


CRISIL IER Independent Equity Research



KRBL Ltd

Detailed Report

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)

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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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Shadowing the industry growth trajectory

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

KRBL, India's leading exporter of branded basmati rice and owner of the largest rice milling capacities, has consistently posted superior financial performance vis-à-vis peers in the past five years. A strong brand and an efficient working capital management have enabled KRBL to tap growth in the basmati rice industry. Demand for basmati rice at home and overseas has been robust in the past five years and we expect this trend to continue. The quality of Indian basmati rice is considered to be superior than that of Pakistan (India's only competitor in basmati rice exports). The Indian government lifted the ban on non basmati rice exports in FY12; this is expected to provide additional growth opportunities. However, continuation of non-basmati rice exports is a monitorable. We retain our fundamental grade of 3/5 for KRBL.

Basmati rice industry on an uptrend; strong demand growth expected to continue

Demand for basmati rice has grown at a CAGR of 20% in the past five years driven by growth in the domestic and exports markets; we expect this momentum to continue. With the rise in incomes and shift in consumer preference to branded rice, we expect domestic demand to remain strong. In the exports market, India has taken a substantial share from Pakistan – its only competitor in basmati rice exports – due to superior quality and higher production. As per industry sources, production of basmati rice has increased in the current kharif season due to good monsoon. This coupled with low inventory and rising demand is expected to lead to increase in realisations over the next one year.

KRBL: Well placed to tap the opportunity

KRBL, with the largest production capacity and an established brand, is well placed to tap growth opportunity in the basmati rice industry. Its strategy of targeting customers across all price segments has helped garner a higher market share in the industry. The company has registered a strong growth of 40%+ in the domestic rice market in the past two years. It has more than 30% market share in the organised domestic market and 25% share in the branded basmati rice exports market.

Key monitorables: Domestic regulations and geo-political risks

The Middle East is the biggest export market for Indian basmati rice and accounts for over 35% of KRBL's revenues. Any political turmoil in this region may impact exports. The Indian government's policy on continuation of non-basmati rice exports is a key monitorable.

Two-year revenue CAGR of 22%; return ratios to improve

We expect revenues to register a two-year CAGR of 22% to ₹31bn in FY15 largely driven by volumes. PAT is expected to record higher growth of 34% due to margin improvement. We expect return ratios to improve from the current levels due to higher profitability. The company has historically posted higher-than-industry RoE and lower debt/tonne.

Valuations – the current market price has strong upside

We continue to value KRBL by a P/E multiple of 5x. In line with revision in earnings estimates, the fair value is revised to ₹48 per share from ₹35. At the current market price, our valuation grade is 5/5.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	15,391	16,229	20,741	27,000	31,033
EBITDA	2,277	2,292	2,943	4,163	4,504
Adj net income	1,128	1,009	1,300	2,214	2,329
Adj EPS (₹)	4.6	4.1	5.3	9.1	9.6
EPS growth (%)	(9.8)	(10.6)	28.9	70.3	5.2
Dividend yield (%)	1.0	1.0	2.3	2.3	2.3
RoCE (%)	14.3	11.5	14.5	19.5	18.4
RoE (%)	19.1	14.8	16.8	23.8	20.5
PE (x)	7.4	8.3	6.4	3.8	3.6
P/BV (x)	1.3	1.2	1.0	0.8	0.7
EV/EBITDA (x)	7.6	7.7	5.8	4.4	4.2

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

For detailed initiating coverage report please visit: www.ier.co.in

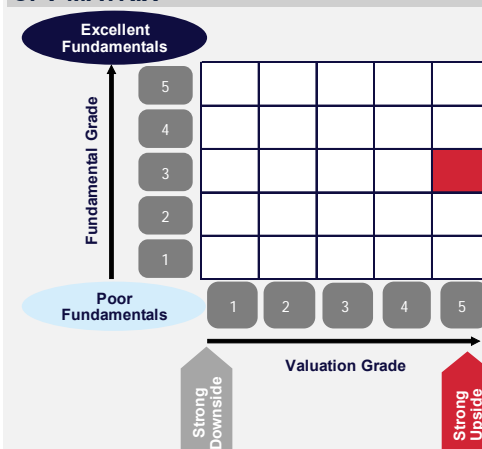
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January 03, 2014

Fair Value ₹48

CMP ₹34

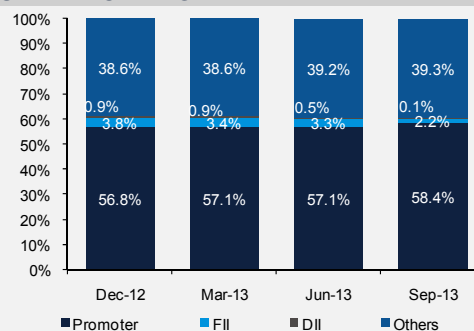
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	6221/20888
NSE/BSE ticker	KRBL
Face value (₹ per share)	1
Shares outstanding (mn)	244
Market cap (₹ mn)/(US\$ mn)	8,366/134
Enterprise value (₹ mn)/(US\$ mn)	16,937/272
52-week range (₹)/(H/L)	36/19
Beta	1.3
Free float (%)	41.6%
Avg daily volumes (30-days)	464,305
Avg daily value (30-days) (₹ mn)	14.99

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KRBL	9%	41%	72%	29%
CNX 500	1%	10%	7%	1%

ANALYTICAL CONTACT

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Table 1: KRBL - Business environment

Product / Segment	Rice	Energy
Revenue contribution (FY13)	Rice: 95.4% By-products: 2.8%	1.8%
Revenue contribution (FY15)	97.5%	2.5%
Product / service offering	<ul style="list-style-type: none"> ■ Basmati rice: 20 brands including India Gate, Train, Al Wisam, Doon and Nurjahan (contributes 93% to total revenues). The flagship brand – India Gate – contributes ~55% to total revenues ■ Non-basmati rice: Mostly private labels (contributes 2.5% to total revenues) ■ Bran oil, furfural oil and de-oiled cakes (contribute 3% to total revenues) 	<ul style="list-style-type: none"> ■ Power generation capacity: 68.48 MW <ul style="list-style-type: none"> – Captive: 15.8 MW – Commercial: 46.05 MW ■ Wind: 43.55 MW, biomass: 15.8 MW and solar: 9.13 MW
Geographic presence	<ul style="list-style-type: none"> ■ Revenue contribution: India – 55%, the Middle East – 33%, others – 12% ■ Key export markets: Saudi Arabia, UAE, Kuwait, Iraq 	<ul style="list-style-type: none"> ■ Power plants located in Maharashtra, Karnataka, Punjab, Rajasthan and Tamil Nadu
Market position	<ul style="list-style-type: none"> ■ More than 30% share in the branded basmati segment in the domestic market ■ 25% share in branded basmati exports ■ Largest branded basmati player in Saudi Arabia 	<ul style="list-style-type: none"> ■ Self-sufficient in captive requirements; thrust on wind and solar energy tax benefits
Industry growth expectations	<ul style="list-style-type: none"> ■ Domestic consumption of basmati rice is expected to grow at 15% over the next two years ■ Basmati rice exports are expected to grow at 20% over the next two years 	-
Sales growth (FY10-FY13 – 3-yr CAGR)	9.7%	13%
Average EBITDA margin (FY10-13)	14.2%	
Earnings growth (FY10-FY13 – 3-yr CAGR)	1.4% (PAT growth was lower than revenues due to higher interest, depreciation and tax expenses)	
Sales forecasts (FY13-15E – 2-yr CAGR)	21.3%	7%
Average EBITDA margin (FY13-15E)	15.0%	
Earnings growth (FY13-FY15E – 2-yr CAGR)	34% (driven by revenue growth and improvement in margins)	
Demand drivers	<ul style="list-style-type: none"> ■ Rise in incomes and shift in consumer preference to branded rice are expected to boost domestic demand ■ Preference for basmati rice in the export markets is on the rise 	<ul style="list-style-type: none"> ■ State utilities are required to purchase at least 5% of the power from renewable energy
Key competitors	<ul style="list-style-type: none"> ■ Domestic and export markets: REI Agro, Kohinoor Foods, LT Foods, unbranded basmati and private labels 	<ul style="list-style-type: none"> ■ Renewable energy producers in respective states
Key risks	<ul style="list-style-type: none"> ■ Geo-political issues to impact basmati rice exports ■ Regulatory issues in exports of non basmati rice 	<ul style="list-style-type: none"> ■ Regulatory - withdrawal of favourable tax treatment, preferential tariff, etc

