



E:KRBL/BIBHU/STK_EX_2021/20
23 June 2020

The General Manager Department of Corporate Services BSE Limited ✓ Floor 25, Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 Scrip Code: 530813	National Stock Exchange of India Limited “Exchange Plaza”, C-1, Block-G Bandra-Kurla Complex Bandra (E) Mumbai-400051 Symbol: KRBL Series: Eq.
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Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on Wednesday, 10 June 2020

Pursuant to the provisions of Regulation 30 read with Para A of Part A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Conference Call held on Wednesday, 10 June 2020.

This is for your information and record.

Thanking you,

Yours Faithfully,
For KRBL Limited

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SAPRA

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Raman Sapra
Company Secretary

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KRBL Limited

Q4 & FY20 Earnings Conference Call Transcript

June 10, 2020

Moderator: Ladies and gentlemen, good day and welcome to KRBL Limited's Q4 & FY20 Earnings Conference Call. 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Welcome to KRBL's Q4 & FY20 Earnings Conference Call for Analysts and Investors. Today, we are joined by senior members of the management team, including Mr. Anil Kumar Mittal – Chairman and Managing Director, Mr. Anoop Kumar Gupta – Joint Managing Director, and Mr. Rakesh Mehrotra – Chief Financial Officer.

We propose to commence with an update on the financial performance by Mr. Rakesh Mehrotra; thereafter, we will have Mr. Anoop Kumar Gupta sharing his perspectives. After the opening remarks from the management, the forum will be open for an interactive question and answer session.

A cautionary note, certain statements that may be made on today's call could be forward-looking in nature, and actual results could vary from these statements. A detailed statement in this regard is available in KRBL's Q4 & FY20 investor presentation, which has been shared with you earlier. I would now like to invite Mr. Rakesh Mehrotra. Thank you and over to you, sir.

Rakesh Mehrotra: Thank you. Good afternoon, everyone. And thank you all for taking out time to join us on our Q4 & FY20 earnings conference call. I hope you and your loved ones are safe during this trying period of COVID-19 pandemic. I will be covering quarterly business highlights and financial performance for the quarter and the year ended 31st March, 2020.

We began the fourth quarter on an encouraging note, witnessing healthy demand and robust growth across domestic and international markets in continuance of a good momentum seen during the earlier quarters. In standalone terms, our revenue from operations in Q4 FY20 stood at Rs. 1,062 crore as compared to Rs. 1,196 crore in the same period last year. This followed the impact from the country-wide lockdown during the last 10 days of March in India, and similar restrictions in many of our international geographies, otherwise our performance would have stood even better year-on-year.



Q4 FY20 EBITDA came in at Rs. 238 crore, higher by 3%, versus Rs. 232 crore in Q4 of the same period last year. PBT for Q4 FY20 increased by 3% to Rs. 201 crore, as compared to Rs. 196 crore in the same period last year. PAT stood at Rs. 150 crore in Q4 FY20, up by 10% as against Rs. 137 crore in Q4 FY19.

Moving to full year performance in standalone terms. We registered a top-line growth of 9% where revenue from operations stood at Rs. 4,499 crore as compared to same period last year at Rs. 4,120 crore. EBITDA during FY20 came in at Rs. 894 crore as compared to Rs. 865 crore in the same period last year. PBT for FY20 stood at Rs. 759 crore as against Rs. 733 crore in FY19. Our FY20 PAT was also at Rs. 559 crore, higher by 11% as compared to Rs. 503 crore.

The cash generated over the last 12 months has helped us significantly to reduce our borrowing requirement, which as of 31st March, 2020, stood at Rs. 496 crore, as compared to Rs. 1,428 crore as on 31st March, 2019. Our inventory levels stood at Rs. 2,852 crore, as in the recent procurement season we have been able to buy highest-ever paddy in quantity terms as the prices of the paddy were lower.

Our company has very little long-term loans. Most of our debt is in the form of working capital loans, which starts rising from with the commencement of procurement of paddy at the beginning of Q3 every year, and becomes insignificantly low by the end of Q2 in the next financial year. If you analyse our performance over the past couple of years, we have consistently improved our PBT year-on-year regardless of fluctuation in the cost of procurement of paddy.

The growth shown by the rice business year-on-year has consistently contributed to the enhancement in our return on capital employed, which as on 31st March, 2020, stood at 22.7% as compared to 19.3% last year. Similarly, our net worth increased by 15% to Rs. 3,118.57 crore as on 31st March, 2020, as compared to Rs. 2,717.45 crore as on 31st March, 2019. As the business grows, we will be able to further enhance these metrics.

I now hand over the call to our Joint Managing Director, Mr. Anoop Kumar Gupta for his perspective.

Anoop Kumar Gupta: Thank you, Mr. Mehrotra. A warm welcome to all of you once again and thank you for joining us on our call. Since we connected the last time, there have been some improvements from the ground operationally. I would just like to share some further update in terms of trends and outlook for the business, and our continuous response to the COVID-19 pandemic as a Company.

During the first few days of the lockdown, we had to stop our milling plants just for three to four days. The same has resumed, since rice being an essential commodity, we got Government's permission to run the plants. The Government remains very supportive for the essential category, and especially for the food industry. And thus, situation has progressively improved.

For us, the health, safety and well-being of customers and team members have always been of utmost importance. In addition to our existing hygiene and cleanliness standards, we have implemented further preventive measures based on guidelines from the Ministry of Health and Family Welfare. Our brands represent the best quality attributes that make us the preferred choice among customers. And with these additional measures, we will further reinforce on the safety, health and hygiene aspects.



