

Khushi Ram Behari Lal Limited (KRBL), incorporated in 1993, is a Delhi-based integrated basmati rice producer with world's largest milling capacity.

Basmati rice is an attractive industry

Basmati rice is an attractive industry on account of high domestic and export growth, premium pricing, lower regulations and increasing land under cultivation ensuring steady supply. Since FY00, basmati rice exports from India have registered a CAGR of 10% in volume terms to 1.6 Mn MT and 20% in value terms to Rs 94 Bn in FY09.

Strong management with long standing history and domain expertise

The promoters of KRBL have been into the rice business since 1980s. They have successfully established KRBL's brands in the domestic and international markets and have grown the company from Rs 2.6 Bn revenues in FY00 to Rs 13.2 Bn in FY09, at a CAGR of 22.4%. The company has consistently bagged Agricultural and Processed Food Products Export Development Authority (APEDA) trophy for the last 13 years for being India's number one basmati rice exporter.

KRBL is better placed than other players in the industry

KRBL's key strengths vis-à-vis other players are: (a) very strong brands – 'India Gate' was the leading export brand for the last three years; (b) Premium pricing in the export market – in FY09, average export realisation was 29% higher than industry and 17% above REI Agro; (c) highest PAT margin and RoE (16.7% in FY09) in the industry; (d) debt-to-equity of 1.4x and interest coverage of 1.9x – best amongst peer group.

Revenue to grow at a 2-year CAGR of 24%; RoE to expand

We expect revenues to register a two-year CAGR of 24.2% to Rs 20.4 Bn in FY11 due to increasing volumes and realisations. During FY09-11, operating margin is set to expand 89 bps due to increase in realisation; net margin is expected to rise 180 bps due to lower interest expenses. RoE is expected to increase from 16.7% in FY09 to 23.2% in FY11.

Debt levels to increase on account of inventory holding cost

As basmati rice is required to be aged for about one year, with increasing sales volumes, inventory levels are expected to rise. Historically, the company has funded inventory through short term debt. Therefore we expect debt to increase from Rs 6 Bn in FY09 to Rs 10.1 Bn in FY11; however gearing will be at comfortable level of 1.5x.

Company dependent on promoters; Industry relies on rainfall

KRBL is a promoter driven company with centralised authority for decision making amongst the three brothers. While basmati cultivation requires lesser water than normal rice, it is still dependent on reasonable rains for a good harvest.

We assign KRBL '3/5' on fundamental and '5/5' on valuation

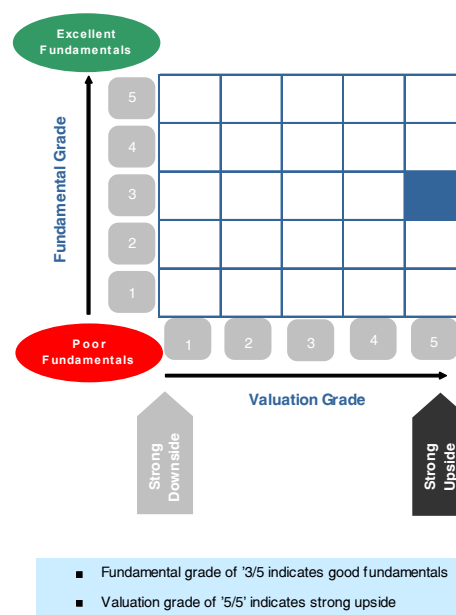
We assign KRBL a fundamental grade of '3/5', indicating that its fundamentals are 'Good' relative to other listed securities. While established brand name, strong revenue growth, RoE expansion and strong competitive position positively influence our grading, high dependence on promoters, regulatory hassles, coupled with corporate governance practices below required levels tempers our overall fundamental grading. A valuation grade of '5/5' indicates that the stock's current market price has 'Strong Upside' to our fair price valuation assessment (Fundamental Value of Rs 340 per share).

Key forecasts (Consolidated)

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	9,198	10,069	13,212	16,657	20,388
EBITDA	1,211	1,539	2,044	2,619	3,337
Adj Net income	502	548	656	1,136	1,380
EPS-Rs	20.6	22.6	27.0	46.7	56.7
EPS growth (%)	n.a	11.2	19.0	73.7	21.4
PE (x)	9.7	8.9	7.4	4.6	3.8
P/BV (x)	1.6	1.3	1.2	1.0	0.8
RoCE(%)	13.6	13.4	16.8	19.0	19.3
RoE(%)	17.4	16.3	16.7	23.9	23.2
EV/EBITDA (x)	7.7	7.9	5.2	5.2	4.5

Source: Company, CRISIL Equities Estimate

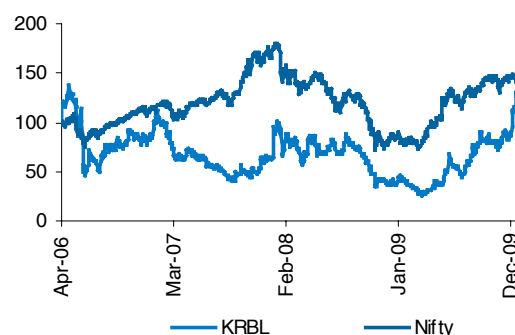
CFV matrix



Key stock statistics

BSE/NSE Ticker	KRBL
Fundamental Value (Rs per share)	340
Current market price (as on 24 Dec 09)	220
Shares outstanding (Mn)	24.3
Market cap (Rs Mn)	5,348
Enterprise value (Rs Mn)	11,027
52-week range (Rs) (H/L)	233 / 43
P/E on EPS estimate (FY11E)	3.8
Beta	1.2
Free float (%)	43.3
Average daily volumes	152,918

Share price movement



-Indexed to 100

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Fundamental Grading
Grade: 3/5

KRBL's fundamentals are 'Good' compared with other listed securities in India

We assign KRBL a fundamental grade of '**3/5**', indicating that its fundamentals are '**Good**' relative to other listed securities in India. This grade factors in the following:

- Basmati rice is an attractive industry and commands premium to other rice in the industry. International demand for Indian basmati rice has grown at a CAGR of 10% since FY00, while the market size has grown from Rs 17 Bn in FY00 to Rs 94 Bn in FY09, at a CAGR of 20%. The area under cultivation in the major basmati belt of India – Punjab, Haryana, Uttar Pradesh (UP) and Uttarakhand has increased in FY09 as basmati rice (particularly Pusa 1121 variety) has a yield of Rs 55,000-60,000 per acre compared to Rs 30,000-35,000 per acre from non-basmati category.
- KRBL owns one of India's most premium basmati brands – 'India Gate', which commands a significant premium over most other brands in the industry. The brand had the highest market share in the export market since past three years. KRBL's average realisation in the export market was 29% higher than Industry and 17% higher than REI Agro's export realisations in FY09.
- KRBL has strong fundamentals compared to other players – Kohinoor Foods Ltd, LT Foods Ltd and REI Agro. While REI Agro weighs ahead in terms of revenue growth and operating margins in FY09, KRBL outpaces on all other parameters. The company had debt-to-equity and interest coverage ratio of 1.5x and 1.8x respectively in FY09 compared to an average 4.1x and 1.2x for other players. PAT margin and RoE was at 3.7% and 16.7% for KRBL, compared to an average of 1.6% and 6.1% for other players in the industry.
- Consolidated top line is expected to register a two-year CAGR of 24.2% to Rs 20,388 Mn in FY11 from Rs 13,212 Mn in FY09. EBITDA margin is expected to increase marginally by 25 and 64 bps respectively in FY10 and FY11 as higher material cost is expected to be offset by benefits from abolition of export cess. PAT margin is expected to increase 186 bps YoY due to lower interest expense in FY10. We expect RoE of 23.9% and 23.2% in FY10 and FY11 respectively.
- KRBL's promoters are into rice business since 1980s. The company's management was successful in establishing brands in the industry and have grown the company from Rs 2.6 Bn revenues in FY00 to Rs 13.2 Bn in FY09, at a CAGR of 22.4%. The company has consistently bagged APEDA trophy since last 13 years for being India's number one basmati rice exporter. However, our fundamental grading is partly tempered by the fact that KRBL is a promoter driven company and only family members can step in to the shoes. In addition, despite having world's largest rice milling plant, buying of semi-finished rice at a high price from the open market remains a concern.
- KRBL's corporate governance practices are not up to required level. Despite having long operating history, board processes and practices have evolved since last one and half years only. In addition, the company do not have external – internal auditor and disclosure levels are below industry standards.

KRBL: Business environment	
Key business activity	Processing and selling of Basmati Rice
Revenue Composition (FY09)	Agri sales (basmati rice): 97.5% Power generation: 2.5%
Geographic presence	<ul style="list-style-type: none"> • Revenue contribution: Middle east - 52%; India – 44%; RoW – 4% • Export Markets (Top five): Saudi Arabia, Kuwait, UAE, Canada & Australia • Domestic market: Pan India distribution
Market Position	<ul style="list-style-type: none"> • India's top exporter of branded Basmati rice • Market leader in Saudi Arabia • 30% market share in domestic markets for branded basmati
Key competitors	<ul style="list-style-type: none"> • Domestic and Export markets: REI Agro, Kohinoor foods, LT Foods, unbranded basmati and private labels
Sales growth (FY06-FY09 – 3yr CAGR)	23.8%
Sales Forecast (FY09-FY11 - 2yr CAGR)	24.2%
Demand Drivers	<ul style="list-style-type: none"> • Lifestyle changes: With Increasing Indian middle-class population, mall culture and growth in hotels & restaurants, domestic demand for Basmati is on the rise. • Increasing preference for basmati rice in export markets • Food scarcity across the globe with restriction on normal rice exports
Margin drivers	<ul style="list-style-type: none"> • Purchase of paddy at lower prices instead of purchasing semi-finished rice • With growth in sales, lower SGA costs as a percent of sales
Key risks	<ul style="list-style-type: none"> • Regulatory hassles in the domestic and export markets • Agri business is dependent on rainfall