Source: Company, CRISIL Research

Grading Rationale

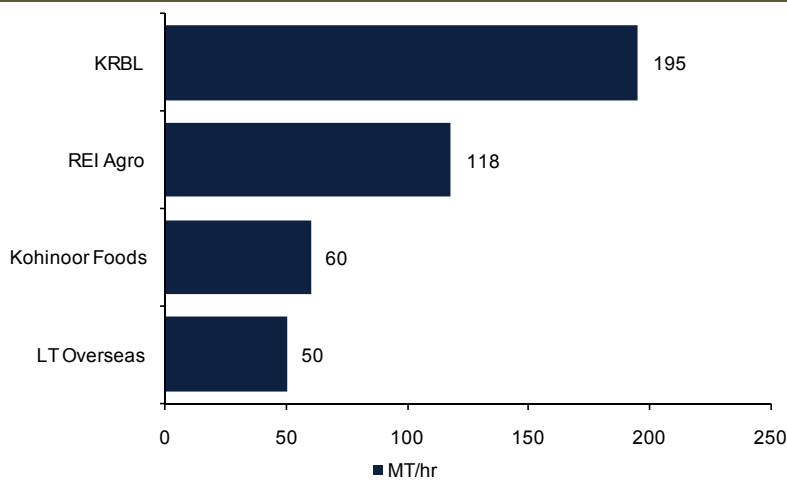
Riding the industry growth wave

Largest capacity places KRBL well to tap growth opportunity

Being one of the leading basmati rice players in India with the largest production capacity of 195 metric tonnes (MT) per hour, KRBL is well placed to tap growth opportunity in the basmati rice industry. We expect robust demand in both domestic and export markets over the next two years; prices are expected to increase from the current levels.

KRBL has more than 30% market share in the organised domestic basmati rice market and 25% share in the branded basmati rice exports market. The market share can be attributed to its strategy of targeting customers across all price segments with products varying from ₹30 per kg to ₹150 per kg, i.e. both price sensitive and premium consumers.

Figure 1: KRBL is ahead of peers in milling capacity



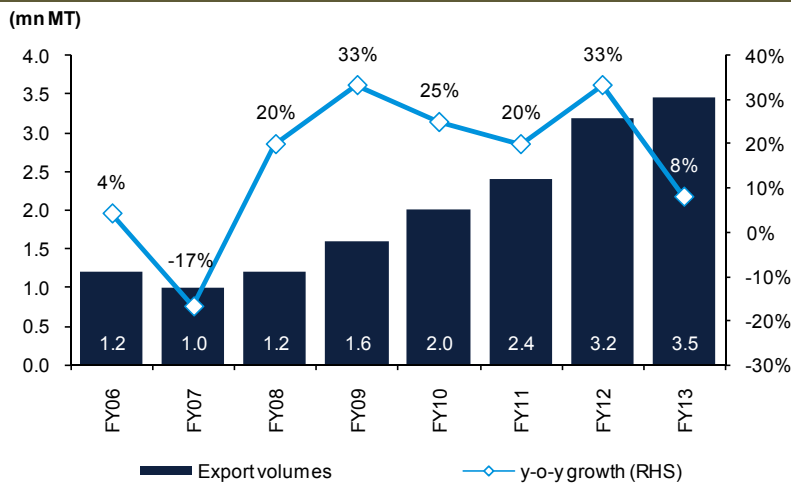
Source: Company, CRISIL Research

Basmati rice industry on an uptrend

Strong demand growth to continue; prices expected to increase

The basmati rice industry is on an uptrend driven by strong growth in demand and expected increase in prices. Demand for basmati rice has grown at a robust CAGR of 20% in the past five years driven by rise in domestic consumption (55% of total demand) and strong growth in exports (45% of total demand). In the past two years, we believe domestic consumption has grown faster than exports. We expect the momentum to continue over the next two years.

Figure 2: Exports volumes grew 15% during FY05-13



Source: Company, CRISIL Research

Domestic demand to remain healthy

With the rise in income levels and expansion of organised retail in India, consumption of branded products has been on the rise in the past few years. We expect domestic demand to grow at 15% over the next two years. In the past five years, domestic consumption in India posted a CAGR of 15% driven by shift in consumer preference to branded rice from unbranded rice.

India’s share in the basmati rice export market to increase further

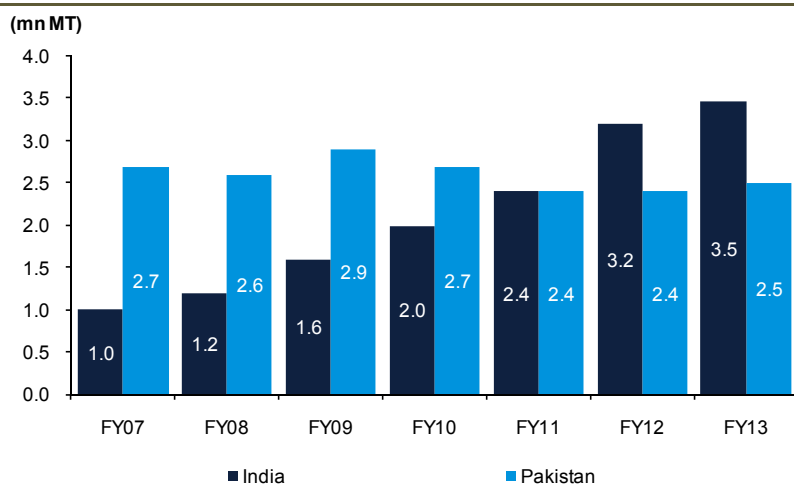
India’s share in the basmati rice export market increased to 60% in FY13 from 28% in FY07 and is expected to increase further owing to rising demand for Indian basmati rice. Basmati rice exports recorded 25% CAGR in the past five years. There are two reasons for this:

1. Rising demand from Iran, Saudi Arabia, United Arab Emirates (UAE) and European countries
2. Due to superior quality and higher production growth, India has taken over substantial share in the exports market from Pakistan - the only competitor. As per our industry sources, India’s main basmati variety, Pusa 1121, is better than Pakistan’s ‘Super’ variety.

India and Pakistan are the only producers of basmati rice across the globe – while India exported 3.5 mn MT of basmati rice, Pakistan’s exports were 2.5 mn MT in FY13.

Domestic consumption of basmati rice in India posted a CAGR of 15% in the past five years

Figure 3: India's export of basmati rice exceeds Pakistan's



Source: Company, CRISIL Research

Iran – Largest market for Indian basmati rice; with easing of sanctions by the UN, India may lose some market share but no impact on KRBL

Iran has been the fastest growing buyer for Indian basmati in the past three years. India's exports increased from 0.5 mn MT in FY11 to 1.1 mn MT in FY13 (accounting for 31% of India's export volume in FY11). In FY11, the UN, the US and the European Union imposed sanctions on Iran; hence, there were restrictions on trade in dollar terms. As of February 2012, India has been the only exporter of basmati rice to Iran as it agreed to receive payments from India in rupees for 45% of oil exports.

On November 24, 2013, the UN eased sanctions on Iran. This is expected to open up trade in dollar terms which will facilitate easy entry for Pakistan (basmati rice) and Thailand (normal rice). While we believe Iran is an established market for Indian basmati rice, Pakistan might take some share from India with the easing of sanctions. Since KRBL's exposure to Iran is ~4%, we believe there would not be any major impact of easing of sanctions on the company.

Prices expected to rise due to low inventory, good kharif crop

Basmati crop output in the last kharif season (June-October 2012) was lower by 5%. While demand from domestic and export markets has been high, lower production has led to 30-35% increase in basmati prices in the past one year.

According to industry sources, production of basmati rice has increased in the current kharif season (June-October 2013) due to good monsoons. Despite increase in output, paddy prices in the current kharif season is high at ₹35-37 per kg compared to ₹25-28 per kg last year due to strong demand.

Our analysis of inventory of majority of the organised basmati rice producers in India suggests that the current stock is the lowest in the past two years as demand has outpaced supply. We expect basmati prices to rise in the current year owing to increase in kharif output, rise in demand and low inventory levels.