Trend wise we have seen growth accelerating for our brands in the wake of good consumer demand for our trusted portfolio, even in the midst of the lockdown. Partially because of the initial wave of panic buying. Demand both in India and in our international geographies improved additionally, as there was a positive trend in consumption behavior where customers were broadly recognizing the benefits of branded products. Our strong presence in key export markets for Basmati was a big positive during this period.

On an annual basis, the company has received over 5% year-on-year volume growth for India, and around 14% in exports on the back of our strong focus on branding, customer engagement and wide distribution network. Our paddy procurement has been robust this season, and we are geared to scale our performance as per higher sales momentum.

Whereas, the business continues to grow, our key operating costs has stood steady in line with our prudent financial strategy, facilitating higher margin traction.

As the nation progresses toward lifting the lockdown restrictions, we are making our supplies optimally available through all channels, including modern trade and e-commerce, both of which have been crucial. Accordingly, our company has identified and nimbly associated with delivery patterns like Swiggy and Zomato to strengthen our outreach and give assurance to everyone who wants our brands to be delivered safely at their doorstep. As time progresses, we will see rebalancing of demand as consumer sentiments normalize. Although, some increase of permanent nature cannot be ruled out as customers switch from unbranded to branded category.

Over the last two months, economies worldwide and various industries across India have been facing an unprecedented situation due to COVID-19 pandemic. As a corporate, we have supported local communities around our operations, and the underprivileged class, both by way of donating rice and through financial support and we shall continue to do so. Our primary focus during this challenging period has been towards undertaking all necessary measures, driving branded business strongly and seamlessly, maintain a sound financial strategy and deliver best in class operations so that our performance momentum continues to enhance.

As you would be aware, we have set a benchmark of achieving Rs. 8,000 crore of top-line in next four, five years and I am glad to share that we are moving in the right direction, led by healthy demand in both domestic and international markets, as well as our unique positioning within that.

With that, I would request the moderator to open the floor for Q&A.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Dhananjay Mishra from Credit Suisse. Please go ahead.

Dhananjay Mishra: Congratulations for delivering a very decent operating performance. And also, thanks for making very elaborate and detailed presentation. My question is regarding, what is the outlook for this year? What is the progress on export front, because we have seen in Q4 there has been muted performance on export front, so what is the outlook for export market? And also, if you can give any update on the HoReCa segment

Anil Kumar Mittal: Good Noon. As far as export is concerned, the demand is quite good. The current challenges in the export are the problems in shipment of break-bulk cargo. During the pre-Corona days, we could load up to 5,000 tonnes of break-bulk cargo per day, which has come down to just 800 to 900 metric tonnes per day. Therefore, for the loading of a 20,000 tonner vessel, it takes about 22 to 25 days, which used to be hardly four or five days earlier. There is also a long waiting period for berthing of vessels. Today, the waiting period for berthing the vessel is around 15 to 20 days. It takes more than a month to complete a vessel. The waiting period for berthing has affected the whole shipment schedules. As of now, there are about six vessels standing for sugar, and therefore the whole month will be consumed for loading of these six sugar vessels. So, there is hardly any time for loading any other cargo, including rice.

As far as exports are concerned, our order book is full, and there is no problem in orders. During the beginning of the lock down which was announced on 24th March, we used to face challenges in getting labour & the raw material for packing i.e. Jute. These issues have got resolved recently.

I would like to share that our export orders are confirmed, and there are plenty of shipments which are still pending. Due to pandemic, they couldn't be shipped out. But now things are improving

Since yesterday, the plant is running at full capacity. All packing labour has come back from their villages and Jute is also available for packing now. So, in next 2 - 3 months we have to ship quantities equal to five months. Things will improve to a great extent. Compared to last year the export orders are in good quantities.

Dhananjay Mishra: Okay. And any demand outlook for this HoReCa segment.

Anoop Kumar Gupta: Since last three months, we have seen no uptake in HoReCa segment. 30% of domestic sales is constituted of institutional and HoReCa, which have really beaten us. Since the Government has allowed restaurants and home delivery, certain movement has started coming and I feel within next 30 or 50 days, this segment will also start buying.

Dhananjay Mishra: And, we have seen remarkable improvement in working capital. So, are we moving towards a debt free status by the end of this year?

Anoop Kumar Gupta: I think by mid of August we should be zero debt.

Dhananjay Mishra: And given all these challenges, what kind of volume growth we are seeing for this year on a full year basis?

Anoop Kumar Gupta: Pre COVID-19 we were expecting an increase of 20% for full year but due to COVID-19 followed by lockdown of three months, we are expecting an increase of 5% to 10% overall for the year.

Moderator: Thank you. The next question is from the line of Varun Goenka from Nippon Mutual Fund. Please go ahead.

Varun Goenka: My compliments on a very comprehensive presentation and the way we have managed our balance sheet in this period is truly exceptional. I have been noticing the way KRBL has extended support to the society, and you mentioned some data

in the presentation, it is really commendable. I don't have any questions regarding our numbers, I think we have been consistently delivering for last 15 years, just by the end of this year, we will be generating very, very large cash flows, even today we are generating in excess of Rs. 700 crore to Rs. 800 crore. So, have we put out any kind of capital allocation policy or where are we going to use this capital in terms of either new investments towards Non-Basmati that we were talking about in the last call? Or buybacks? Or dividends? Or any other plan? If you could help us understand that for the next two, three years.

Anoop Kumar Gupta: Varun, we are working on a debt free Company. For just last two months, we are debt free, we want to be debt free for at least six to seven months that's number one. Number two we will be investing more in inventory i.e. we will be investing in raw materials. We will also be investing in warehouse, packing plants etc. not just raw material investment of regional rice. In next two to three years, you will see a lot of investments in regional rice and inventory.