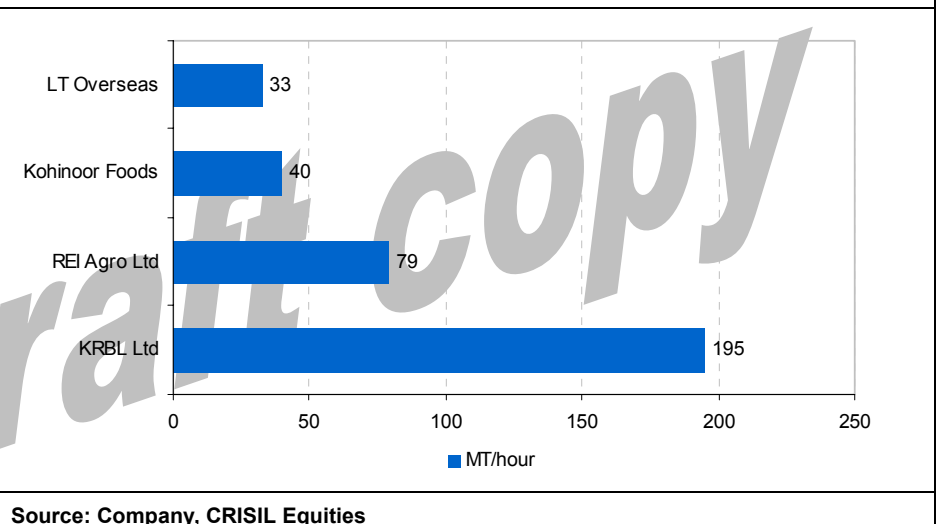
Grading Rationale

KRBL has world's largest integrated basmati rice milling capacity

KRBL, incorporated in 1993, is into rice business since 1980s. It is a leading basmati rice player in India, with the largest production capacity of 195 metric tonnes (MT) per hour or 1.7 Mn MT per year. The company acquired Dhuri rice plant with capacity of 150 MT per hour in 2003, with its subsequent refurbishment and re-engineering to suit basmati rice, it has the world's largest integrated basmati rice milling capacity, way ahead of its immediate competitor in India. Being a fully intergrated player, the company generates other value added by-products like bran oil, de-oiled cakes and uses rice husks for captive power plants. One of the renowned brands of the company – 'India Gate' has been awarded India's Most Preferred Basmati Brand in FY08. KRBL is the longest recipient of the export award by APEDA for being the largest basmati exporter in India since last 13 years.

Dhuri plant has rice milling capacity of 150 MT per hour

Chart 1: Basmati rice milling capacity of Indian players



Basmati rice is an attractive industry

Basmati Rice industry is attractive primarily due to following factors:

- Premium pricing:** Basmati rice is a premium long-grain rice with a fine texture and is one of the most expensive variety of generally available rice in the world.
- Lower regulations:** Due to its premium nature, basmati rice is not subject to the strict regulations as in normal rice, which is the food for the common man.
- Strong export growth:** International demand for Indian basmati rice has grown at a CAGR of 10% since FY00, while the market size has grown from Rs17bn to Rs94bn, at a CAGR of 20%.
- Lifestyle changes:** With Increasing Indian middle-class population, mall culture and growth in hotels & restaurants, domestic demand for Basmati is on the rise.
- Increasing land under cultivation for Basmati:** In Punjab, Haryana, UP and Uttrakhand, the major basmati belt of India, the area under cultivation has increased in FY09 as basmati rice (in particular the Pusa 1121 vareity) requires lesser water to cultivate and is more lucrative for the farmers vis-à-vis normal rice. Pusa 1121 has a yield of Rs 55,000-60,000 per acre compared to Rs 30,000-35,000 per acre from non-basmati category.

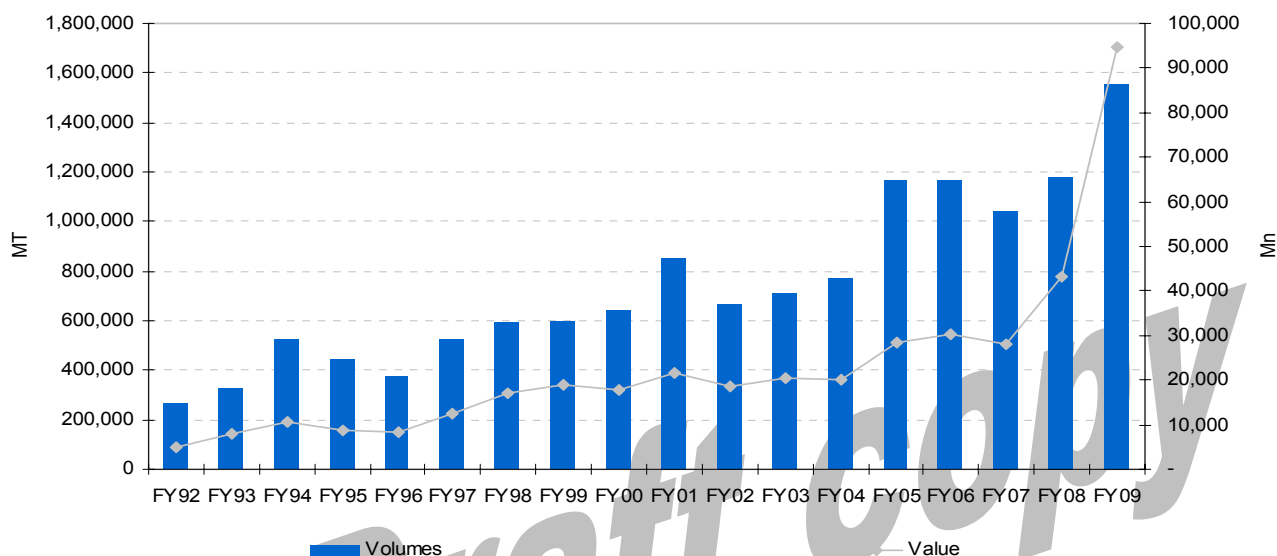
Basmati is one of the most expensive varieties of generally available rice in the world

Area under basmati cultivation increased in FY09

Table 1: Acreage for Pusa 1121 Basmati has increased significantly

Acreage (hectares)	FY08	FY09	YoY growth
Punjab	428,830	714,162	66.5%
Haryana	517,990	545,759	5.4%
UP	242,500	224,688	-7.3%
Uttarakhand	5,900	7,489	26.9%

Source: RMSI

Chart 2: Basmati rice exports from India has increased multi-fold in the past few years


Source: Prowess, CRISIL Equities

Industry was largely price elastic, but not anymore, benefitting exporters like KRBL

Basmati rice exports industry was reasonably elastic to prices i.e. demand was inversely related to price movements until FY07, where the correlation between price movements and volume movements was -0.38, indicating a medium price elasticity. However, since FY08, the volumes increased significantly despite a steep price increase on account of increased demand from Iran and global shortage of food supplies sustaining demand.

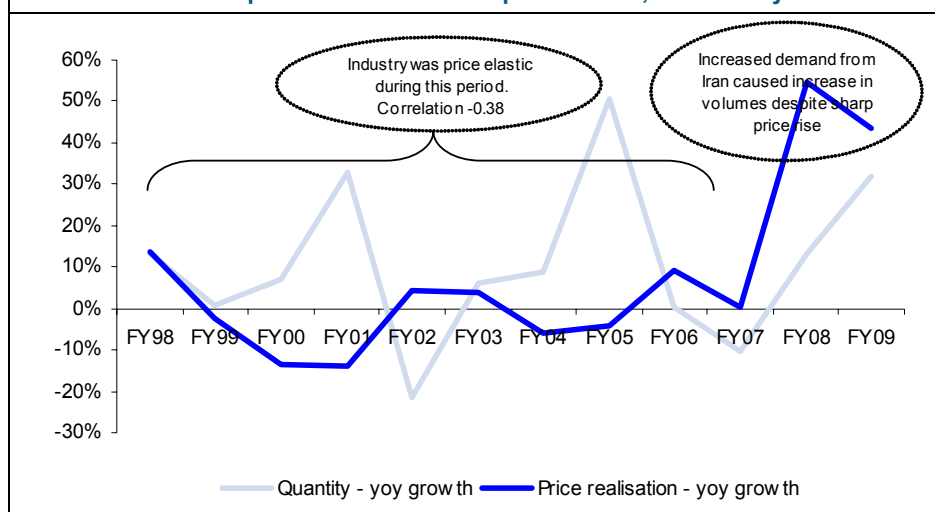
For the next two years, we expect demand to increase despite firm prices on account of global food shortage. As per ADB (Asian Development Bank), global food prices are expected to remain firm due to (a) High oil prices which have increased costs of fertilizers and fuel; (b) diversion of food crop acreage to biofuels; and (c) the growing demand for grains as a result of population and income growth in emerging economies and associated dietary changes. At the same time, investment in agriculture has been neglected, adding to supply constraints.

As prices are expected to remain firm across food articles, and rice being basic food item, we expect demand to remain relatively inelastic for the coming years, as witnessed since FY08. Also, in the international markets, particularly Gulf, is a net importer of rice. India has banned normal rice exports, and countries like Thailand and Vietnam (largest exporters of rice) have not increased the export volumes despite increasing demand in order to increase their domestic stock levels and curb inflation. Accordingly, we expect rice exporters like KRBL to benefit from the macro environment, where they could witness higher prices and volumes at the same time.

Volumes of basmati increased in FY09 despite steep price rise in FY08

Thailand and Vietnam restricted export volumes despite increase in demand

Chart 3: Basmati export rice demand was price elastic, but not anymore



Source: APEDA, CRISIL Equities

Competitive positioning: KRBL hits the sweet spot

KRBL is the world’s largest branded basmati player with its brand ‘India Gate’ having the highest market share over the last three years. Its other brands like Train, Al Wisam and Telephone are also amongst top five export brands.