Price to increase from the current levels

Table 2: Inventory levels as of H1FY14 are lowest for majority of the players

Inventory days	H1FY12	H1FY13	H1FY14
KRBL	210	152	85
REI Agro	365	299	230
Kohinoor Foods	247	289	256
LT Foods	198	193	123

Source: Company, CRISIL Research

KRBL mirrored industry trend in past one year

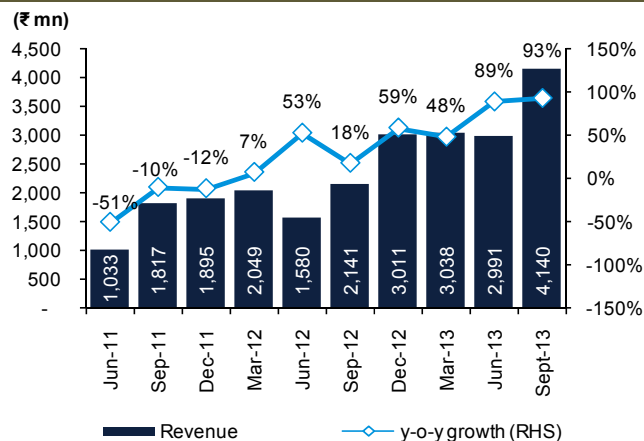
Revenues from the rice segment recorded robust growth of 25% y-o-y in FY13. While volumes grew 19% y-o-y on strong demand in the domestic segment, blended realisations were up 5% y-o-y driven by increase in prices in both domestic and export markets. Revenue growth in H1FY14 was also strong at 32% driven by 13% growth in volumes and 17% growth in realisations.

Domestic market drove overall growth

KRBL's growth in the domestic market has been robust in the past one-and-a-half years. Domestic revenues grew 44% in FY13 driven by 35% growth in volumes and 6.5% growth in realisations. Revenues in H1FY14 recorded 92% growth driven by both volumes and realisations, which grew 50% and 28%, respectively. We believe KRBL's share in the domestic market has increased due to strong brand recall.

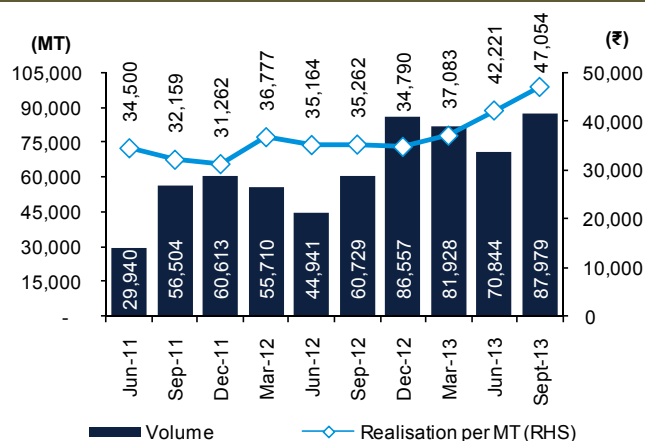
Domestic revenues grew 44% and 92% in FY13 and H1FY14, respectively

Figure 4: Domestic revenues recorded strong growth...



Source: Company, CRISIL Research

Figure 5: ... driven by volumes and realisations



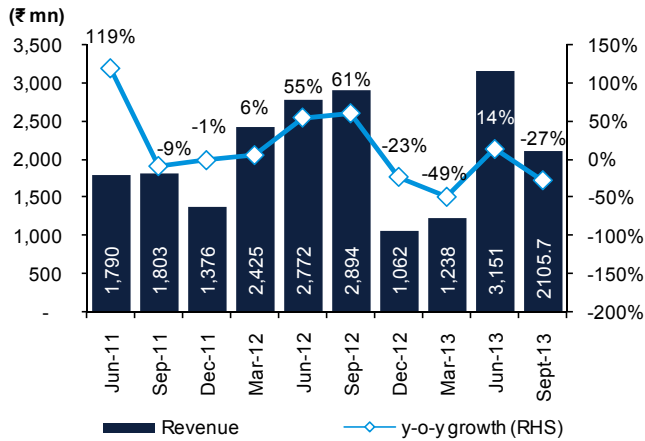
Source: Company, CRISIL Research

Exports volume under pressure; expected to improve in next one year

Over the past one-and-a-half years, export volumes have been down as KRBL has taken a conscious decision to restrict its exposure to Iran. Export revenues grew 8% as decline in volumes (7%) was offset by 15% growth in realisations. The trend was similar in H1FY14 wherein revenues declined 7% as volumes were down 29% but realisations were up by 30%. Export realisations grew in the past one year due to increase in prices and rupee depreciation. With the recent order of 0.1 mn MT from Iraq, we expect basmati rice export volumes to increase in the next one year.

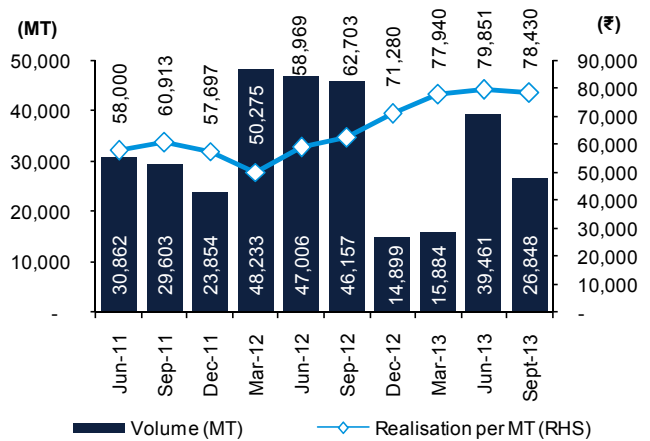
Exports volume to increase in next one year

Figure 6: Export revenues under pressure in past one year



Source: Company, CRISIL Research

Figure 7: Lower volumes but realisations strong

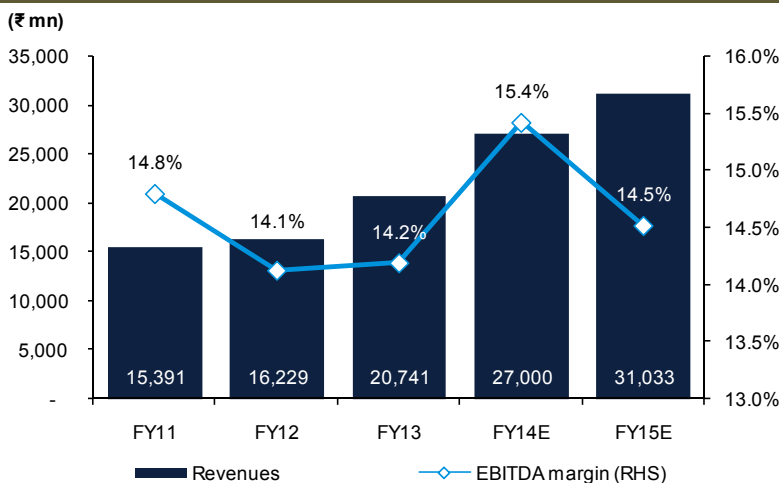


Source: Company, CRISIL Research

Growth momentum to continue

We expect growth momentum to continue driven by rising demand for branded basmati rice and anticipated higher realisation. Revenues are expected to grow at a two-year CAGR of 22% in FY15 driven by 13% growth in volumes and 7% growth in realisations. EBITDA margin is expected to improve by 120 bps in FY14 due to benefits of higher realisations. However, owing to high paddy prices in the current season, we expect margin to decline ~100 bps y-o-y to 14.5% in FY15.

Figure 8: Strong revenue growth, margin improvement in FY14



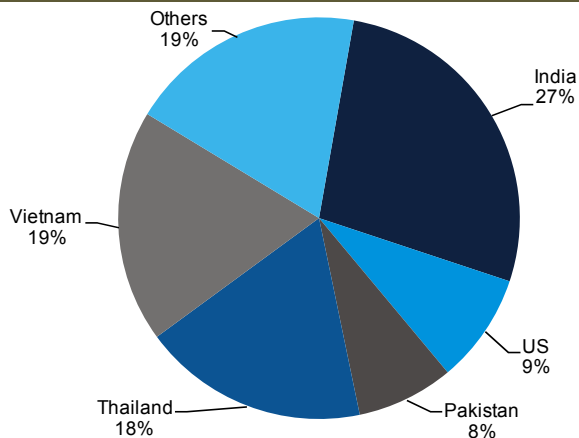
Source: Company, CRISIL Research

Non-basmati exports to provide additional revenue stream

In September 2011, the Indian government lifted the three-year ban on exports of non basmati rice in order to ease storage space in the existing warehouses. In FY13, 6.7 mn MT of non-basmati rice was exported and in H1FY14, 3.4 mn MT.