When I say Rs.8,000 crore top-line, that means minimum requirement of Rs 3,500 to Rs.4,000 crore liquidity to invest in raw materials. We are looking for that type of investment, but let's see what happens.

Varun Goenka: Could you just help us understand the non-Basmati or the premium segment, what is the demand opportunity size? I am sure it's very, very large, what is the return on capital generally, what is the ageing period or working capital cycle in that segment? Basmati of course has a longer period.

Anoop Kumar Gupta: If you see, in non-Basmati generally aging cycle is about eight to nine months. When I say eight months that means you have to keep stocks for one and a half year to keep a cycle of eight months. And there certain regional rice categories like Sona Masoori, when aged has got a premium, and since we will be branding under India Gate brand, we will go in a niche market where the premium is there. When you talk of a premium, the market of Sona Masoori may be 10 million tonnes, but I am talking 40,000 to 50,000 tonnes only for the niche market. Like this there is a Govind Bhog in West Bengal where it is already a very niche product, it is sold above Rs. 100 a kg, but that also requires one-year ageing.

Varun Goenka: How big is that demand opportunity? Govind Bhog, how big is that?

Anoop Kumar Gupta: Only Kerala market is 5 lakhs tonne, demand is big. But we are looking not at a 5 lakh tonne market, we are looking at a premium market, maybe we are looking at 40,000 tonne to 50,000 tonne market.

Varun Goenka: Yes. And any other key players in the segment?

Anoop Kumar Gupta: There is no national player, there are regional players working on that, there is no national player.

Varun Goenka: Right. The other thing that I am just trying to understand is, where are the investments in technology that we are doing? We are seeing a lot of agri technology, logistics technology related investments happening in the country, which can improve the efficiency, working capital cycle, asset turns, etc. So, are we doing anything on this side?

Anil Kumar Mittal: All our units are automized. We have really worked very hard in last seven, eight years to ensure that all our units are fully computerized, and are in line with latest

technology. Now we have to work on the logistics side, because for the first time we realized this problem due to the pandemic. We have started working on how to automatize logistics side as we see during our visits abroad where right from packaging, loading and upto shipment, everything is automatized.

Varun Goenka: So, actually I meant out of factory, I mean, in factory of course KRBL is par excellence to anywhere in the world. Yes, I meant out of factory which is distribution or marketing, branding, logistics, etc. So, any changes that we are doing, any learnings post this event or any major changes that we are thinking of?

Anoop Kumar Gupta: Well, there are no changes as such, but nowadays what people are doing, instead of aging they are selling lot of steam rice. And they don't understand the difference between steamed rice and aged rice, you cannot compare steamed rice with aged rice. Aged rice maybe having interest or net carry forward charges, etc., but the quality difference between steam and aged rice is quite lot. So, we don't think we have any situation where an aged rice can be replaced with any new technological invention.

Varun Goenka: Right. Just final two questions that I had before I come back in the queue. One, e-commerce, how is our traction on the e-commerce, either Amazon or anything else? How is our rating or our volume growth there? Because I found some data that we are still not leading there.

Anoop Kumar Gupta: I will tell you, as far as Amazon is concerned, on grocery side Amazon is last. Today, number one is Big Basket, Grofers and few other apps, and we are number one there. Amazon, since the sales are very less we are not that much aggressive on Amazon, but now e-commerce has become a very, very important platform and we have started, because Amazon you have to spend money on their pallets and all, it is spending money, that's not a big thing.

Moderator: Thank you. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: First question is that, if I see your volume growth in exports in the last four quarters, there has been a lot of fluctuation. So Q1 was 150% up, then Q2 was 50% down, then Q3 was 150% up, the Q4 again 24% down. So first of all, what is contributing to this high fluctuation in the export volumes? And related to that, in Q4 I think we are 24% down and what you are alluding this to, we have not been able to ship out a lot of our products which will get a spillover effect in Q1? So, what can be the spillover effect in Q1 for the exports?

Anil Kumar Mittal: Let me explain, as far as spillover is concerned, due to the pandemic the breakbulk shipments have come to a standstill. Instead of loading a vessel in five days, now it takes 25 to 30 days, which is not at all within the parity of our costing. It is a very big concern for us. We are in constant touch with the shipping ministry and also the Chairman of both Mundra Port Trust as well Kandla Port Trust, and we are quite hopeful that this issue will be resolved soon. As far as loading is concerned, it is directly connected to the labour. Till recently, the labour was just about 20% at Kandla Port as compared to what it used to be pre-COVID-19. Since last two to three days, labour has started coming back. We are quite sure that by first week of July or end of June the labour will be available in the ports and the normal loading function will start. As on date, We have got about more than 40,000 tonnes of cargo which is waiting for loading at Kandla port. If you want a vessel at Kandla today, it will take 30 days, and the freight will be 3 or 3 ½ times. We are waiting for

the labour, and we are positive that by first week of July things will settle down and we will be able to load full cargo in one quarter only.

Sarvesh Gupta: But here if your vendors outside in Middle East, if they are having adequate inventory then there won't be any stock outs?

Anil Kumar Mittal: I am holding 40,000 to 50,000 tonnes of stock for my best two or three customers. Let me explain you further to clear out your doubts. Countries such as Saudi Arabia, Iran, Iraq, etc. store the rice themselves for one year and the ageing is done at their end. They do not buy the aged rice. KRBL is the only company from India which is shipping them aged rice, that is India Gate and India Gate Classic. Otherwise, the importers in Saudi Arabia or Iran have a stock of nine months to one year to distribute to their customers. This is the first time where the demand has been increased by at least 20% to 30% but due to logistic problems those shipments could not be effected, especially to Iran and to Iraq because of non-availability of vessels. I believe, by 30th June everything will be normalised, labour will come and things will come to its normal working.