Table 2: KRBL’s India Gate brand is leader in export market

Rank	FY07	FY08	FY09
1	India Gate (KRBL)	India Gate (KRBL)	India Gate (KRBL)
2	Pulses	Al Wisam (KRBL)	Train (KRBL)
3	Train (KRBL)	Train (KRBL)	Al Wisam (KRBL)
4	Royal	Babal Hind	Telephone (KRBL)
5	Unity (KRBL)	Telephone (KRBL)	Qilada

Source: APEDA, Company data

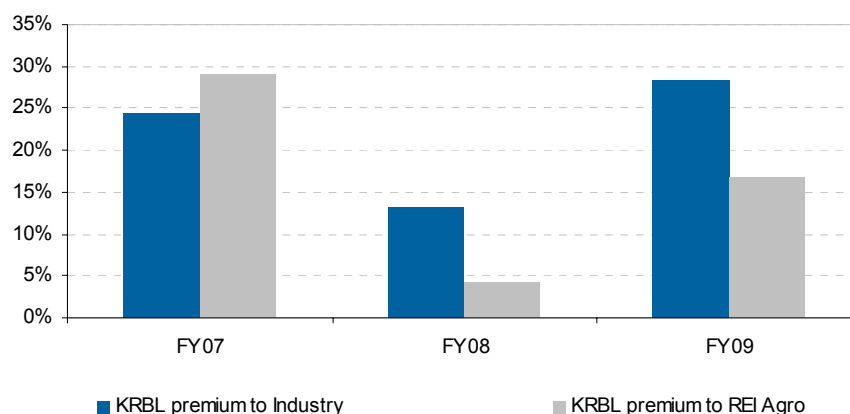
KRBL’s brand commands premium pricing

KRBL’s ‘India Gate’ brand commands a significant premium over most other brands in the industry and contributes to about 45% of sales volumes. In the export market, KRBL’s average realisation was 29% higher than Industry and 17% higher than REI Agro’s export realisations in FY09.

While most premium branded basmati rice have similar characteristics, KRBL has built a strong brand through various advertisements and promotional activities, both domestically and internationally. We believe that branding will continue to play an important role for KRBL and expect it to continue to remain at a premium to the industry.

KRBL’s realisation was 29% higher than industry in FY09

Chart 4: KRBL's average export realisation commands a premium to the industry and its closest competitor, REI Agro



Source: APEDA, CRISIL Equities

Management of the company have more than 25 years of experience in the rice industry

Experienced management with domain expertise

The Company's management team consists of individuals who have more than 25 years of experience in the Indian rice industry. KRBL is led by three brothers – Mr. Anil Mittal (chairman and managing director – 58 years) who formulates marketing strategy and supervises the marketing functions. Mr. Arun Gupta (joint managing director – 52 years) looks after procurement, processing and production of rice, while Mr. Anoop Gupta (joint managing director – 50 years) monitors accounts, finance, administration and domestic market. The management team has expanded the business in both scale and scope through various initiatives, such as increasing in-house processing capacity by acquiring Dhuri plant, increasing vertical integration, broadening distribution channels, expanding the product range, brand portfolio and increasing sales in both the domestic and export markets. The company was also successful in increasing acreage under contract farming from 60,000 acres in FY05 to 200,000 acres in FY09, a CAGR of 35%.

The management, as a principle, does not deal in the following:

- Exports to countries/any party without letter of credit or where bill discounting/export bill negotiation (with risk passed on to the banker) is not available. This is particularly useful while exporting to politically unstable countries in the middle east.
- The company does not want to export unbranded rice, unlike other players. This gives the company a significant edge in the longer term and eliminates the risks associated with middlemen. As the brand gets established in any particular country, the bargaining power of middlemen is reduced.

We believe these strategies, which ensures capital protection (no bad debts) and increasing concentration in branded sales, to play a significant role in sustaining and increasing demand in both domestic and export market.

Significant unused capacity offers operating leverage...

KRBL acquired a sick fully integrated rice processing plant in Dhuri, Punjab through open auction for a throw away price of US\$3.6 Mn. It subsequently spent US\$ 22 Mn for its re-engineering and refurbishment to suit basmati rice requirements. The plant has rice milling capacity of 150 MT per house and warehousing capacity of 0.5-0.6 Mn

Dhuri plant expected to have capacity utilisations of 42% in FY11

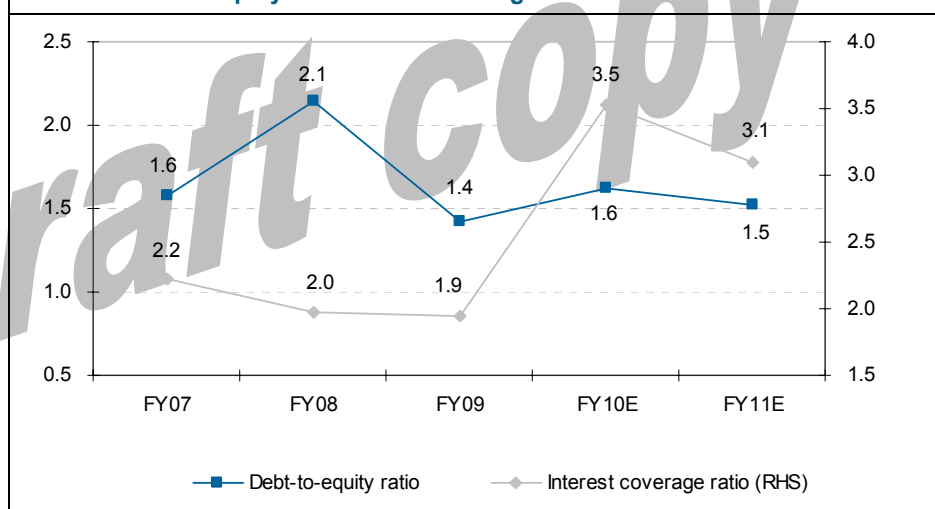
tonnes. In FY09, Dhuri plant had a capacity utilisation of 25%, while its Ghaziabad plant was operating at 90% capacity utilisations. KRBL can easlily increase its production capacity at relatively low levels of capex and incremental fixed costs, thereby offering operating leverage. We expect Dhuri plant to have capacity utilisation of >40% in FY11 and about 50% by FY12, while Ghaziabad unit is expected to operate at 90%.

...but debt levels to increase on account of inventory holding costs

As basmati rice is required to be aged for about one year, with increasing sales volumes, inventory levels are expected to rise. Historically, the company has funded inventory through short term funding, where the debt levels are typically highest in March (end of buying season) and lowest in September (beginning of buying season). As per our estimates, for the company to reach a capacity utilisation of 70-80%, its debt levels will rise to Rs11-12 Bn over the next 3-4 years as against the current debt of Rs 6 Bn), which will increase interest costs. However, peak debt-equity levels are expected to be in the comfortable range of about 1.5x. Despite increase in debt level, interest coverage ratio is expected to improve from 1.9x in FY09 to 3.1x in FY11 due to increase in price realisation driving margin expansion.

Interest coverage ratio expected to improve from 1.9x in FY09 to 3.1x in FY11

Chart 5: Debt-to-equity and interest coverage ratio



Source: Company, CRISIL Equities Estimate

Product strategy: straddling the pyramid

KRBL has adopted the strategy of straddling the consumption pyramid, where it products across price segments varying from Rs 20 per kg to Rs 140 per kg catering right from price sensitive to premium consumers. It also has strong sales and distribution network with presence across 28 states in India and 27 countries. As of March 2009, the company had 480 nationwide distributors who in turn have access to over 400,000 retailers. The company has tie-ups with major retail outlets in India and has excellent collaboration with global retail chains. The company’s strong distribution network has helped them garner 11% share in total basmati rice exports from India in FY09 and being the largest exporter of basmati rice since last 13 years.

KRBL had 11% share in total basmati rice exports from India in FY09

Integrated rice milling plant augment values from by-products

Integrated rice milling plant in Dhuri helps company manufacture comprehensive downstream product chain - bran oil, furfural oil, de-oiled cakes and power. This

facilitates optimal value addition and fetches better margins through higher realizations.

- Bran oil and de-oiled cakes - 100 kg of paddy fetches 8 kg of bran, which is used to obtain bran oil and de-oiled cakes. The company earned revenues of Rs 305 Mn from these operations in FY09 (1.8% of the total revenues).
- Rice husk – Paddy processing yields approximately 22% of husk, which is a primary source of fuel for bio-power generation. The company has 3.5 MW power plant in its Ghaziabad unit, while Dhuri has 10.5 MW power plant which is expected to be used for captive consumption. Ghaziabad unit uses 100% of power produced for captive purpose, while Dhuri utilised 78% for captive consumption in FY09. These power plants are sufficient for the current power requirements, saving power costs for the company. Considering the increase in capacity utilisation from Dhuri plant and hence higher bran and husk yields, we expect contribution from these segments to increase in the near future.

Captive power plants in Ghaziabad and Dhuri are sufficient for current power requirements

Strong research and development (R&D) capacities bodes well

To benefit the basmati industry as a whole, KRBL has set up a dedicated wing comprising of eminent agricultural experts to continuously research and develop pedigree seeds to increase yield, taste and look of the basmati rice. The research is headed by Dr. VP Singh, who earlier worked with Indian Agricultural Research Institute (IARI) and was instrumental in developing the Pusa 1121 variety, which is the most preferred variety of basmati rice in the export markets today due to its unique aroma and elongation attributes. KRBL was instrumental in making this variety a success by mass-production and marketing of the seeds to the farmers.

KRBL was instrumental in making Pusa 1121 a success by mass-production and marketing

Currently, the company has 300 hectare seed farm and 4 MT per hour seed grading plant to carry on the R&D activities and test the new products. KRBL does contract farming, where it sells high quality seeds to the farmers and provides free consulting to update the farmer with proper methodologies to improve the yield of basmati rice. This ensures that there is adequate supply of high quality basmati rice in the industry. We note that even though the company may have sold the seeds to the farmer, he has no obligation to sell the output to KRBL (contract farming is banned in India). Hence the benefits from R&D capabilities would be enjoyed by the whole industry, and are not exclusive to KRBL.

However, if a new variety is developed by KRBL's R&D team and is marketed to the farmers, then KRBL may have the first mover advantage to buy and market the output, as in the case of PUSA 1121. While PUSA 1121 was cultivated during the kharif season of 2003, KRBL was the sole buyer of this variety until 2005 while the other players preferred to wait and see the market acceptance, which gave a significant boost to KRBL's brand image.

Key Risks

Regulatory challenges in domestic and export markets

Basmati rice exports are subject to regulatory hassles not only from the Indian government, but also from the regulatory changes in the countries where basmati is exported.