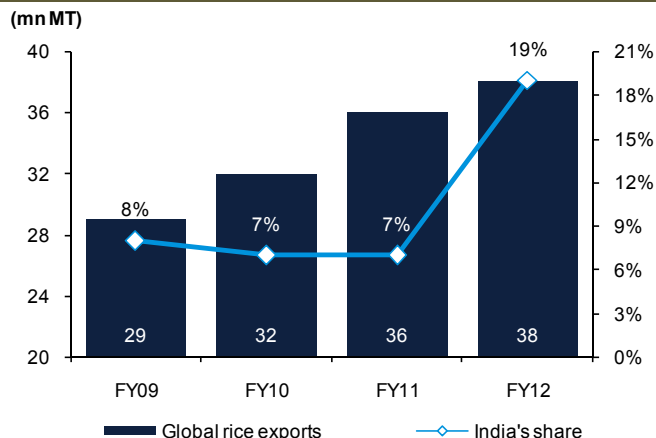
Revenues to grow at a two-year CAGR of 22% in FY15

Figure 9: India has 27% share in global rice exports



Source: Company, CRISIL Research

Figure 10: Non-basmati exports led to higher share in FY12



Source: Company, CRISIL Research

With the expectation of increase in rice crop in India in 2012-13 and weak production outlook for major rice exporting countries such as Pakistan and Vietnam, India's share in global rice trade is expected to increase from the current 22%. We estimate India's rice exports (including basmati rice) to be nearly 11 mn MT in FY14 (6.8 mn MT of non-basmati and 4.2 mn MT of basmati exports). Since the government attempts to maintain adequate ending stock of 24-25 mn MT, growth in non-basmati exports is expected to stabilise in FY14.

Table 3: Government to maintain rice stock of 24-25 mn MT

(All figures in mn MT)	FY11	FY12	FY13
Opening stock	18.44	20.86	23.38
Production	95.98	104.32	104
Domestic consumption	90.78	91.6	92.5
Exports	2.78	10.2	10
Closing stock	20.86	23.38	24.88

Source: Company, CRISIL Research

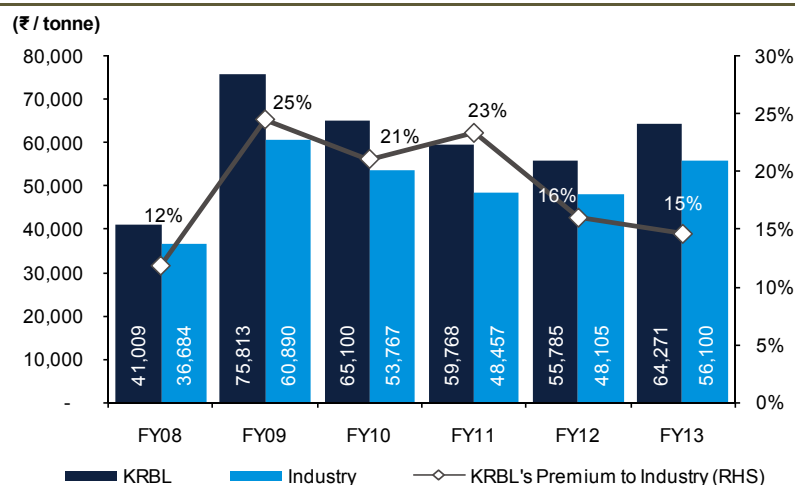
During FY13 and H1FY14, non-basmati rice contributed 2.5% to total revenues of KRBL. We expect its share to increase to 3.0% and 3.5% in FY14 and FY15, respectively.

KRBL continues to command premium in the export market

KRBL is one of India's largest branded basmati players. Over the past few years, its brand India Gate has been one of the most exported basmati brands from India. The India Gate brand commands a significant premium over most other brands in the industry; it contributes 63% to domestic revenues of the company. On an average, KRBL's average realisation has been 19% higher than the industry's over the past five years.

KRBL's average realisation was ~19% above industry average

Figure 11: KRBL's export realisation higher than industry's



Source: APEDA, CRISIL Research

Consistent superior financial performance vs. peers due to strong brand and better working capital management

Owing to strong brand and better working capital management, KRBL has consistently posted superior financial performance in the past five years. The company has historically posted higher-than-industry RoE and lower debt/tonne.

- Though five-year revenue growth of 15.6% was slightly below the industry average of 17.7%, PAT growth of 18.8% was above due to higher margin and lower interest costs.
- Owing to better working capital cycle of 228 days compared to peers' average of 321 days, KRBL has lower gearing of 1.3x.
- High asset turnover and better profitability have resulted in better return ratios than that of peers.

Consistently reported superior financial performance than peers

Table 4: KRBL's PAT growth higher than industry average

Companies	Five-year revenue CAGR	Average EBITDA margin	Five-year PAT CAGR
KRBL	15.6%	14.5%	18.8%
Rei Agro	24.0%	18.8%	19.4%
Kohinoor Foods	11.1%	10.6%	4.2%
LT Foods	20.4%	11.6%	18.8%
Five-year average	17.7%	13.8%	15.3%

Source: CRISIL Research

Table 5: Gearing is lower compared to that of peers

Companies	Avg. WC	Avg. gross D/E
KRBL	222	1.0
Rei Agro	392	2.0
Kohinoor Foods	325	3.0
LT Foods	221	4.2
Average	290	2.6

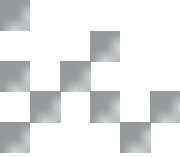
Note: This is as on March 2013

Source: CRISIL Research

Table 6: KRBL's return ratios better than that of peers

Companies	Asset turnover	RoE	RoCE
KRBL	1.2	16.6%	14.3%
Rei Agro	0.6	10.0%	11.1%
Kohinoor Foods	0.9	5.3%	8.5%
LT Foods	1.1	11.3%	10.2%
Five-year average	0.9	10.8%	11.0%

Source: APEDA, CRISIL Research



Key Risks

Geo-political issues may affect exports

The Middle East is the biggest export market for Indian basmati rice and accounts for over 35% of KRBL's revenues; KRBL mostly exports to Saudi Arabia, UAE, Iraq and Kuwait. Hence, any political turmoil in this region may adversely impact exports.

Movement in foreign currency to impact revenues, margins

As KRBL's exports account for 45% of its total revenues, it is subject to fluctuations in foreign exchange rates (rupee against the US dollar). KRBL hedges a significant part of its foreign currency exposure in order to protect itself from foreign currency fluctuations.

Fluctuations in raw material prices might impact profitability

KRBL typically engages in purchasing both semi-processed rice and paddy depending upon the demand and price expectations at a given point of time. This exposes the company to fluctuations in raw material prices. Further, while a longer inventory holding period may result in higher realisations (on account of ageing), it results in higher interest costs too.

Regulatory changes

The Indian government had banned exports of non-basmati rice in April 2008 to curb inflation. Subsequently, the government lifted ban on exports of non-basmati rice in September 2011. Although historically India has not witnessed any ban on basmati rice exports, any policy change in that regard could significantly impact the industry.

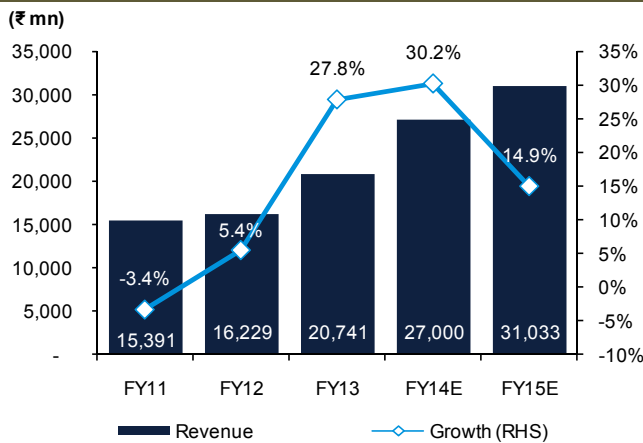
Financial Outlook

Expect revenues to grow at a two-year CAGR of 22%

KRBL's revenues have grown at a five-year CAGR of 16% in FY13 driven by 10% growth in volumes and 6% growth in realisations. Going forward, we expect revenues to grow at a two-year CAGR of 22% in FY15 driven by 13% growth in volumes and 7% growth in realisations.