Sarvesh Gupta: So, there won't be any permanent demand destruction for us because they have adequate inventory, so we have to just ship more in this Q1 or Q2 instead of the Q4 which we lost?

Anil Kumar Mittal: You have to understand it is replacement of stocks. They do not import the total quantity in two months. Whatever they are selling currently in the market is from the imports they made last year. When last year stocks are finished, they will start selling out of current year imports. It means up to October they will be selling the old stock, from October they will start selling the crop of 2019-2020.

Sarvesh Gupta: Okay. But can you quantify what was the demand loss or what was the sales lost because of this problem in Q4? And what will be the impact in Q1 and Q2 because of this crunching?

Anoop Kumar Gupta: I will tell you, there is no loss of quantities in export, but there is a loss of quantity due to HoReCa in domestic. And domestic, there may be loss of about 30% of domestic sales, which is a loss in April, May, and June I think in export there won't be any loss.

Sarvesh Gupta: Okay. And in this projection that you are doing of around 10% volume growth, I am assuming exports will have a higher growth than 10% because of muted domestic HoReCa demand?

Anoop Kumar Gupta: Yes, correct.

Sarvesh Gupta: And given that our prices are much higher for exports, plus the fact that last crop was purchased at a lower price, so our paddy price is lower. So, because of this mix change, plus RM change, I think even if we assume 10% volume growth, your gross margin profit should significantly expand in the coming years?

Anoop Kumar Gupta: Yes, EBITDA should be better.

Sarvesh Gupta: Okay. And one more question on the energy business side, I think there were some thoughts about demerging it. But just one suggestion is that, given that the market conditions, once that share is separately listed, people may not give the

adequate value. And given that the valuation of that business might have increased because of lower interest rates, so it might make sense for us to sell it off and use the cash for doing a lot of buyback and investing in this business which will be getting adequate value in the market.

Anoop Kumar Gupta: In fact, you see, our PPAs are at very good rate, in Maharashtra we are selling at Rs. 5 plus, in Andhra we are selling at Rs. 4 plus, and with good PPAs which are for 25 years, out of which eight, nine years have passed, still 16 years are there. Our IRR is quite good, which should not fall, we are working on financials for demerging it in a separate listed entity. However due to COVID-19 it has been a bit slow, but now we are working on that.

Sarvesh Gupta: Alright. And related to the previous question, I think since we are going to generate another Rs. 800 crore or Rs. 900 crore sort of cash this year, and CAPEX we have done only Rs. 20 crore this year, so even if we do more CAPEX that may be even Rs. 100 crore. But what is going to be the remaining use of that Rs. 700 crore, because this Rs. 400 crore debt is anyways too less. And we get interest, or tax benefit on interest payment also, so may not be that safe to reduce the debt.

Anoop Kumar Gupta: We will be investing in the inventory; we will be investing heavily on the inventory. Because it is only the inventory which makes the turnover. When I talk of turnover of Rs. 5,000 crore, then again Rs. 6,000 crore, then another Rs. 7,000 crore, naturally we have to invest more and more on inventory. And I don't want to be dependent on the banks, We want company to be a zero-debt company.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Insight Edge. Please go ahead.

Shailesh Kumar: Congrats to management for a very resilient performance, and also for proper disclosures. I have a few questions. First is, how is pricing now going on, in the first quarter, in both domestic and overseas markets? Our average realization basically, on Q-o-Q basis.

Anoop Kumar Gupta: See, as far as pricing is concerned, it is difficult to mention the pricing because for different SKUs the pricing is different. But in general, today we are getting a realization of about Rs. 90 as far as exports is concerned. Realization more or less will be the same as for quarter four, there won't be any decrease. There might be some increase but there is no question of any decrease.

Shailesh Kumar: Okay. And what percent is our branded sale during the full year of FY20?

Anoop Kumar Gupta: Generally, our brand percentage is above 75% to 80%. Because you see, domestic is total 100% branded, and exports we do some 20% to 25% of private label. So, in all, about 10% to 15% comes as a private label, 85% is brand percentage.

Shailesh Kumar: Okay. We have seen a very good improvement in the working capital, not only for KRBL, but also for peers, who have declared the numbers. How sustainable is this? Because we understand because of lockdown there was extraordinary situation and people were ready to pay anything to get this back, but how sustainable is that going forward?

Anoop Kumar Gupta: For us, KRBL, you see if you talk of efficiencies of working capital from last seven years, in the end of second quarter I made my debt zero. It is not due to COVID-19 or anything now it has happened, from last seven years it has become near zero.

And it is all due to internal accruals of the company which is making the debt lower and lower, day by day, and more and more inventory is what comes out of that income.

Shailesh Kumar: Exactly, I mean, that was the question. Because normally we used to see that during Q2, your debt was minimum, but this time we are seeing this in Q4 itself. So again, what explains this?

Rakesh Mehrotra: The cash generated over the last year and this year has been put into the inventory, and that is why the bank borrowings are less.

Shailesh Kumar: Okay. And any update on potential buyback?

Rakesh Mehrotra: That is a call to be taken by Board of Directors.

Anoop Kumar Gupta: Buyback, will discuss it within the Board and see to it. We will look at it.

Moderator: Thank you. Next question is from the line of Anshul Sehgal from Kotak PMS. Please go ahead.