(a) Domestic regulations: Basmati rice industry in India is not highly regulated, however government partially controls it through minimum export price (MEP). The government intervenes in terms of raising or reducing MEP to control export of basmati price from the country. In last one year, government has played with MEP for more

than 4-5 times. In August 2009, MEP was reduced from \$1,100 to \$800 per tonne, however, currently government is thinking to increase MEP to contain rising domestic prices. Although KRBL is least affected by MEP and commands premium compared to other players in the industry having realisations of \$1,653 in FY09, any major increase in MEP by government may have adverse impact on the volumes of the company.

The government has also banned exports of non-basmati rice in April 2008 to curb inflation. Although, historically India has not witnessed ban of basmati rice exports, any policy change in that regards would have significant impact on the volumes and revenues of the company.

(b) Regulations in countries where basmati is exported

- **Saudi Arabia:** KRBL is a leading exporter of basmati rice in Saudi Arabian market and its revenues has increased at a two year CAGR of 62.5% in FY09. In order to reduce inflation, consumer affairs department in Saudia Arabia is planning to withdraw import subsidy of \$267 per tonne, as a result of which realisations for exporters is likely to go down.
- **Iran:** Although there were no regulatory issues in Iran, media reports highlighting Pusa 1121 variety, being genetically modified, chemically treated and harmful to health resulted in lower exports to Iran. Any similar events in the exporting countries can have significant impact on volumes and revenues of the company.

High dependence on promoters

KRBL is a promoter driven company and is managed by three brothers, wherein they look after 1) marketing strategy and functions, 2) paddy procurement and 3) accounts, finance and administrative functions individually. The company's performance is highly dependent on decision making powers of three promoters. Currently they have good co-ordination among themselves and are training next generation who can step into their shoes. Despite having strong performance over past few years, high dependence on promoters may have adverse impact if there are any unforeseen events in the future.

Basmati cultivation is dependent on rainfall

While Basmati requires lesser water as compared to normal rice, it it still prone to the vagaries of nature. In the event of scanty or no rainfall, rice crop including basmati is expected to witness significant decline in crop cultivation.

Purchase of semi-finished rice at a high price may dampen margins

KRBL continued to purchase semi-finished rice from open market despite having world's largest rice milling plant. The company bought semi-finished rice at an average price of Rs 50 per kg in FY09 and Rs 56 per kg till September 2009.

Table 3: Premium paid to purchase of semi-finished rice

Rs per MT	FY08	FY09	Till Sep 09
Paddy price	17,721	20,734	24,000
Converted rice price (output of 65%)	27,263	31,898	36,923
Purchase price of semi-finished rice	27,454	50,406	55,981
Premium paid	0.7%	58.0%	51.6%

Source: Company, CRISIL Equities

Despite having world's largest rice milling plant, the company purchased semi-finished rice from open market

While paddy is available at Rs 20-24 per kg and costs approximately Rs 40-48 per kg for finished rice, the company had to buy rice at a high price as they had purchased lesser paddy in FY09. As per management, KRBL stopped buying paddy when the paddy prices went as high as Rs36/kg. However, as demand picked up, the company had to buy the semi finished rice from the open market at higher prices.

The company's strategic decision of buying lesser paddy during the FY09 season has now impacted the 1HFY10 operating margins. The company's operating margin declined 410 bps YoY to 13.6% in 1H FY10. However, on account of holding lower inventory, the company has benefitted from lower interest costs, as inventory is funded through debt.

Looking at historic trends, we believe buying of semi finished rice is a continuous activity for KRBL. We are concerned about the strategy as the company could have purchased paddy and utilised its plant for processing it, thereby enjoying economies of scale.

Industry disclosure norms are below average relative to all the sectors

Disclosure norms of the companies under rice industry is below average compared to other industries. Some of the companies do not have website, while others have not uploaded their last year annual reports when we are in the midst of another year.

- KRBL: Shareholders of the company do not have access to any of the company information as it does not have website.
- Kohinoor Foods: Annual report of FY09 is not uploaded.
- LT Foods: Annual reports are not available on the website.

Continuous buying of semi finished rice from open market remains a concern

Financial Outlook

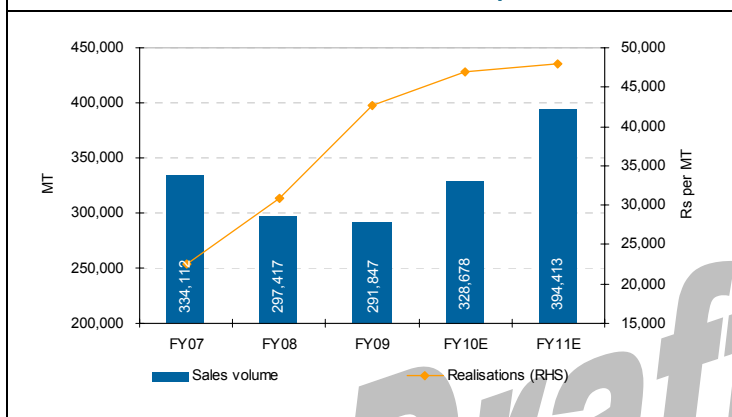
Revenues to grow at a two-year CAGR of 24.2% to Rs 20.4 Bn in FY11

KRBL's consolidated revenues increased 31.2% YoY to Rs 13.2 Bn in FY09, mainly due to strong growth in realisations partly offset by decline in volumes. Rice volumes declined 1.9% YoY to 291,847 MT, while realisations increased 39% YoY to Rs 42,731 per MT in FY09.

We expect total revenues to grow at a two-year CAGR of 24.2% to Rs 20.4 Bn in FY11, from Rs 13.2 Bn in FY09. Realisations are expected to increase 10% and 2% in FY10 and FY11 respectively, while volume is anticipated to register YoY growth of 12.6% and 20% to 328,678 MT and 394,413 MT in FY10 and FY11 respectively.

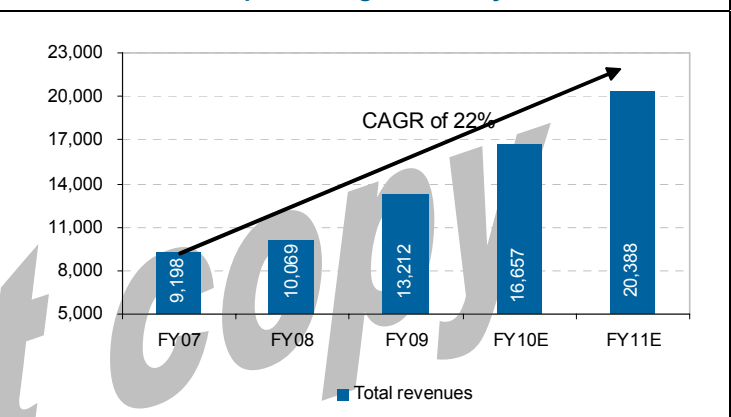
Revenues are likely to register two-year CAGR of 24.2% in FY11, driven by volume and realisations growth

Chart 6: Sales volume and realisations expected to increase



Source: Company, CRISIL Equities Estimate

Chart 7: Revenue expected to grow at a 4-year CAGR of 22%



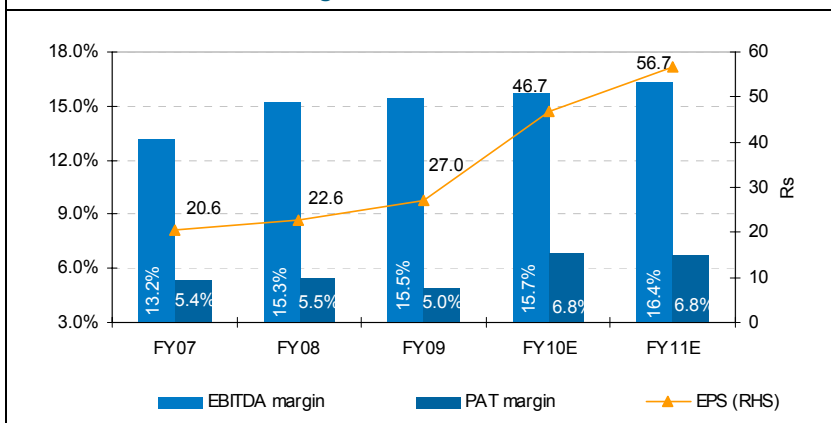
Source: Company, CRISIL Equities Estimate

EBITDA margins to remain flat in FY10 and improve in FY11

The company's operating margin remained flat at 15.5% in FY09, as lower material cost was offset by imposition of export cess during the period. We expect EBITDA margin to remain flat at 15.7% in FY10, as export cess was abolished by the government. We anticipate benefit of no export cess to be offset by higher raw material cost as company need to buy semi finished rice from the open market as a result of lower purchase of paddy in FY09. Operating margin is expected to improve 64 bps YoY to 16.4% in FY11 due to anticipated lower raw material costs.

Net profit margin is expected to improve from 5% in FY09 to 6.8% in FY11 due to anticipated lower interest cost. EPS is expected to increase from Rs 27 in FY09 to Rs 56.7 in FY11.

Operating margin expected to improve 64 bps YoY in FY11

Chart 8: EBITDA, PAT margins and EPS


Source: Company, CRISIL Equities Estimate

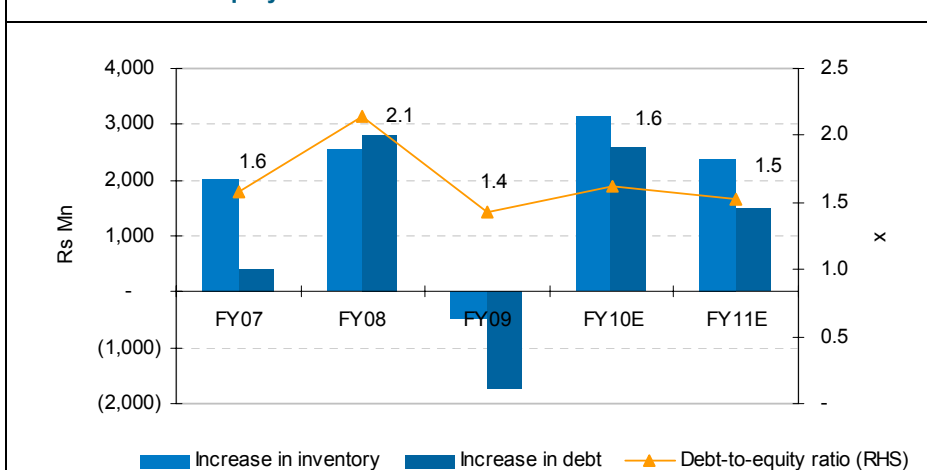
Financing of inventory remains a key

Raw material costs i.e. paddy comprises nearly 95% of total operating costs in the rice industry. Increase in ageing period of paddy provides high quality rice, hence company proposes to have ageing period of approximately one year. Since the company need to maintain paddy inventory of approximately one year, it need to continuously invest in working capital requirements.

