on telephone too much. The people themselves are confused.

**Moderator:** Thank you. We take the last question from Jaspreet Singh from VA Capital. Please go ahead.

**Jaspreet Singh:** Sir, I just wanted to ask, are we supplying to these new e-comm biryani guys, Biryani By Kilo and Behrouz? And if so, can we gain some advertising marketing leverage through these guys?

**Anoop Kumar Gupta:** Jaspreet, these people are so commercial. I tell you openly, I have signed a contract with Behrouz, and it is for the full year, and the quantity is 3,000 tons, big quantity. Adani, they are saying if you want the advertisement, give a cut of Rs. 10 a kilo. It is not commercially viable. I said, this is the rice, this is the price, you want to take it or not? I don't want any advertisement.

**Jaspreet Singh:** But is it not true that only we are doing two years and maybe we can do some marketing part where we supply them two years old rice under India Gate?

**Anoop Kumar Gupta:** They don't want to spend their money. They don't want to spend their money for buying two years aged rice. These all institutional guys want the cheapest rice and they want the best price. So, we are also smart, they are also smart.

**Anil Kumar Mittal:** Jaspreet, though I do not look after domestic, but these are the questions when you come, we will tell you many stories in the past of 5-star hotels who are charging Rs. 2,000 for a biryani. And when they come to buy rice, what they talk, it is not to be discussed in a conference, when you will come we will discuss with you.

**Moderator:** Thank you very much. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Amandeep Singh for his closing comments. Over to you, Mr. Amandeep Singh.

**Amandeep Singh Grover:** I thank Mr. Anil, Mr. Anoop and Mr. Rakesh for taking out their time and answering everyone's questions so patiently. On behalf of Ambit Capital, I wish you all the very best for the remaining of the year. And thank you, everyone, for joining the call. I now hand over the call to the management for their closing comments. Over to you, sir.

**Rakesh Mehrotra:** Thank you very much for attending the conference. And it was our pleasure to answer your questions. If any questions remain unanswered or you need any more details, you are most welcome to write to us, and we will attend to your queries/mail as soon as possible. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital, we conclude today's conference. Thank you for joining. You may disconnect your lines now.

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(This document has been edited for readability purposes)



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*February 11, 2019*

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