Anshul Sehgal: My question is, I noticed in your cash flows that your inventory number has actually, I mean, there has been a decrease in inventory. And so in cash terms there has been an inflow. In volume terms we have had an increase in our total inventory number. And if there is a decrease in value of inventory, that means that we probably procured at a lower price, because of which our volumes are higher and still we are having to pay less. Is that a correct assessment?

Rakesh Mehrotra: Yes.

Anshul Sehgal: Okay. And then what would be our average procurement price?

Rakesh Mehrotra: Average procurement price of paddy?

Anshul Sehgal: That's right. And we also hold some inventory of rice, so I am asking what would be the average procurement of both paddy and rice?

Anoop Kumar Gupta: See, if you talk of the closing stock, then paddy is valued at Rs. 28,934 a tonne, and rice is Rs. 48,021 a tonne.

Anshul Sehgal: And when we give the average realization of Rs. 90 for the export market, that is for the rice, of course.

Anoop Kumar Gupta: That is for export of rice. If you talk of total rice, then average is Rs. 68.

Anshul Sehgal: And then secondly, the receivables number has also improved markedly. What has been the reason for that, Anoopji?

Rakesh Mehrotra: Can you repeat the question?

Anshul Sehgal: Your receivables position has also improved quite significantly. What is the reason for it?

Anil Kumar Mittal: We had one account which got stuck up last year, which we tried to regulate this year, and we made sure that in future such things do not happen and that is one of the biggest reasons of this improvement in receivables position.

Anoop Kumar Gupta: This was also due to Saudi Arabia shipments where we are doing 180 days against ECGC. There is no question of any risks, but 180 days payments are there.

Anshul Sehgal: And thirdly, Anoopji, to your point for Rs. 8,000 crore of revenues you will need Rs. 4,000 crore of inventory, and you don't want to be holding any debt. If we look at your current inventory, we are at about Rs. 3,000 crore at book value of holding of inventory. Now, if we generate Rs. 1,000 crore of cash each year, then even by next year we can be holding Rs. 4,000 crore of inventory without any incremental debt.

Rakesh Mehrotra: Cash generation this year was Rs. 630 crore.

Anshul Sehgal: Your cash flow statement is showing Rs. 1,200 crore net cash.

Rakesh Mehrotra: That is increase, decrease in inventory and everything. I am talking of cash profit.

Anshul Sehgal: Correct. Okay. So even if it is Rs. 600 crore, the point being that it means that in two years we will be able to hold incrementally Rs. 1,000 plus crore of inventory without having any incremental debt. Is that a correct assessment?

Anoop Kumar Gupta: Yes definitely.

Anshul Sehgal: And so Rs. 8,000 crore of revenues, I mean, if demand is there, it can be achieved even in, two and two a half years from now.

Anoop Kumar Gupta: Pretty difficult, if it will be achieved in two and a half years, three years, then we will see at that time where to deploy the money and what to do. Mr. Mittal would you like to add.

Anil Kumar Mittal: Let me explain to you, reaching a top-line of Rs. 6,000 crore in rice is not difficult, but one should not be losing out of hand at the bottom-line. Luckily, in last 25 years there has not been any bad debt for KRBL, and when we bring this to the knowledge of anybody in the ministry or the trade, they are a bit surprised. Normally with such a heavy turnover, it is always certain to have bad debts. But luckily, we are the only commodity company who have not lost any money up till now, whether in exports or in domestic.

I will give you an example, we do business in Iran, and there are another 23 people who are doing business with Iran. Now it is very important to understand, making a turnover and showing a top-line is not difficult. We had offers from 2 - 3 importers in Iran to ship them 200,000 tonnes, valued @ Rs.1400 crores. We could have concluded those businesses. But you will be amazed to note that from October up to March, a total shipment worth US\$ 540,000 (around Rs.3200 crores) went from India to Iran to the private trade. Not a single payment has come till date. Whereas, KRBL's condition to work with Iranian importers is that either you give us the LC, letter of credit, or give us 25% advance before the contract is signed. So, what I mean to say is that it is not difficult in rice trade to achieve turnovers that you say in a year or two years or three years. That's number one.

Number two, the biggest thing is the profit margin. If you want reasonable profit margin which we show our EBITDA today compared to other peers, you will find there is a big difference. Today, anyone can sell another 70,000, 80,000 tonnes or 100,000 tonnes in Saudi Arabia under private label and get a top-line, but that profit margin will be 5%, 6%. Recently, I asked my CFO to bring out all the balance sheets of private limited and limited companies in rice industry, you know what are the profits they are showing? 2%, 3%, 1.5%. So, we at KRBL have to look at two things, safety of the money and the profit margin. Therefore, the top-line is not very difficult in our business.

Anshul Sehgal: Sure. And finally, my question, Anoopji, you mentioned that this year our target is to grow 10% in volume terms. What does that translate into value terms? Can we be at about 15% in value terms?

Anoop Kumar Gupta: We are targeting at around Rs. 5,000 crore. Since COVID-19 has taken place in India, there is no problem in export sale, but India there is a problem. In India, as far as consumer packs are concerned, they are going very well, even during April, May there is no decline in my consumer pack sales, the decline is of 25 kg which is also a 30%, 35% segment of my domestic sales. So, I am looking at a Rs. 5,000 crore revenue this year. This is just a forward-looking statement, but I am looking at Rs. 5,000 crore revenue.

Anshul Sehgal: This 25 kg pack, it would mostly be HoReCa, right?

Anoop Kumar Gupta: It is mostly HoReCa, yes.

Moderator: Thank you. The next question is from the line of Hetal Sanghvi from Savan Capital. Please go ahead.

Hetal Sanghvi: I had a few questions. Firstly, our competitors have got good traction in USA, and so how was our performance during the quarter? Have we lost any market share to the competitor?