KRBL plans to increase utilisations from its Dhuri plant from current levels of 25%. Going forward we expect increase in paddy procurement from 291,608 MT in FY09 (lower purchases in FY09) to 517,907 MT in FY10 and 603,482 MT in FY11. Due to increase in paddy procurement, we anticipate debt levels to increase from Rs 6,012 Mn in FY09 to Rs 10,085 Mn in FY11 as company do not have sufficient cash balance in its books. Hence debt-to-equity ratio is expected to increase marginally from 1.4x in FY09 to 1.5x in FY11.

Paddy costs constitutes 95% of total operating cost

Increase in paddy procurement is expected to be financed through short term debt

Chart 9: Debt-to-equity ratio to increase from current levels


Source: Company, CRISIL Equities Estimate

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.

Strong management with long standing history and domain expertise

The company's management – led by three brothers has more than 25 years of experience in the rice industry and has expanded the business in both scale and scope through various initiatives, such as increase in-house processing capacity by acquiring Dhuri plant, increasing vertical integration, broadening distribution channels, expanding the product range and brand portfolio and increasing sales in both the domestic and export markets. The management has grown the company from revenues of Rs 2,614 in FY00 to Rs 13,211 Mn in FY09.

The company has established its brand name in the domestic and international market and is the leading exporter in the Middle East countries. The company has consistently bagged APEDA trophy since last 13 years for being India's number one basmati rice exporter. Its premium brand 'India Gate' has been awarded India's Most Preferred Basmati Brand which commands higher premium compared to other brand in the industry.

Successful in increasing acreage under contact farming

KRBL pioneered the concept of contact farming in the state of Punjab, Uttarakhand and UP which helped them procure better quality paddy from farmers. KRBL provides high-yield certified seeds and intensive training for crop cultivation to ensure higher yields and realisations and it currently enjoys support of 75,000 farmers. The company's initiative helped them increasing acreage from 60,000 acres in FY05 to 200,000 acre in FY09 under the contact farming.

Second line management

KRBL's day-to-day activities are handled by three brothers and doesn't require second line of management. In our interaction with the management, they clearly highlighted the fact that it is a promoter driven company and the torch will be handed over to family members only.

Management was successful in increasing revenues from Rs 2,614 in FY00 to Rs 13,211 in FY09

KRBL is a family run business and next generation will be stepping into the shoes

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 Equities 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 is below the required levels. Despite having long operating history, board processes and practices have evolved since last one and half years only. In addition disclosure levels are below industry standards as company do not have website.

Board composition

KRBL has 10 board members, five of whom are independent directors. This composition meets the minimum requirements as per Clause 49 of the SEBI listing guidelines. Mr. Anil Mittal, one of the promoters, is the chairman and managing director. Mr. Arun Gupta and Mr. Anoop Gupta, brothers of Mr. Anil Mittal, share the position of the joint managing director.

Board's processes

Our interaction with independent directors revealed that the company was earlier relaxed in terms of board process, practices and presentation to the board members. The board processes have evolved over last one and half years and board meeting notices with the agenda and explanatory notes are circulated well in advance. The company has recently established committees for processes such as remuneration, audit, investor relations and grievance. As per the annual report, audit committee is chaired by an independent director. The company's report, however, does not specify the tenure of the independent directors.

The company do not have external – internal auditor and there are no formal records made by them. In our interaction with independent directors, they have highlighted the need for a change in internal auditor and have requested for the same to the management.

Promoters of KRBL have another group company – KRBL Infrastructure Ltd, which is into infrastructure business. The said company is constructing an eight floor building in Noida, of which one and half floor is expected to be rented to KRBL, at arm's length basis. The potential transaction has been discussed at the board level and a decision would be taken at the time of completing the building. We are informed by the independent directors that board's approval is subject to arms length principle being followed.

The positions of chairman and managing directors are held by three brothers

Company has its own internal auditors and is lacking in maintenance of formal records

Valuation

Grade: 5/5

We anticipate sustained growth in demand of basmati rice

Basmati, being a premium rice variety with growing demand in both domestic and export market, we believe that the industry will continue to see volume growth in years to come. While we have seen the industry to be price elastic until FY07, the trend has been broken due to global food shortages and consequent increase in food prices. Given the constant growth in population and stagnating arable land, we believe that food inflation is here to stay with a constant increase in demand.

As prices are linked to changes in global environment, we are presenting three scenarios for valuation of KRBL – Base Case, Pessimistic and Optimistic case, based on movement in sales realisations. Base case factors in marginal improvement in realisation, while optimistic case factors in a high realisation growth, with pessimistic case factoring in fall in realisation over the next two years. Paddy cost, volume growth and SGA costs have been calibrated according to the various scenarios.

Table 4: Valuation scenario

	Pessimistic	Base case	Optimistic
Realisation growth			
FY11	-5.0%	2.0%	10.0%
FY12	-10.0%	2.0%	10.0%
Paddy cost			
FY11	-10.0%	2.0%	15.0%
FY12	-5.0%	2.0%	10.0%
Volume Growth			
FY11	25.0%	20.0%	13.8%
FY12	15.0%	13.6%	10.0%
Revenue (Rs mn)			
FY11	19,780	19,905	20,850
FY12	20,472	23,072	25,228
EPS			
FY11	53.9	56.7	62.3
FY12	67.2	74.3	90.1
Assigned P/E Multiple (x)	6.0	6.0	6.0
Valuation based on FY11 EPS	323	340	374
CMP	220	220	220
Upside	47%	55%	70%

Source: CRISIL Equities

Initiate coverage on KRBL with a valuation grade of 5/5 indicating strong upside from the current market price

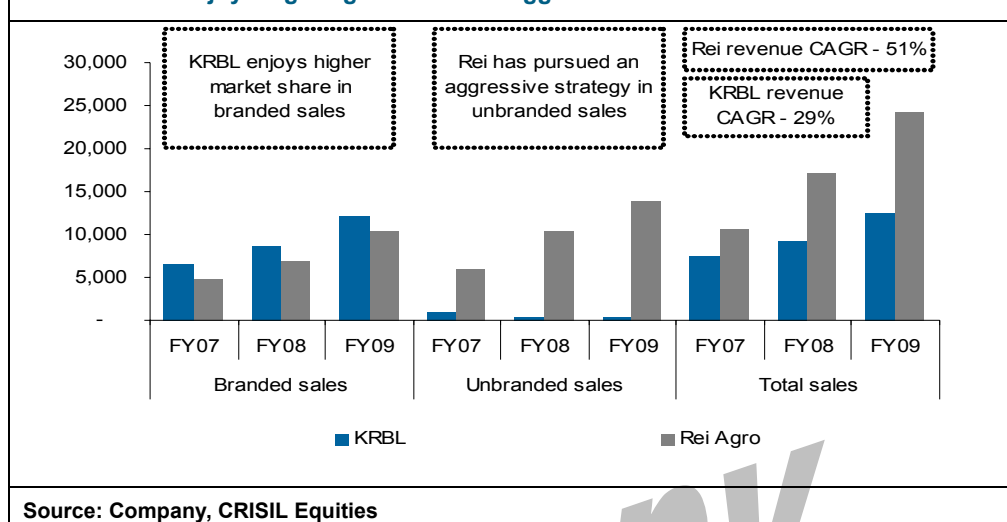
We use base case scenario for assigning the fundamental fair value of the company and thereby value KRBL at Rs 340 per share. We initiate coverage on KRBL with a Valuation Grade of '5/5'. This grade indicates that the stock offers 'Strong upside' to the current market price.

Valuation comparison with peers

We note that its closest competitor, REI Agro, is currently trading at a PE of 9.3x FY10 EPS and 8x FY11 EPS. At CMP of Rs 214, KRBL is trading at a discount of about 50%

on PE basis and 33% on EV/EBITDA basis as compared to REI Agro. KRBL has a stronger brand, lower debt-equity and better interest coverage ratio, and higher PAT margins as compared to REI Agro. However, REI Agro revenue growth is much faster than KRBL on account of REI's aggressive sales strategy in unbranded rice sales.