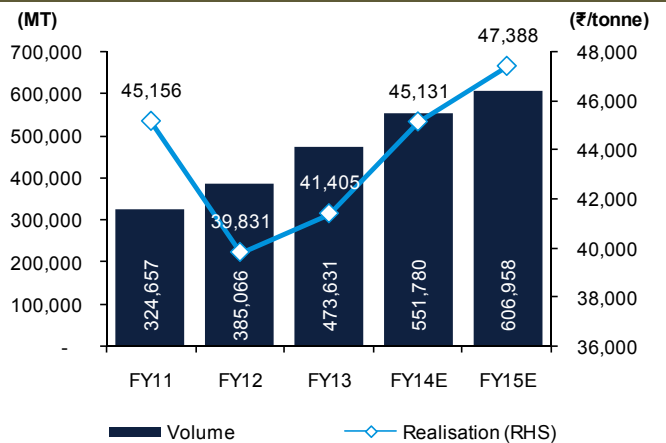
Revenues expected to grow at a two-year CAGR of 22% driven by volume growth

Figure 12: Robust revenue growth likely over the next two years



Source: Company, CRISIL Research

Figure 13: Volumes to drive growth going forward

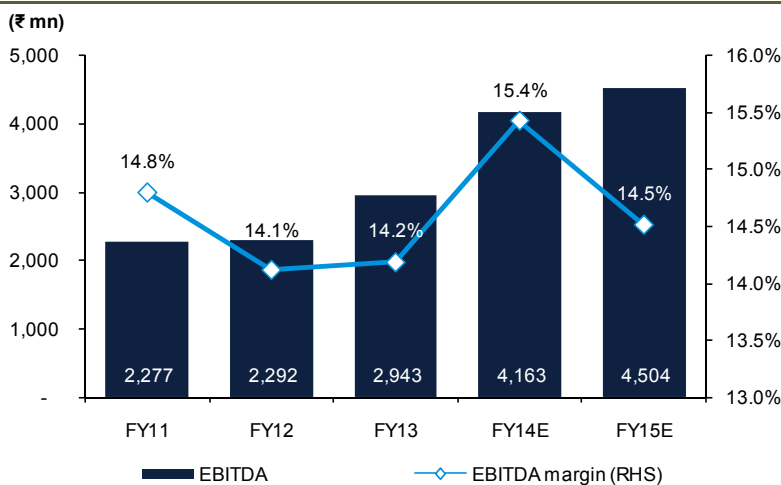


Source: Company, CRISIL Research

EBITDA margin to increase in FY14; decline in FY15

Driven by higher realisations in the domestic and exports market, EBITDA margin has increased 40 bps y-o-y to 16% H1FY14. Despite increase in output in the current kharif season, paddy prices are high at ₹35-37 per kg compared to ₹25-28 per kg last year. While we expect realisations to increase from the current levels, higher paddy prices are likely to impact margins going forward. Accordingly, we expect EBITDA margins at 15.4% in FY14 and 14.5% in FY15 compared to 16% in H1FY14.

Figure 14: EBITDA margin to increase in FY14

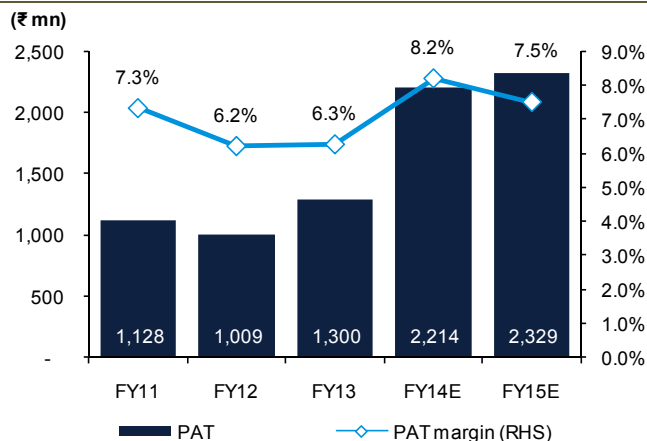


Source: Company, CRISIL Research

Strong growth in PAT over the next two years

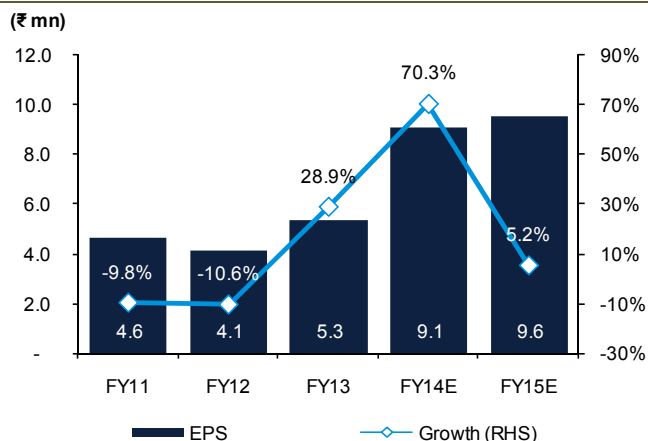
Driven by healthy revenue growth and improvement in margin, we expect PAT to grow 70% y-o-y to ₹2,214 mn in FY14. We expect PAT to grow 5% y-o-y to ₹2,329 mn in FY15; lower than revenue growth of 15% due to decline in margin. EPS is expected to be ₹9.6 in FY15 from ₹5.3 in FY13.

Figure 15: PAT and PAT margin



Source: Company, CRISIL Research

Figure 16: EPS and EPS growth



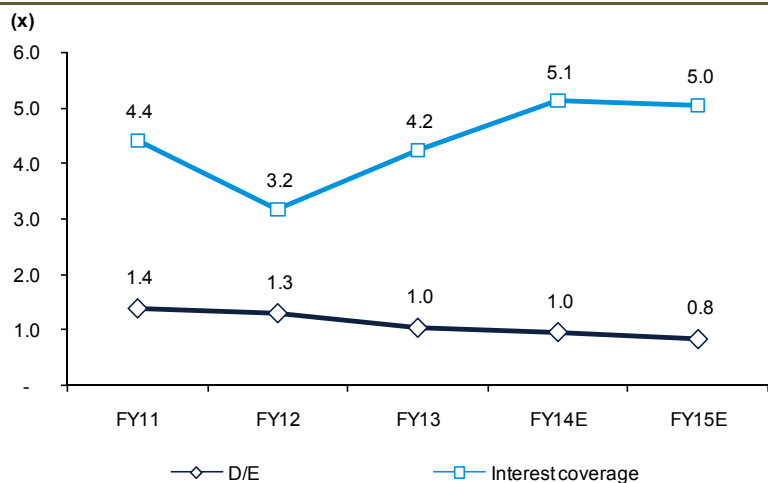
Source: Company, CRISIL Research

Gearing to decline from the current levels

Since basmati paddy is required to be stored for ~one year, inventory levels are expected to increase with rising sales volumes. Historically, the company's debt levels have been highest in March (end of paddy buying season) and lowest in September (beginning of paddy buying season). While inventory is expected to increase to ₹19.6 bn in FY15 from ₹12.6 bn in FY13, debt is expected to increase to ₹10.5 bn from ₹8.7 bn during the same period as majority of the funding is expected to be met through internal accruals. We expect gross debt-to-equity to decline to 0.8x in FY15 from 1.0x in FY13.

Gearing is expected to decline to 0.8x in FY15

Figure 17: D/E to improve in FY15; strong coverage ratio



Source: Company, CRISIL Research

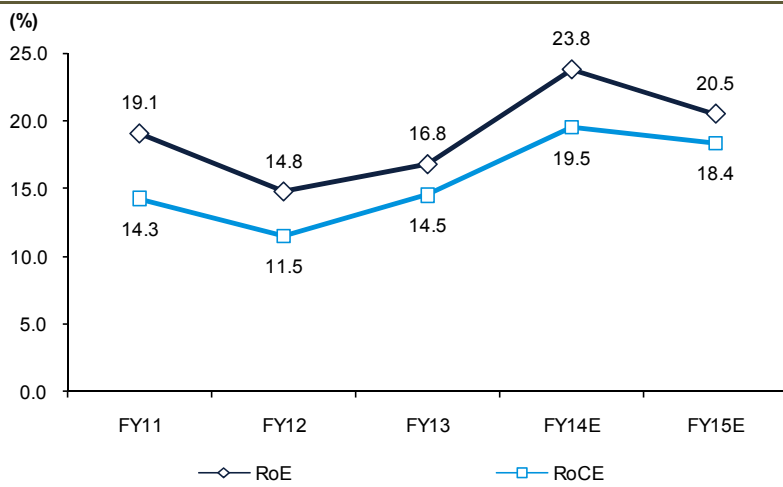
Return ratios to remain healthy

KRBL's RoCE improved to 14.5% in FY13 from 11.5% in FY12 driven by strong revenue growth and slight improvement in margins. RoE also improved to 16.8% from 14.8% in FY12 due to better profitability.