Anil Kumar Mittal: That's altogether a different story, they got an opportunity about 15 years back to buy a brand which was already well established in America, and was having a market share of 20,000 – 25,000 tonnes, From 25,000 tonnes, today in 15 to 18 years they have jumped to about 70,000 or 75,000 tonnes. No doubt it is an excellent achievement by our peers, and everybody knows about it. But, I will tell you again, the margin of profit is the most important part. What happens is that a major portion of their sales, say about 40,000 – 50,000 tonnes, goes to clubbed stores such as Costco, Walmart, Sam's Club, etc. And the margin of profit in these businesses is not that high as what we are still getting in America. Though my share in America comparatively is very low, maybe 12% or 13% of my peers, our margin of profits are still very high. We are the only company selling our India Gate Classic over there at \$2,200 per tonne. So, we have to look at those parameters also.

Hetal Sanghvi: Okay, thank you. Also, one more thing, one of the trading houses, Phoenix Global has recently gone bankrupt. So, would KRBL be a beneficiary in any case in this situation?

Anil Kumar Mittal: No, they are into non-Basmati rice, they were totally commodity traders and they used to speculate a lot. They were not into branding, and their main market was East Africa, West Africa, we do not do that business at all.

Hetal Sanghvi: Okay. So, what was the worth of the export order which was affected due to lockdown in March, and which has been covered up in April?

Anil Kumar Mittal: I think so I have got now today about 60,000 tonnes lined for exports, that is the only delay which has primarily taken place which is valued today at around Rs. 470- 480 crore.

Hetal Sanghvi: Okay. So, has this been covered up or is it lying at the ports?

Anil Kumar Mittal: No, now the things have started to clear up at the ports. I think we might ship either by end of June or by 15th of July at least this 50,000 tonnes will be shipped out.

Hetal Sanghvi: Okay. Also what is the status of the inventory at ports in Iran? So, in the last call you had mentioned that all the volumes from Iran could go up from 300 million tonnes to 500 million tonnes. So, are we are still expecting that?

Anil Kumar Mittal: 300 million tonnes? The total import of Iran last year was 1.28 million tonnes, prior to that, for the year ending 2019 it was 1.4 million tonne. So, the total importation of Iran is around 1.2 million to 1.4 million tonnes. Out of which no payment has been received by the exporters from Iran shipment made from October to March 2020. Other than those, payments have come which were against letter of credit.

Hetal Sanghvi: You had guided that we would have a greater opportunity because it would be so expensive for the private players to import in Iran, and that could be a good opportunity for the KRBL. So, do you have comment on that?

Anil Kumar Mittal: As far as Iran is concerned, the businessmen in Iran are not straightforward. So, we are always reluctant to do business with Iran, we do only that business which is transparent and is backed by letter of credit or controlled by the Government where there is no risk. We are doing business for last seven, eight years with Iran. First of all, it is not a transparent business. Payments are always a problem. That is why today an amount of Rs. 3,500 crore is pending for last five, six months which is not a small amount or a small number. So, we want to discourage Iran, and we do only business, which is clear, and transparent.

Hetal Sanghvi: So, will these kind of volumes be covered up from the business, the extra demand coming in from Saudi Arabia and UAE?

Anil Kumar Mittal: There is an extra demand, and we are shipping those quantities, you are right. But those quantities, for example, Saudi Arabia used to import about 850,000 to 900,000 tonnes, this year their figure has reached to 1.1 million or 1.15 million tonnes. So, there is an extra quantity being shipped to Saudi Arabia of around 200,000 tonnes. As far as Dubai is concerned, whatever extra quantities are going are not entirely consumed within Dubai, but a lot of quantities are being transhipped to third countries from there. .

Hetal Sanghvi: Just one follow-up. What was the peak of sales that we had from Middle East earlier in 2015, 2016?

Anil Kumar Mittal: Ma'am, you put an email to Mr. Rakesh Mehrotra, I think he will give you all the data. Those numbers I do not know, that we can let you know, you put a mail to Mr. Rakesh Mehrotra.

Moderator: Thank you. The next question is from the line of Ayush Agarwal from NACL Value Investment Fund. Please go ahead.

Ayush Agarwal: I just had one question, I wanted to know our level of inventory, the paddy inventory and rice inventory, both in value and volume front.

Rakesh Mehrotra: We are carrying 427,000 metric tonne of paddy. And carrying 314,000 metric tonnes of rice.

Ayush Agarwal: And what would be in value terms?

Rakesh Mehrotra: Rice is valued at Rs. 1,512 crore, at average price of Rs. 48,000. And paddy valued at Rs. 1,235 crore, average price of Rs. 28,000.

Moderator: Thank you. The next question is from the line of Jayant Mamania from Care Portfolio Managers. Please go ahead.

Jayant Mamania: In the presentation, you have given a slide for paddy price during last seven years, 2014 to 2020. So, in 2014 they were Rs. 34,000 per tonne and now Rs. 29,000 per tonne. So, do farmers make money? Or is there any increase in acreage?

Anoop Kumar Gupta: You are telling the reason why it has come down from Rs. 34,000 to Rs. 29,000?

Jayant Mamania: Yes, in spite of rising demand.

Anoop Kumar Gupta: There was definitely increase in acreage and demand was also not that great. Punjab and Haryana have surplus paddy, and especially MP, Kota, Bundi, Rajasthan has also some, I think there is an increase of about 6% to 7% more paddy this year.

Jayant Mamania: If there is an increase in paddy price, will it be possible for us to...

Anoop Kumar Gupta: Increase in paddy acreage area, not the price.