Chart 10: REI enjoys higher growth due to aggressive sales in unbranded rice



Source: Company, CRISIL Equities

REI enjoys higher P/E than KRBL

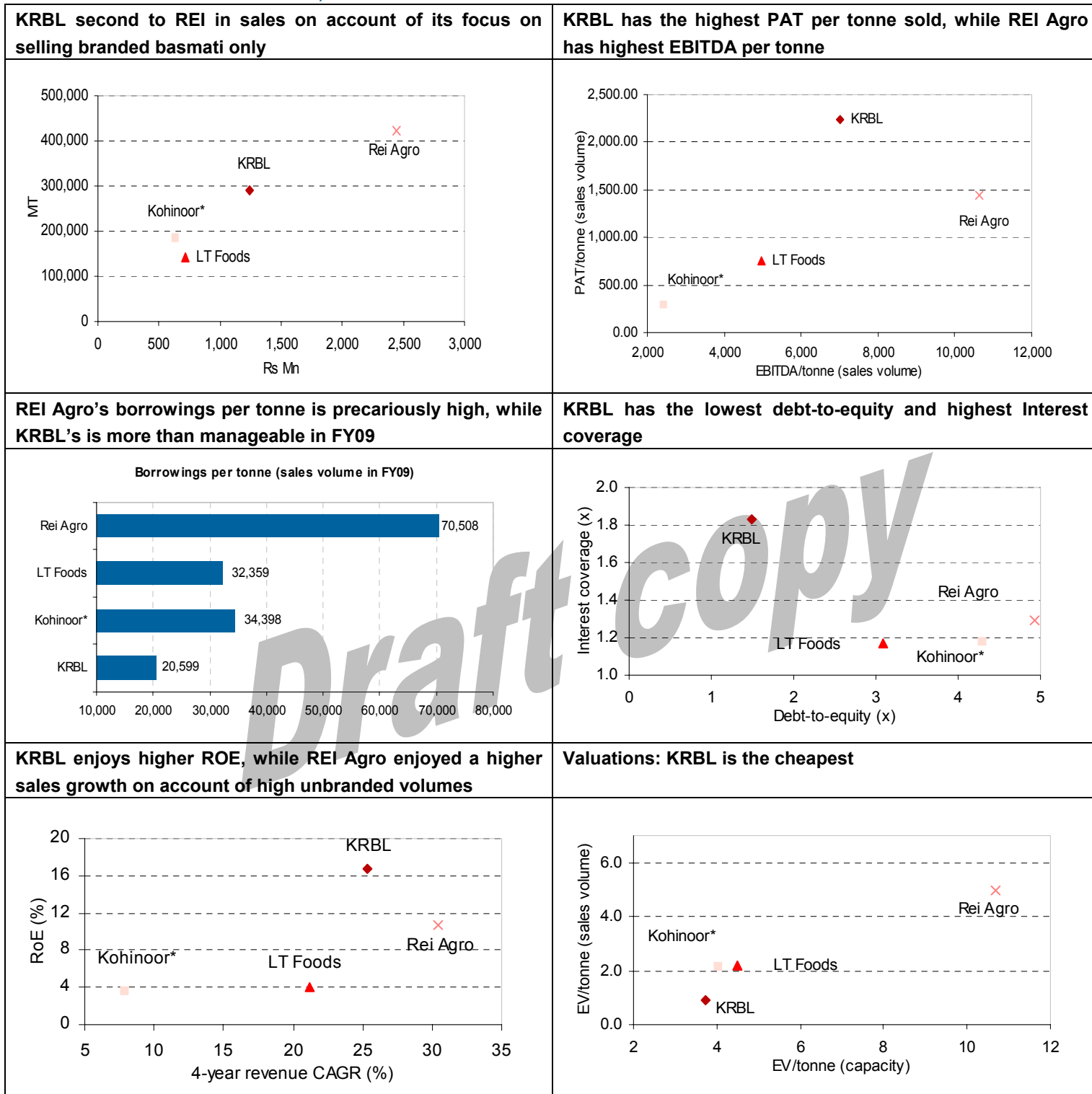
Since REI enjoys a higher sales growth and better operating margins, we assign KRBL a lower P/E multiple of 6x for FY11, as against 8x enjoyed by REI.

Table 5: Peer comparison

Companies	Market Cap. (Rs Mn)	Net Profit (Rs. Mn)			EPS (Rs)			Price/Earnings (x)			Price/Book (x)		
		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
KRBL	5,348	656	1,136	1,380	27.0	46.7	56.7	7.4	4.6	3.8	1.2	1.0	0.8
Consensus Estimates													
KRBL	5,348	656	1262	1634	27.0	51.9	67.2	7.4	4.1	3.2	1.2	1.0	0.8
Rei Agro	15,167	609	1,637	1,895	2.1	5.1	5.9	18.5	9.3	8.1	2.0	1.6	1.3
Kohinoor Foods	1,612	-172	na	na	-6.5	na	na	na	na	na	0.7	na	na

Source: CRISIL Equities

Chart 11: KRBL excels in most areas, hence warrants better valuations



Source: CRISIL Equities, calculated based on FY09 numbers

*based on FY08 figures

KRBL is world's largest basmati rice miller with capacity at 195 MT/hour

Company Overview

KRBL is a 120-year old firm engaged in the business of grain marketing and agro processing, reinforcing its long standing experience and expertise in the agricultural industry. The company was incorporated in 1993 with the objective of processing paddy and has bestowed the Indian basmati rice with global glory. KRBL is world's largest rice millers with the largest manufacturing capacity of 195 MT/hour in the world. It is world's largest basmati rice exporters with major presence in Middle East countries. The company was selected by APEDA for an export award for FY08-09 with golden trophy (basmati rice segment), first ever in the rice industry for excellent performance. KRBL is the longest recipient of the largest exporter of the country for 13 consecutive years.

Table 6: KRBL Development since last decade

1889	KRBL was founded in 1889 at Lyallpur in Faisalabad, Pakistan. It owned 10 cotton ginning mills, 2 rice mills, 16 commission agencies in 18 cities, and was engaged in activities of banking and trading in Agri produce
1947	Following the partition, KRBL re-established and relocated operations to Naya Bazar (Lahori Gate) in New Delhi
1978	India became rice surplus country in mid seventies. KRBL started exporting rice in 1978 and became pioneers of packaged rice for international community
1985	Having earned a reputation, KRBL ventured out to start rice export on its own
1992	Established India's largest and most advanced basmati processing plant at Greater Noida, UP
1993	Registered as public limited company. The company made its first export of India Gate
1995	Came with public issue and then its share are listed on the Bombay Stock Exchange
1997	Was awarded the prestigious APEDA trophy for being India's number one 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 by KPMG for Ghaziabad plant. Listed on the National Stock Exchange
2003	Acquired a sick rice processing plant in Dhuri, Punjab for a price of US\$ 3.6 Mn
2005	Earned the recognition of a four star export house and completed first phase of revamping of the Dhuri plant to commence operations
2006	Obtained the largest GDR issue of US\$ 12 Mn in history of India's rice industry. Diversified into wind power generation by setting up 12.5 MW plant in Dhulia, Maharashtra
2008	Revenues crossed Rs 10 Bn milestone. Awarded Mera Brand by Consumer World Awards as India's most preferred brand for fourth consecutive year
2009	Highest ever turnover and net profit. Presented Golden Trophy by APEDA (basmati rice sector) for excellent performance in FY08 and FY09 combined

Business Overview

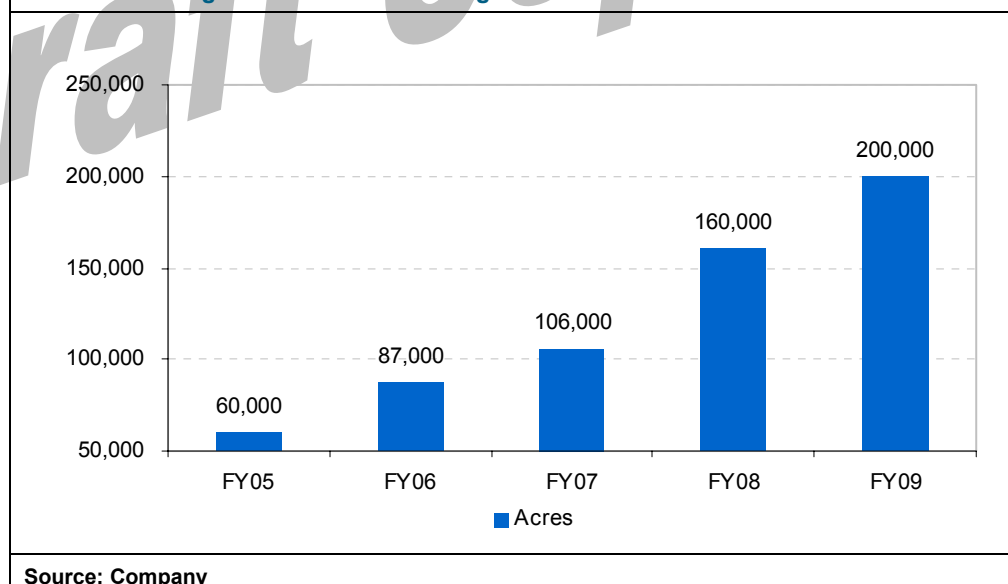
KRBL is present across entire value chain of basmati farming

KRBL is present across entire value chain of basmati farming. The company pioneered the Pusa 1121 variety of basmati and is into comprehensive seed development and farm management processes. It has invested in world-class processing and milling infrastructure and does research and development to strengthen upstream and downstream partnerships. It also has robust storage and warehouse capacities to optimise the ageing period of rice. In addition, it also uses rice husks to manufacture power for captive use and surplus sales to state grid.

Seed development and paddy procurement

Since paddy accounts for 96% of the total material cost and 100% of final product quality, KRBL took some strategic initiatives to carry out comprehensive farm management. The company has set up a dedicated wing comprising of eminent agricultural experts to continuously research and develop pedigree seeds in line with farmers and market demand. It has 300 hectare seed farm and a 4 MT/hour seed grading plant where bigger and better varieties of basmati are innovated and processed. The company distributes high yield certified seeds developed in association with ICAR to farmers. It enjoys the support of more than 75,000 farmers spread across 0.2 Mn acres in the states of UP, Uttarakhand and Punjab through the concept of contact farming, a pioneering initiative by KRBL. The company has procured 66% of its total requirement in FY09 and is planning to procure over 100% by FY12.

Chart 12: Acreage under contact farming



Manufacturing and warehousing

The company has two manufacturing and one processing unit with a total capacity of 195 MT/hour. Post acquisition in 2003 and refurbishment and re-engineering, the Dhuri plant, is currently ranked as the largest, fully integrated rice milling plant in the world.

KRBL has two manufacturing and one processing unit

Table 7: Plant details

Plant location	Production capacity (MT/hour)	Grading and packing (MT/hour)
UP Plant	45	30
Dhuri plant	150	50
Delhi plant		30

Source: Company, CRISIL Equities Estimate

KRBL has current storage capacity of 0.9 Mn tonnes of paddy

The company also has invested in building storage and warehousing capacities. It has a current storage capacity of 0.9 Mn tonnes which will help them store paddy for longer duration, resulting in optimum ageing period required to reduce moisture content, enhance quality and increase realisations.