We expect RoCE to improve to 18.4% in FY15 on account of increase in asset turnover ratio and improvement in margins. Gross asset turnover ratio is expected to improve to 3.8x in FY15 from 3.0x in FY13. RoE is also expected to improve to 20.5% in FY15 due to revenue growth and higher profitability.

RoE is expected to remain healthy at ~20% in FY15

Figure 18: RoE and RoCE to increase in the next two years



Source: Company, CRISIL Research



Earnings Estimates Revised Upwards

Particulars	Unit	FY14E			FY15E		
		Old	New	% change	Old	New	% change
Revenues	(₹ mn)	22,750	27,000	18.7%	24,838	31,033	24.9%
EBITDA	(₹ mn)	3,283	4,163	26.8%	3,608	4,504	24.8%
EBITDA margin	%	14.4%	15.4%	99 bps	14.5%	14.5%	-
PAT	(₹ mn)	1,601	2,214	38.2%	1,760	2,329	32.3%
PAT margin	%	7.0%	8.2%	116 bps	7.1%	7.5%	42 bps
EPS	(₹)	6.6	9.1	38.2%	7.2	9.6	32.3%

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY14E	FY15E
Revenues	Raised, factoring in strong domestic demand and higher-than-expected realisations in the domestic and exports markets	
EBITDA margins	Raised, owing to higher realisations	No change
PAT	Owing to higher revenue growth assumptions and higher margins, PAT estimates are revised upwards	

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance

Experienced management with domain expertise

Brothers - Anil Mittal, Arun Gupta and Anoop Gupta – are at the helm of KRBL's management and have more than 25 years of experience in the rice industry. In the past decade, the company undertook various initiatives for business expansion. These include increasing the in-house processing capacity by acquiring the Punjab-based Dhuri plant, expanding the product range and brand portfolio and enhancing distribution channels. Owing to these initiatives, KRBL's revenues grew from ₹2.6 bn in FY01 to ₹20.7 bn in FY13.

An experienced second-line of management

KRBL has a fairly experienced second line of management. While the company is promoter driven, many of the senior management positions are held by individuals not related to the promoters. The second-line includes (1) Mr Ashok Chand (plant CEO), a mechanical engineer and a post graduate diploma holder in personnel management; he had earlier worked with Nestle India and Pfizer Ltd, and (2) Mr Rakesh Mehrotra (Group CFO), a chartered accountant, with more than 25 years of experience; he had earlier worked with Surya Pharmaceuticals Ltd.

Successful in increasing acreage under contract farming

KRBL pioneered the concept of contract farming in Punjab, Haryana and Uttar Pradesh wherein the company provides high-yield certified seeds and intensive training for crop cultivation. This strategy ensures better yields and realisations and has thus helped the company procure better quality paddy from ~90,000 farmers. The contract farming initiative also helped these farmers to increase acreage under cultivation from 60,000 acres in FY05 to 240,000 acres in FY13.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at KRBL meets the desired levels supported by an experienced board and adequate disclosure levels.

Board composition

KRBL has 10 board members, of whom five are independent directors. This meets the minimum requirements as per Clause 49 of SEBI's listing guidelines. Mr Anil Mittal is the chairman and managing director. The directors are well qualified, have strong industry experience and a fairly good understanding of the company's business and processes.

Board's processes

The board's processes have evolved over the past three-four years; board meeting notices along with the agenda papers are circulated well in advance. Independent directors include Mr Ashwani Dua (chairman, audit committee) who has an extensive experience in the rice business, Mr Gautam Khaitan who has an extensive legal experience and specialises in corporate transactions, and Mr N.K. Gupta who holds a doctorate in engineering in food technology. Some independent directors are personally known to the promoters.

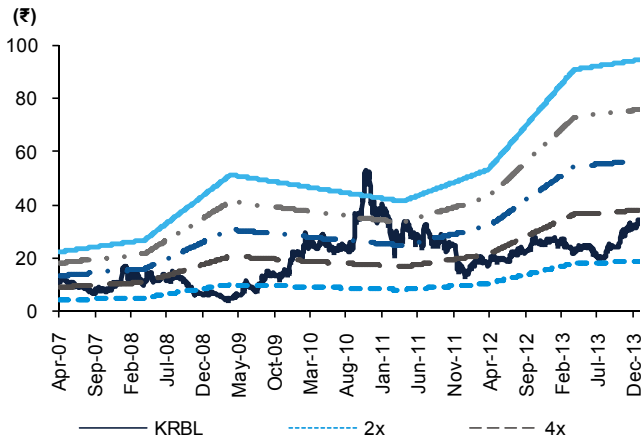
The positions of chairman and managing director are held by the promoters

Valuation

Grade: 5/5

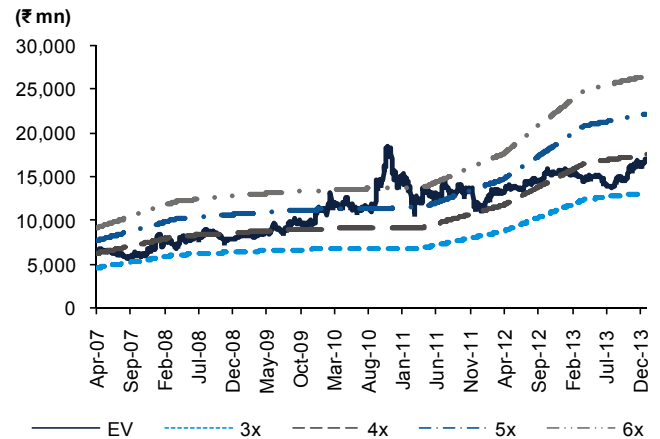
We continue to value KRBL by a P/E multiple of 5x. In line with revision in earnings estimates, fair value is revised to ₹48 per share from ₹35. At the current market price of ₹34, our valuation grade is 5/5.

KRBL has traded at an average one-year forward P/E of 5x



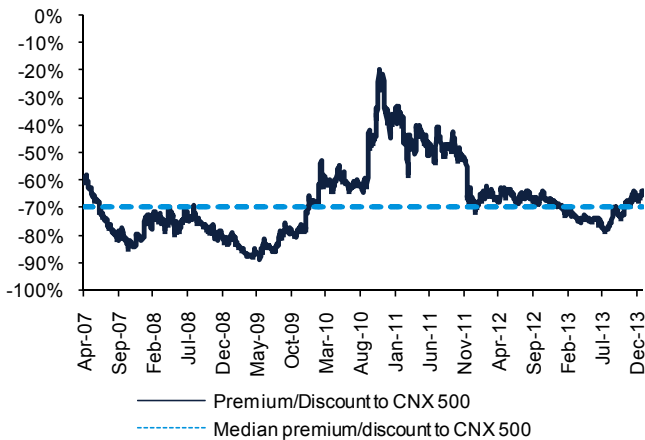
Source: NSE, CRISIL Research

Average EV/EBITDA multiple in past eight years is 4x



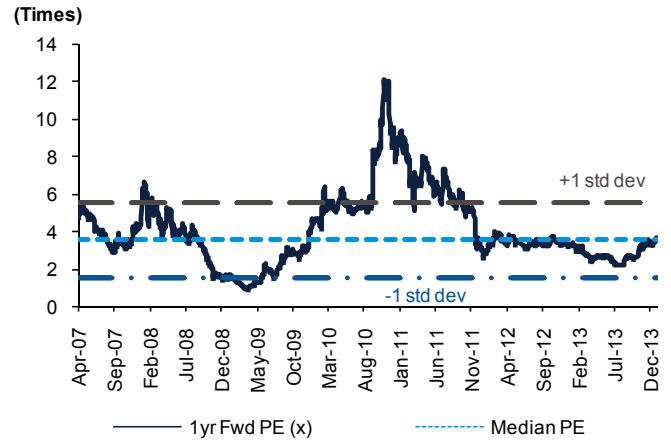
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