Jayant Mamania: Yes. Suppose actually the cost of the labour since last seven years might have gone up by 50%, but paddy prices have remained the same. If the cost of paddy goes up, do we have a pricing power or will it impact demand?

Anoop Kumar Gupta: Definitely, see Basmati is a niche item grown only in India and Pakistan, of which 80% to 85% of all world export is done by India only. So, if the price of paddy increases, definitely we will be able to take the price from the customer, there is no second opinion about it.

Jayant Mamania: Okay. In the U.S. market, our competitor, Royale brand has 45% market, what about other 55% market share, what is our share in that?

Anil Kumar Mittal: Our share in the U.S. is today around 10%.

Jayant Mamania: Are we promoting India Gate there?

Anoop Kumar Gupta: Yes.

- Anil Kumar Mittal:** Only India Gate, we don't ship anything other than our own brand.
- Jayant Mamania:** In case of exports, we export to around 280 countries. What is our export sales in our own brand, which is repeat sales? Because export figures fluctuate.
- Anil Kumar Mittal:** Apart from Iraq and Iran, there is no other country where we are exporting in private label, To all the countries we are shipping under our own label. And there is another area where we do brown rice, which is Europe. But Europeans are doing a lot of their own branding. All the break-bulk shipments to their plants are of brown rice. Thus, there are three places where shipments are done in private label, one is Europe, other is Iran and the third is Iraq. Everywhere else, it is our branded products.
- Jayant Mamania:** Anything about organic rice?
- Anil Kumar Mittal:** Let me tell you, I do not know whether this should be spoken in public domain. We have been working very hard for last four to five years. I will give you an example. This year we had the largest contract farming programme as far as Basmati rice is concerned. We have today about more than 100,000 hectares of land under contract farming. We thought this year we will have at least 40,000 to 50,000 tonnes of pesticide free rice, which is EU compliant for the EU countries. We have orders worth 40000 to 50000 tonnes for people who wanted EU compliant rice. But when we started getting the rice from the farmers, we hardly got 10% to 20%, it was only 9,800 tonnes of rice which was EU compliant. I do not know how people are managing, what they are doing, how they are getting organic products, whether it is a genuine organic, and all. But these things are to be discussed within the business. This is nothing to be discussed in the public domain.
- Moderator:** Thank you. The next question is from the line of Mannan Patel from Equirus PMS. Please go ahead.
- Mannan Patel:** Congratulations for great performance. My first question is regarding the procurement changes that we might see given the changes in the policy at the central Government level. So, do you see any significant changes and improvement in our procurement?
- Anil Kumar Mittal:** There has been an ordinance passed by the Central Government whereby they have totally changed the APMC act and now mandi fees and all those others which were related to market fees has been abolished. So, from the new current season, that is from first of October, we will have all the crop, all the product without mandi fees. So that's a big bonanza which Government has given to the agriculture, I should say. Not alone to the rice but total agriculture.
- Mannan Patel:** So, would it help increase our margins as well as like margins for the farmers themselves?
- Anoop Kumar Gupta:** You see, definitely it will add around Rs. 20 crore to Rs. 25 crore to our bottom-line.
- Mannan Patel:** Understood. My second question is relating to our shareholding. So, I see ED has additional 1.8% of the shares, so totaling to around 4.56% of the holding in company, so 1.8% was added in March quarter. So, while we have won the case, like Balsharaf has won the case, why is it they are still holding on to these shares and even adding more? Can you throw some light on that?

- Anoop Kumar Gupta:** According to their lawyer, they are doing some illegal things. And they have already filed in High Court. I will tell you, frankly, Balsharaf is fighting the case. As far as company is concerned, we have nothing to do with it. But as far as now one of my buyer Balsharaf is filing, so I have got a knowledge of that.
- Mannan Patel:** Understood. But 4.5% share with the ED is a big overhang on the stock price itself. So, it would be great if you could...
- Anoop Kumar Gupta:** Definitely, I will tell you, it's a question of time, it will come back to Balsharaf, maybe six months, one year, I don't know the timeline. But the case has been gone even up to the Supreme Court of India. I think Balsharaf will get back
- Mannan Patel:** And, my last question regarding shareholding. So, we were purchasing shares from the market till like the March second week, but after that we didn't see any purchases from your side till 31st, even when the share prices fell below 100. So, is there any particular reason for that? Or you might continue the purchase program after the results now?
- Anoop Kumar Gupta:** No, at that time actually due to COVID-19 we were thinking of buying, but due to COVID-19 we couldn't, there were some practical problems on transferring monies and all. But now it was just to create some confidence in the investor that promoters are always there, otherwise you see, today the liquidity in the market is just 20%, there is not much liquidity.
- Moderator:** Thank you. Next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.
- Anish Jobalia:** My question is on Q4 EBITDA margin, we have achieved 21% margins, and our realizations have remained constant. So, can you please assume that the margins have come because now you have started recognizing lower paddy prices in the P&L?
- Anoop Kumar Gupta:** No, whenever the margins are there, when we say we have got around 15% to 20% private label business, in this quarter there was no private label business, 100% was our own brand business. The margin on definitely our own brand is much higher than the private label business. So that mixture of the sale was critically 100% branded.
- Anish Jobalia:** Okay. So, this year our procurement of the paddy has been lower than the last year, so the benefits of this is yet to come in our margins going forward, right?
- Anoop Kumar Gupta:** That will come from quarter three.
- Anish Jobalia:** Okay. And one related question is, are we still buying paddy at prices lower than FY20? And what is your expectation of the procurement price for this year? So, the question that I am trying to understand is like, whether this margin benefits can continue beyond FY21 also, like in FY21 and FY22?
- Anoop Kumar Gupta:** See, this paddy what we are holding today, we are going to sell it for next two years. So, it's always a product mix. When in November new paddy comes, we will be selling new rice also. It is always a product mix and we don't know what is going to be the price in the new Kharif year. It depends what the price is in the new Kharif year. It's difficult to say one year ahead what is going to happen.