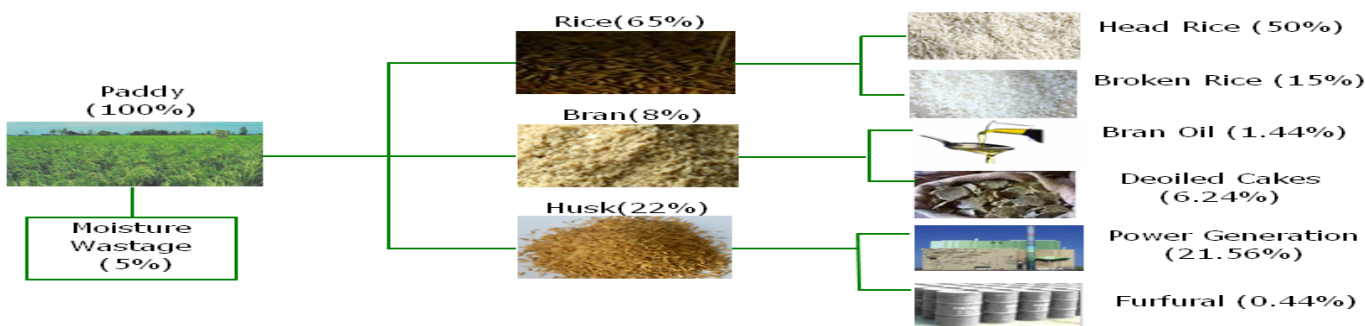
Integrated business model

KRBL's fully integrated operations facilitate manufacturing of a comprehensive downstream product chain. The company has captive husk-based power plants with a 10.5 MW plant in Dhuri and 3.5 MW plant in Ghaziabad. Its Dhuri plant has utilised 78% of power generated for captive use, while Ghaziabad unit utilises 100% of the power production for captive consumption. The company also earns revenues from bran oil, furfural oil and de-oiled cakes which are manufactured from by-product of paddy. KRBL is also eligible for carbon credits on substitution of coal with rice husks. Its Ghaziabad unit have started accruing credits from April 2009 onwards.

Plans to increase wind power capacity from 12.5 MW to 18.5 MW

KRBL also has 12.5 MW wind power plant in Dhulia, Maharashtra as the company perceive it to emerge as a stable source of revenue. It has signed 13-year power purchase agreement (PPA) with Maharashtra State Electricity Board (MSEB) to be sold at Rs 3.5 per unit with an increment of 0.15 per unit every year. The company also plans to install four additional machines to increase total capacity to 18.5 MW.

Chart 13 : Value addition in integrated plant



Source: Company, CRISIL Equities Estimate

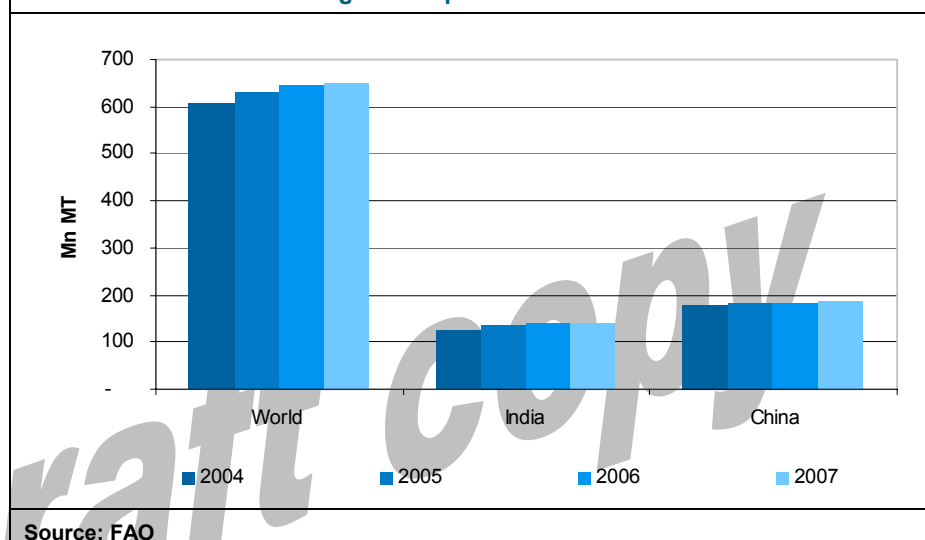
Industry Outlook

Rice Industry

According to the Food and Agriculture Organization (FAO) of the United Nations, India is the second largest producer of rice after China based on production in 2007. The rice industry in India is broadly divided into two segments - basmati (drier and long grained) and non-basmati (sticky and short grained). Basmati rice is a premium variety of rice renowned for its flavour, fine texture, distinct aroma, elongation when cooked and can be grown only in certain parts of India and Pakistan. The non-basmati market in India is largely unbranded and dominated by unorganized/regional producers.

Basmati rice is renowned for its flavour, fine texture, distinct aroma and elongation when cooked

Chart 14: India – second largest rice producer after China



Basmati accounts for less than 2% of total Indian rice production. Production of basmati is increasing as consumers are becoming more affluent and discerning, creating scope for branding basmati rice. It is estimated that India produced approximately 3.0 million metric tonnes of basmati rice out of the total global production of about 4.0 million metric tonnes in 2008-2009, remaining produced by Pakistan. While producers in India have managed to move up the value chain through improving quality and branding, the growth of the industry in Pakistan has been relatively muted. As a result, India remains the world's largest basmati rice supplier.

A majority of basmati rice produced in India is exported. According to APEDA, Indian exports of basmati rice increased from Rs. 27,928 million in 2006-2007 to Rs. 43,445 million in 2007-2008 and from 1.05 million metric tonnes in 2006-2007 to 1.18 million metric tonnes in 2007-2008. It is estimated that Indian exports of basmati rice reached approximately 1.85 million metric tonnes in 2008-2009. The largest export market for Indian basmati rice has traditionally been the Middle East with a 80.5% share of India's exports in 2007-08, representing exports of approximately 0.95 million metric tonnes according to APEDA. The United Kingdom and the United States accounted for approximately 9.1%, while the rest of the world accounted for the remaining 10.5% of India's exports during the same period, representing approximately 0.1 million metric tonnes and 0.12 million metric tonnes, respectively, according to APEDA.

Paddy matured for 12-18 months commands higher price in the industry

Basmati Rice

Basmati rice is a premium long-grain rice with a fine texture and is the most expensive variety of generally available rice in the world. Its high value stems from its unique qualities, such as a strong aroma in both raw and cooked states. The word basmati means the "queen of fragrance" or the "perfumed one." Its perfumed, nut-like flavour and aroma can be attributed to the ageing of the grain to decrease its moisture content. On cooking, the grain elongates, and the cooked grain has a characteristic shape and consistency. Basmati rice is available as both white and brown rice. The fragrance, cooking qualities and consequently, the value of basmati rice are enhanced with maturing. For basmati rice to be marketable, the product needs to be matured for 12-18 months.

Basmati is the customary name for certain varieties of rice with these unique properties that are grown exclusively in certain parts of India and Pakistan. Basmati is cultivated in the foothills of Himalayas, the northern part of Western Punjab (on both sides of the Indian and Pakistan border), Haryana, Western Uttar Pradesh, and Uttarakhand. Basmati's unique taste and texture is attributed to the soil and climate of this region.

Basmati responds well to the climatic conditions of these areas. The amount of water, the quality of the soil, the amount of daylight and the gentle winds that are characteristic of this region of Asia combine to produce good conditions for basmati rice to thrive.

Climatic Factors Affecting Basmati Rice Cultivation in India

Rainfall

Rainfall is the most important weather element for successful cultivation of rice. However, there are two factors that reduce the dependence of basmati rice on rainfall. Firstly, basmati rice, unlike other rice crops, does not require large quantities of water and requires only sprinkling water and not standing water. Secondly, basmati rice is grown in Haryana, Punjab, Uttarakhand and Western Uttar Pradesh. Farmers in these areas have relatively larger holdings and most farms are well irrigated. Therefore the cultivation of basmati rice is not as dependent on rainfall as non-basmati rice.

Temperature

Temperature is another climatic factor that influences the development, growth and yield of rice. Rice, being a tropical and sub-tropical plant, requires fairly high temperatures ranging from 20°C to 40°C. The optimum temperature of 30°C during the day and 20°C during night seems to favour the development and growth of rice crop.

The Domestic Market

India has moved from being an importer of food grains to becoming an exporter. Currently, India is one of the largest producers of cereals and grains. The perception of basmati rice as a premium product and the fact that customers are extremely sensitive to quality have created an opportunity for branding. Also, the structural changes in the market are partly responsible for the emergence of brands. Major producers in the branded segment traditionally exported basmati under private labels (unbranded sales). However, these companies were forced to change their strategy in the mid-nineties when buyers started procuring rice from smaller producers. To reduce margin erosion, more established producers began serious efforts towards branding. However, so as not to alienate their existing clients, the branding effort first took place in the

domestic market. Once the brands were established in the domestic market, Indian producers gradually started introducing their brands to the export markets.

Basmati rice consumption was less than 2% of overall rice consumption in India in FY09

Basmati rice consumption was less than 2% of overall rice consumption in India in FY09. Low consumption is attributable to the fact that basmati remains a premium product in terms of pricing, and is therefore consumed only on special occasions. With a growing consumer class and increasing disposable incomes, demand for premium products is on the rise. It is estimated that the domestic market for all types of rice is growing at 3%-4% per annum while the growth rate is over 10% for basmati rice. Overall, the demand for branded super quality/premium rice is growing at 15% per annum. The non-basmati market is largely unbranded and dominated by unorganized/regional players. The Company believes that organized players have a market share of less than 2% of total non-basmati rice market in India. This segment is not as lucrative in terms of profitability as compared to the basmati segment because of the difficulty in creating differentiation and brands.