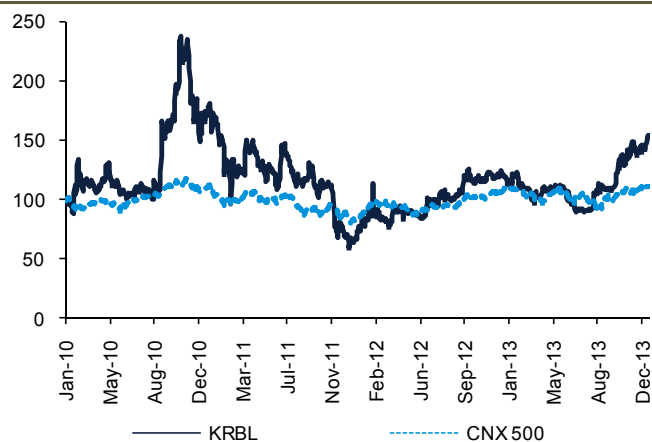
Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

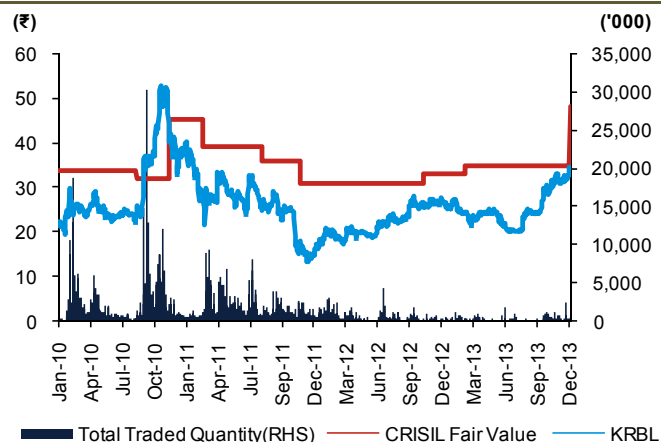
Share price movement



-Indexed to 100

Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

CRISIL IER reports released on KRBL Ltd

Date	Nature of report	Fundamental		Valuation		CMP (on the date of report)
		grade	Fair value	grade		
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

After adjusting for stock split of 10:1

Company Overview

Delhi-based KRBL is a 120-year old firm engaged in the business of marketing of grains and agro processing. It has rice milling capacity of 195 MT/hour; largest in the world. It is also the world's largest basmati rice exporter and has a strong presence in the Middle East countries such as Saudi Arabia, UAE, Iran and Iraq.

Manufacturing facility

The company's manufacturing facilities are located in Dhuri, Punjab (150 TPH) and Ghaziabad, Uttar Pradesh (45 TPH). Following subsequent refurbishment and re-engineering to suit basmati rice, the Dhuri plant has the world's largest integrated basmati rice milling capacity, way ahead of its immediate competitors in India. Being a fully integrated player, the company generates other value-added by-products like bran oil, de-oiled cakes. It also uses rice husks to run its captive power plants.

Energy division

The company's energy division has grown quickly in the past two years, since the company has entered into commercial sale of power. At present, KRBL's energy portfolio consists of biomass, wind and solar power projects, with a total capacity of 68.48 MW. KRBL intends to expand its installed capacity by 3-4 MW every year for the next three to four years.

Key milestones

1889	KRBL founded at Lyallpur in Faisalabad, Pakistan
1947	Re-established in India and moved operations to New Delhi
1978	Commenced exports and pioneered packaged rice
1992	Established a basmati processing plant at Noida, Uttar Pradesh
1993	Registered as public limited company; started export of 'India Gate' brand
1995	Came out with IPO, shares listed on the Bombay Stock Exchange
1997	Was awarded the prestigious APEDA trophy for being India's leading basmati rice exporter
1999	Pioneered the concept of contract farming in the states of Uttarakhand, UP and Punjab
2002	Received the ISO 9002:1994 certification from KPMG for its Ghaziabad plant; listed on the National Stock Exchange
2003	Acquired a sick rice processing plant in Dhuri (Punjab) for US\$3.6mn
2005	Earned the distinction of being a four-star export house and completed the first phase of revamping its Dhuri plant to commence operations
2006	Obtained GDR issue of US\$12mn, the largest in India's rice industry; diversified into wind power generation by setting up the 12.5 MW plant in Dhulia, Maharashtra
2008	Revenues crossed ₹10 bn milestone. Dhulia and Ghaziabad plants turned eligible for carbon credits
2010	Recorded the highest ever turnover and net profit (₹15.9 bn and ₹1.2 bn, respectively)
2012	Launched India Gate long grain parmal rice
2013	Turnover crossed ₹20 bn mark; also achieved highest ever PAT of ₹1.3 bn

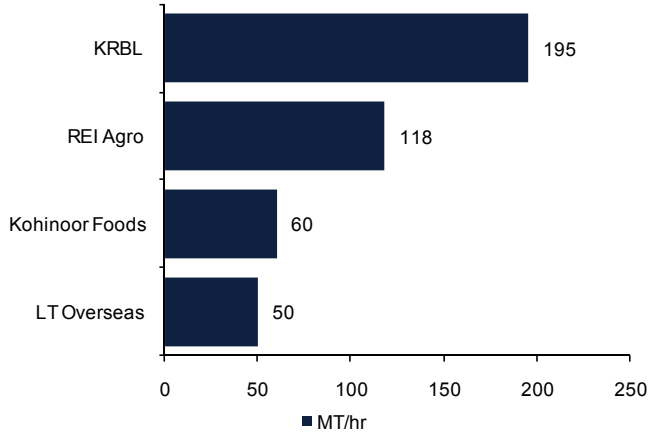
Annexure: Financials

Income statement						Balance Sheet					
(₹ mn)	FY11	FY12	FY13	FY14E	FY15E	(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	15,391	16,229	20,741	27,000	31,033	Liabilities					
EBITDA	2,277	2,292	2,943	4,163	4,504	Equity share capital	244	244	242	242	242
EBITDA margin	14.8%	14.1%	14.2%	15.4%	14.5%	Reserves	6,226	6,928	8,052	10,043	12,149
Depreciation	359	445	506	523	532	Minorities	9	9	9	9	9
EBIT	1,918	1,847	2,437	3,640	3,972	Net worth	6,478	7,180	8,304	10,294	12,401
Interest	514	719	694	811	892	Convertible debt	-	-	-	-	-
Operating PBT	1,403	1,128	1,743	2,829	3,080	Other debt	9,020	9,380	8,703	10,010	10,510
Other income	105	100	99	162	155	Total debt	9,020	9,380	8,703	10,010	10,510
Exceptional inc/(exp)	76	(278)	(1)	-	-	Deferred tax liability (net)	131	162	160	160	160
PBT	1,584	949	1,841	2,991	3,235	Total liabilities	15,630	16,722	17,167	20,464	23,071
Tax provision	381	219	542	778	906	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	3,834	4,169	4,412	4,476	4,544
PAT (Reported)	1,203	730	1,299	2,214	2,329	Capital WIP	259	130	188	100	(0)
Less: Exceptionals	76	(278)	(1)	-	-	Total fixed assets	4,093	4,298	4,599	4,576	4,544
Adjusted PAT	1,128	1,009	1,300	2,214	2,329	Investments	90	72	66	66	66
Ratios						Current assets					
	FY11	FY12	FY13	FY14E	FY15E	Inventory	12,085	12,377	12,603	16,271	19,591
Growth						Sundry debtors	1,577	2,389	2,044	2,686	3,073
Operating income (%)	(3.4)	5.4	27.8	30.2	14.9	Loans and advances	840	765	631	810	931
EBITDA (%)	4.3	0.6	28.4	41.5	8.2	Cash & bank balance	51	168	141	120	90
Adj PAT (%)	(9.8)	(10.6)	28.9	70.3	5.2	Marketable securities	-	-	-	-	-
Adj EPS (%)	(9.8)	(10.6)	28.9	70.3	5.2	Total current assets	14,553	15,700	15,420	19,888	23,685
Profitability						Total current liabilities	3,123	3,363	2,934	4,082	5,240
EBITDA margin (%)	14.8	14.1	14.2	15.4	14.5	Net current assets	11,430	12,336	12,486	15,806	18,444
Adj PAT Margin (%)	7.3	6.2	6.3	8.2	7.5	Intangibles/Misc. expenditu	17	16	15	16	16
RoE (%)	19.1	14.8	16.8	23.8	20.5	Total assets	15,630	16,722	17,167	20,464	23,071
RoCE (%)	14.3	11.5	14.5	19.5	18.4	Cash flow					
RoC (%)	13.3	11.5	12.6	17.3	15.8	(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Valuations						Pre-tax profit	1,509	1,228	1,842	2,991	3,235
Price-earnings (x)	7.4	8.3	6.4	3.8	3.6	Total tax paid	(333)	(188)	(545)	(778)	(906)
Price-book (x)	1.3	1.2	1.0	0.8	0.7	Depreciation	359	445	506	523	532
EV/EBITDA (x)	7.6	7.7	5.8	4.4	4.2	Working capital changes	(3,882)	(787)	(176)	(3,341)	(2,669)
EV/Sales (x)	1.2	1.1	0.8	0.7	0.6	Net cash from operations	(2,347)	697	1,626	(605)	192
Dividend payout ratio (%)	7.1	11.6	14.7	8.6	8.2	Cash from investments					
Dividend yield (%)	1.0	1.0	2.3	2.3	2.3	Capital expenditure	(929)	(651)	(807)	(500)	(500)
B/S ratios						Investments and others	(86)	18	5	-	-
Inventory days	355	349	274	273	288	Net cash from investments	(1,016)	(633)	(801)	(500)	(500)
Creditors days	83	83	55	60	67	Cash from financing					
Debtor days	39	55	37	37	37	Equity raised/(repaid)	(2)	57	15	-	-
Working capital days	277	282	222	218	221	Debt raised/(repaid)	2,971	360	(676)	1,307	500
Gross asset turnover (x)	3.0	2.7	3.0	3.6	3.8	Dividend (incl. tax)	(85)	(85)	(191)	(223)	(223)
Net asset turnover (x)	4.3	3.9	4.7	5.9	6.7	Others (incl extraordinary)	85	(278)	(1)	-	-
Sales/operating assets (x)	4.0	3.9	4.7	5.9	6.8	Net cash from financing	2,969	53	(853)	1,084	277
Current ratio (x)	4.7	4.7	5.3	4.9	4.5	Change in cash position	(394)	118	(27)	(21)	(31)
Debt-equity (x)	1.4	1.3	1.0	1.0	0.8	Closing cash	51	168	141	120	90
Net debt/equity (x)	1.4	1.3	1.0	1.0	0.8	Quarterly financials					
Interest coverage (EBIT/Interest)	3.7	2.6	3.5	4.5	4.5	(₹ mn)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
Interest coverage (EBITDA/Interes)	4.4	3.2	4.2	5.1	5.0	Operating income	5,715	5,000	4,928	6,888	6,585
Per share						Change (q-o-q)	11%	-12%	-1%	40%	-4%
Adj EPS (₹)	4.6	4.1	5.3	9.1	9.6	EBITDA	735	696	541	1,083	1,079
CEPS	6.1	6.0	7.4	11.2	11.7	Change (q-o-q)	-24%	-5%	-22%	100%	0%
Book value	26.6	29.5	34.1	42.3	50.9	EBITDA margin	12.9%	13.9%	11.0%	15.7%	16.4%
Dividend (₹)	0.3	0.3	0.8	0.8	0.8	PAT	545	208	205	496	746
Actual o/s shares (mn)	244	244	244	244	244	Adj PAT	191	365	156	690	651
						Change (q-o-q)	-63%	91%	-57%	343%	-6%
						Adj PAT margin	3.3%	7.3%	3.2%	10.0%	9.9%
						Adj EPS	0.8	1.5	0.6	2.8	2.7