- Anish Jobalia:** Okay. And second question is, we have won the tax dispute with the I-T, so I think we are expected to receive some cash here on behalf of that. So how much cash is expected? And when is it expected to come, like as far as most of the accounts, we have some Rs. 419 crore of deposits with I-T. So, is that the right number?
- Anoop Kumar Gupta:** No, we have applied for refund of Rs. 100 crore, and it is expected any moment.
- Moderator:** Thank you. The next question is from the line of Rohit Potty from Marshmallow Capital. Please go ahead.
- Rohit Potty:** Thanks for sharing such a detailed presentation this time, it was one of the best presentations I have seen. My first question is sort of a follow-up on the shareholding pattern the previous participant asked. So, I believe, in a few interviews this year and towards the end of previous year, the management had indicated an intention to increase the shareholding to 62% to 63%. Am I right in understanding that you plan to continue it or do you intend to take a pause on it for some time for a few months at least?
- Anoop Kumar Gupta:** You see, as the promoters we have a limitation to buy, only the dividend is the income. We had certain surplus; we have invested that. We have also bought 20 to 25 lakh shares as there are certain limitations for promoters for buyback.
- Rohit Potty:** Understood. And the second question is, I mean, another way for promoters and long-term shareholders to increase the shareholding is, if the company uses the cash for buyback, and from what I see, I mean, not just the data that you have shown in the presentation, but if I see the last 10, 15 years, this is the lowest borrowing that we have had at the end of the year, which just goes to show the strength of margins and cash generation ability of the company. So why not spend, let's say, Rs. 100 crore, Rs. 200 crore of cash in buyback, which would increase the shareholding of promoters and long-term shareholders, which would benefit everybody in that sense?
- Anoop Kumar Gupta:** Okay. Well, this is a nice idea, we will just take up in the Board and we will put a investors call on this.
- Rohit Potty:** Sure. And the last question I have from my end is, on average, your borrowing cost is extremely low and you are getting working capital finance from the top tier financial institutions in the country. So, in the past we used to benefit from this by leveraging the balance sheet a little bit and generating very high returns on equity. So, this particular idea that the management has to fund a lot of the inventory purchases through internal accruals alone, is it a temporary strategy till this whole uncertainty around COVID and IL&FS related bank uncertainty finishes? Or going forward, as a long-term strategy, you intend to fund as much of working capital purchases through your funds and you plan to rely less?
- Anoop Kumar Gupta:** The strategy is for at least two, two and a half years. After that we will think of that. Definitely, if we borrow at 4% or 5%, there is no sense in investing your money, we will look at it. But for next two years, we are looking at investing surplus in the inventory.
- Rohit Potty:** Understood. And last one suggestion, I want to reiterate a suggestion made by a participant previously. I mean, one, the promoter could think of probably other options in the power business instead of delisting it, and using the cash to do a buy

back as well. I mean, that is an option which could be considered. But if you think the delisting makes no sense.

Anoop Kumar Gupta: Yes. And that' for buybacks you don't need to sell power business, company has sufficient funds.

Rohit Potty: I understand. But the reason I am suggesting that was, I mean, if in the future you think that you don't want to take debt and do buybacks, because if you do buy back you have to take

Anoop Kumar Gupta: It is already under process and we are looking at it.

Moderator: Thank you. The next question is from the line of Vikas Rajpal from Reliance Wealth Management. Please go ahead.

Vikas Rajpal: I had just one question on the Iran off-take. So, in your previous concalls you had mentioned that between July to September usually Iran imposes a ban on import of Basmati rice to protect their own crops. So, this year, since it is Q4 and Q1 the exports have been affected, so do you think that Iran would continue to impose that ban again in July to September? Or will they be continuing to store up their Basmati stocks?

Anil Kumar Mittal: According to my information and knowledge, there will be no ban this year, it will be the first year which Iran is not going to impose any ban on rice imports.

Vikas Rajpal: Okay. And, if you could give us a ballpark figure in terms of percentage, what would have been the overall impact on the revenue due to the lockdown in Q4?

Anoop Kumar Gupta: In Q4, hardly I think about Rs. 150 crore would be the impact.

Vikas Rajpal: Okay. And this is majorly due to exports, right?

Anoop Kumar Gupta: No, majorly due to exports and domestic, both.

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

Manish Bhandari: I have one question, nested with observation. You mentioned that you are looking at power division as a separate listed entity. I would have a very strong reservation that is not going to be a value creating exercise, because piecemeal distribution of a business which you have nurtured so long may not fetch up the right value to the shareholder, so I would be very glad if you can consider this, if you want to. If you want to hive it off to bring in an equity partner, since it's a lucrative business, and there will be enough people who will be a buyer and we can release some cash, versus to list it as a separate entity in the business. So, I thought maybe I should voice this as a long-term shareholder.

Anoop Kumar Gupta: Okay. Let financial be presented and then we will discuss. We have taken a note.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you, and over to you.

Rakesh Mehrotra: Thank you, everyone, for joining us today on the call. Hope we were able to address all the queries. We appreciate your interest and support. We will continue to stay engaged. Please reach out to us or our Investor Relations team at CDR India for any further details or discussion. Look forward to interacting with you soon. Thank you very much once again.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of KRBL Limited, that concludes today's call. Thank you all for joining us. And you may now disconnect your lines