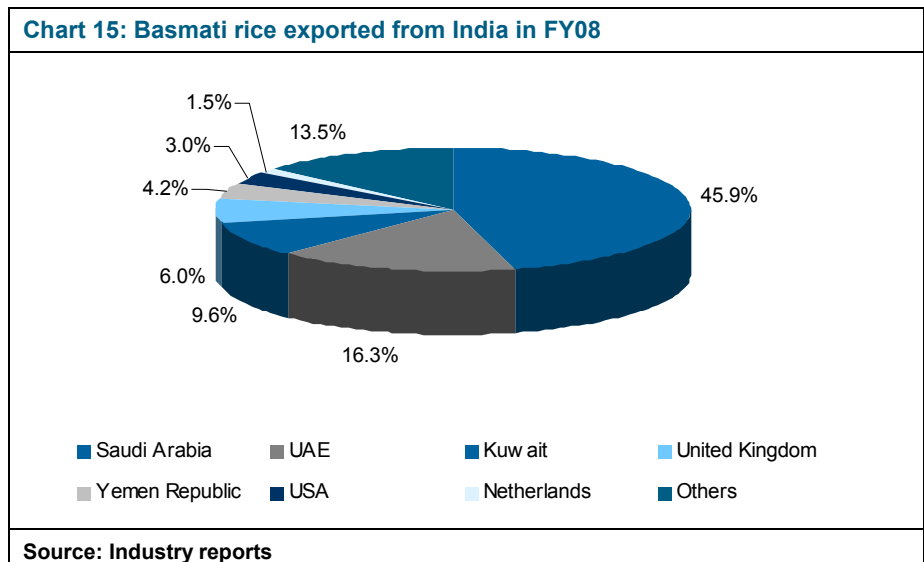
The Export Market

A majority of basmati rice produced in India is exported. According to APEDA, Indian exports of basmati rice increased from Rs. 27,928 million in 2006-2007 to Rs. 43,445 million in 2007-2008 and from 1.05 million metric tonnes in 2006-2007 to 1.18 million metric tonnes in 2007-2008. It is estimated that Indian exports of basmati rice reached approximately 1.85 million metric tonnes in 2008-2009. The largest export market for Indian basmati rice has traditionally been the Middle East with a 80.5% share of India's exports in 2007-08, representing exports of approximately 0.95 million metric tonnes according to APEDA.

Middle East is the largest importer of basmati rice from India

Within the Middle East, Saudi Arabia accounts for a major part of basmati imports from India. Pakistan is the major competitor for India in the international market for basmati rice. Other markets for Indian basmati rice exports include the United Arab Emirates, Kuwait, Austria, Belgium, Bahrain, France, Germany, Denmark, Canada, Italy, Oman, Yemen, Netherlands, Jordan and Indonesia.

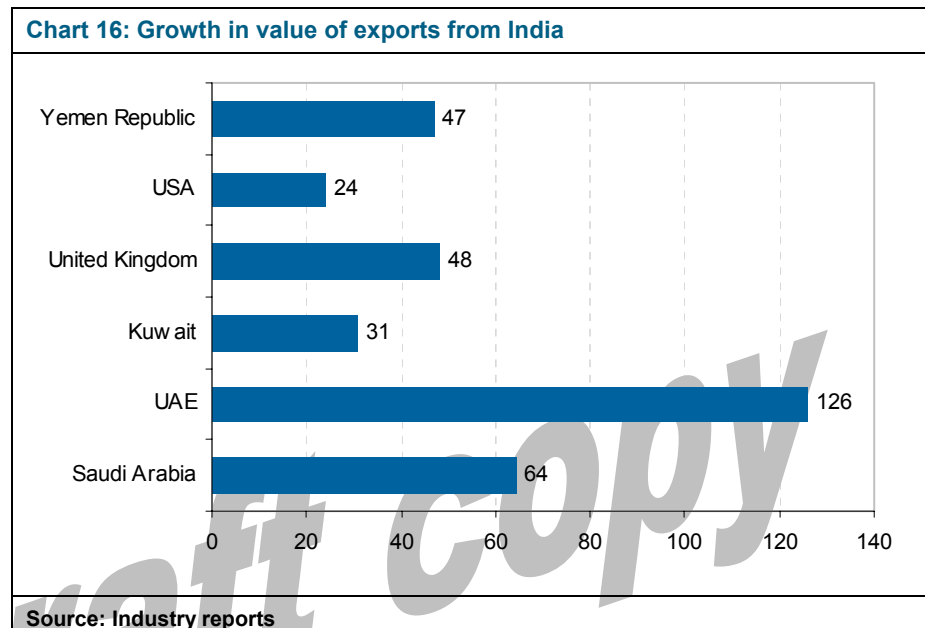
The below chart shows a break-up of the total quantity of basmati rice exported from India in 2007-2008.



Large portion of basmati exports is unbranded

A large portion of basmati exports is unbranded, which leads to lower export prices. However, with more Indian producers opting to export under their own brands, the Company expects overall prices to increase. Thus, the opportunity from this market is not only from volume-based growth but also from taking market share away from existing unorganized players through the creation of strong brands.

The below chart shows the percentage of growth in the value of exports to India's top six export countries from 2006 to 2008 for basmati rice.



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Indian exports of basmati rice are expected to continue to rise due to recognition of premium quality, increased branding, and better marketing along with greater access to all the markets for agricultural products.

Industry Development & Trends

The basmati rice industry in India has been traditionally dominated by small millers. However, the unique nature of the rice has attracted many large corporates. Ageing requires significant working capital. The large processors generally enjoy greater access to working capital.

Over the last few years, the basmati rice industry in India has witnessed a shift towards an organized structure for the following reasons:

- **Technology:** Organized players have access to production technology, which smaller players cannot afford.
- **Scale:** Larger players have the requisite economies of scale to reduce per unit production costs.
- **Standardization:** Unorganised millers use traditional methods, which cannot ensure grading (based on size) and sorting (based on colour) of the rice required for consistent product quality.
- **Pre-ageing ability:** Small processors do not have the resources to age and mature basmati rice.
- **Procurement capabilities:** Basmati quality and branding require strong procurement capabilities to procure paddy from mandis.

Large players have higher access to working capital requirements in basmati industry

It is estimated that the overall basmati rice demand is expected to grow at 15%-20% in the next few years while the supply of basmati rice is increasing at a lower pace as compared to demand. The international market consumption of basmati rice is increasing owing to rise in demand from present countries, such as Saudi Arabia, the United Arab Emirates, Kuwait, the United Kingdom, the United States and the Yemen Republic, and the entry of new countries. At the same time, the domestic demand is also on the rise due to a spurt in the mall culture and growth of hotels and restaurants. This will affect the suppliers of basmati rice directly through sales of branded products or indirectly through private sales. The widening gap of demand and supply is expected to create room for an increase in the premium to be commanded.

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Annexure: Financials

Table 8: FINANCIAL STATEMENTS
Income Statement

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E
Net sales	8,974	9,790	12,899	16,262	19,905
Operating Income	9,198	10,069	13,212	16,657	20,388
EBITDA	1,211	1,539	2,044	2,619	3,337
Depreciation	175	241	235	326	393
Interest	465	656	930	651	949
Other Income	8	12	42	53	65
PBT	579	654	921	1,696	2,059
PAT	502	548	656	1,136	1,380

Balance Sheet

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E
Equity (Including reserves)	3,115	3,606	4,224	5,294	6,607
Debt	4,908	7,732	6,012	8,585	10,085
Current Liabilities and Provisions	1,762	1,894	1,442	3,053	3,717
Deferred Tax Liability/(Asset)	88	85	84	84	84
Minority Interest	-	-	-	-	-
Capital Employed	9,874	13,317	11,762	17,015	20,493
Net Fixed Assets	2,133	2,275	2,170	3,092	3,707
Capital WIP	250	74	341	341	341
Intangible assets	-	-	-	-	-
Investments	91	3	2	2	2
Loans and advances	298	348	330	500	612
Inventory	5,813	8,348	7,879	11,019	13,416
Receivables	903	1,808	707	1,825	2,234
Cash & Bank Balance	386	460	334	236	181
Applications of Funds	9,874	13,317	11,762	17,015	20,493

Source: Company, CRISIL Equities Estimate

Table 20: FINANCIAL STATEMENTS

Cash Flow

(Rs Mn)	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	579	654	921	1,696	2,059
Total tax paid	(69)	(108)	(267)	(560)	(680)
Depreciation	175	241	235	326	393
Change in working capital	(133)	(3,359)	1,137	(2,818)	(2,253)
Cash flow from operating activities	552	(2,572)	2,026	(1,356)	(480)
Capital expenditure	(1,086)	(207)	(397)	(1,249)	(1,008)
Investments and others	(91)	88	2	-	-
Cash flow from investing activities	(1,177)	(120)	(395)	(1,249)	(1,008)
Equity raised/(repaid)	13	(2)	21	-	0
Debt raised/(repaid)	391	2,823	(1,720)	2,573	1,500
Dividend (incl. tax)	(55)	(57)	(57)	(67)	(67)
Others (including extra ordinaries)	(7)	1	(1)	-	-
Cash flow from financing activities	341	2,766	(1,757)	2,507	1,433
Change in cash position	(284)	74	(126)	(98)	(55)
Opening Cash	670	386	460	334	236
Closing Cash	386	460	334	236	181

Ratios

	FY07	FY08	FY09	FY10E	FY11E
Sales growth (%)	32.0	9.1	31.7	26.1	22.4
EBITDA growth (%)	128.4	27.1	32.8	28.1	27.4
EPS growth (%)	(782.9)	11.2	19.0	73.7	21.4
EBITDA Margin (%)	13.2	15.3	15.5	15.7	16.4
PAT Margin (%)	5.5	5.4	5.0	6.8	6.8
Return on Capital Employed (RoCE) (%)	13.6	13.4	16.8	19.0	19.3
Return on equity (RoE) (%)	17.4	16.3	16.7	23.9	23.2
Dividend per share (Rs)	2.3	2.3	2.3	2.3	2.3
Dividend payout ratio (%)	11.2	10.3	8.7	5.0	4.1
Dividend yield (%)	1.1	1.2	1.2	1.1	1.1
Earnings Per Share (Rs)	20.6	22.6	27.0	46.7	56.7
Net Debt-equity	1.5	2.0	1.3	1.6	1.5
Current Ratio	4.2	5.8	6.4	4.4	4.4
Interest Coverage	2.2	2.0	1.9	3.5	3.1
Price-earnings	9.7x	8.9x	7.4x	4.6x	3.8x
Price-book	1.6x	1.3x	1.2x	1.0x	0.8x
EV/EBITDA	7.7x	7.9x	5.2x	5.2x	4.5x

Source: Company, CRISIL Equities Estimate

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)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factor in industry prospects and company's future financial performance
- Management Evaluation
- Corporate Governance

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The 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 Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

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