Source: CRISIL Research

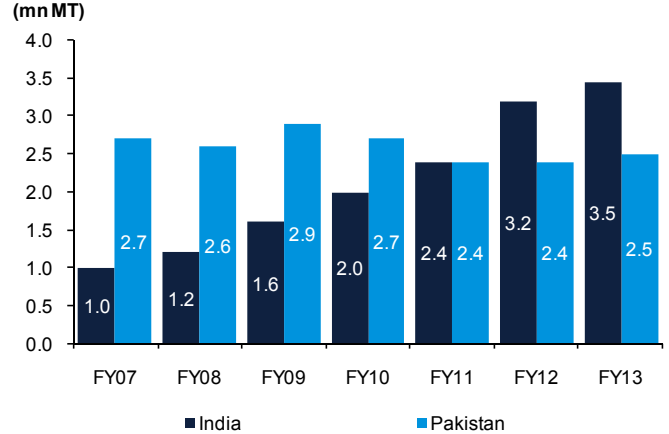
Focus Charts

KRBL has largest manufacturing capacity in India



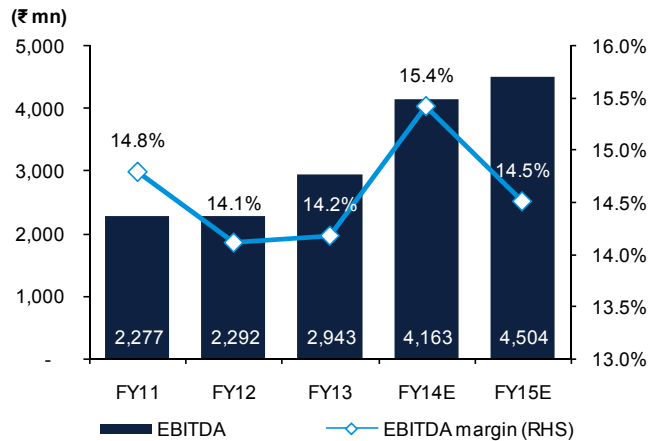
Source: Company, CRISIL Research

India's export of basmati rice exceeds Pakistan's



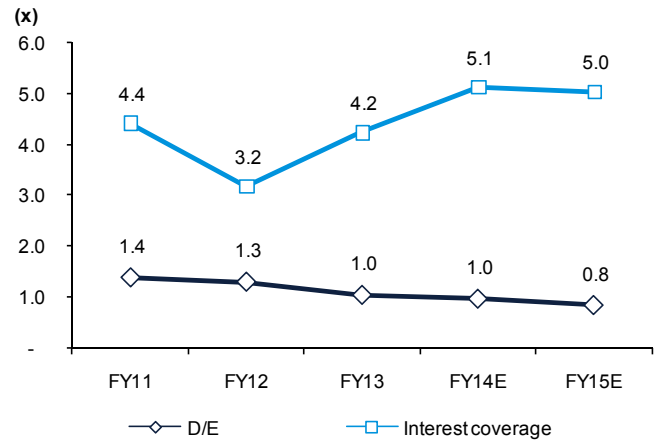
Source: Company, CRISIL Research

EBITDA margin to increase in FY14



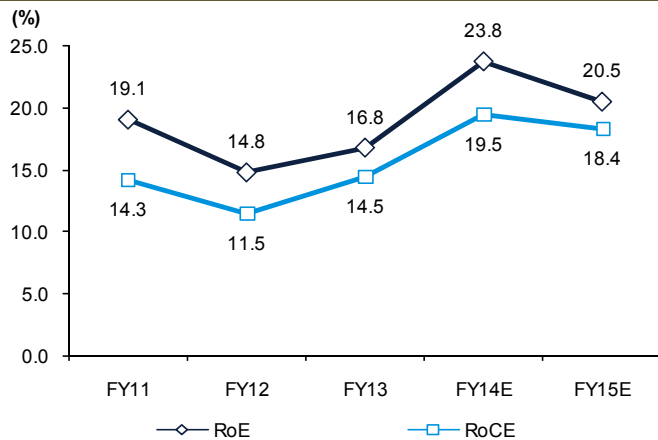
Source: Company, CRISIL Research

D/E to improve in FY15; strong coverage ratio



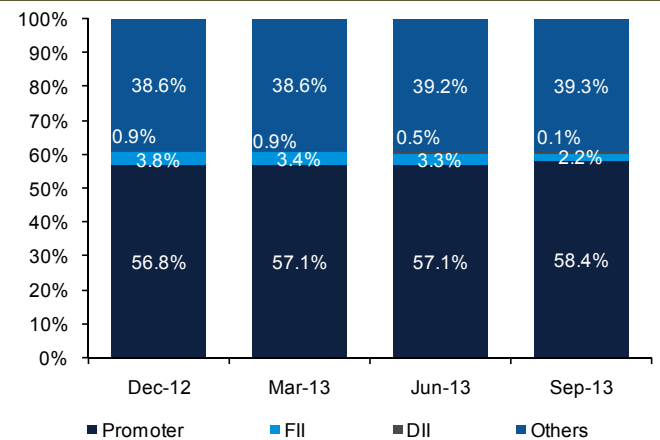
Source: Company, CRISIL Research

Return ratios to remain healthy

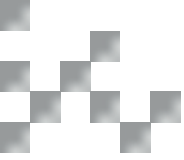


Source: Company, CRISIL Research

Shareholding pattern



Source: Company, 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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