

RESULT UPDATE

KRBL

Maintain Outperformer

Price: Rs 129

BSE Index: 14,646

19 August 2008

Share Data

Reuters code	KRBL.BO
Bloomberg code	KRBIN
Market cap. (US\$ mn)	74
6M avg. daily turnover (US\$ mn)	0.3
Issued shares (mn)	24
Target price (Rs)	193

Performance (%)	1M	3M	12M
Absolute	10	12	74
Relative	(1)	29	77

Valuation Ratios

Yr to 31 Mar	FY09E	FY10E
EPS (Rs)	38.3	42.8
+/- (%)	70.5	11.7
PER (x)	3.4	3.0
Dividend/Yield (%)	2.3	2.3
EV/Sales (x)	0.9	0.9
EV/EBITDA (x)	5.3	5.6

Major shareholders (%)

Promoters	53
FII's	3
MF's	1
ADRs/GDRs/Other Foreign	1
Public & Others	42

1QFY09 Result – Export Driven Growth!

KRBL posted strong numbers for the quarter. The earnings were above our expectations because of the better than expected revenue growth and margin expansion. These were mainly the result of increased volume and higher realisation (on low cost inventory) in the export market (the company has been able to pass on, completely, the export duty of US\$ 200/tonne, imposed by the Government of India at the beginning of FY09, to its overseas customers). Also, the electricity consumption cost savings, aided by the captive power generated by the Ghaziabad and the Dhuri plants, helped margin expansion. Iran continued to be the major demand driver for PUSA 1121. However, PUSA 1121 (which accounts for almost 50% of the total revenue) is yet to be notified as basmati rice. We expect the performance of KRBL to improve further, because of the improvement in the capacity utilisation at the Dhuri plant (due to an increase in availability of the raw material) and the improved realisation. However, we do not expect any further significant expansion in the margin. We have revised our numbers upward by 30% and 35% at the revenue level and 58% and 32% at the PAT level for FY09 and FY10, respectively. At the current market price of Rs 129, the stock is trading at 3.4x FY09E and 3.0x FY10E earnings. Notification of PUSA 1121, which contributes significantly to the revenue, as basmati will further boost the valuation of the company. Based on a target multiple of 4.5x FY10E earnings, we arrive at a target price of Rs 193. We maintain our Outperformer rating on the stock.

Highlights

- The PAT recorded such a high growth rate, because during the same quarter in the previous year, the company could not honour one of its export orders (because of some on-going price negotiations with the customer), which resulted in negligible PAT in 1QFY08.
- The revenue mix in the agri-business saw a change, with the ratio of domestic sales to exports changing to 34:66 in 1QFY09, compared to 55:45 in 1QFY08, partly because of the increased volumes in the export market and partly because of the higher realisation (Rs 67/kg compared to Rs 32/kg for 1QFY08) fetched in the export market.

Financial highlights

(Rs mn)	1QFY08	1QFY09	YoY (%)	FY08	FY09E	YoY (%)	FY10E	YoY (%)
Net sales	1,360	3,579	163.1	9,965	16,060	61.2	21,043	31.0
EBITDA	193	653	238.2	1,408	2,633	87.0	3,403	29.3
EBITDA margin (%)	14.2	18.2	–	14.1	16.4	–	16.2	–
Reported PAT	1	281	23,308.3	548	931	70.1	1,040	11.7
Adjusted PAT	1	281	23,308.3	546	931	70.5	1,040	11.7
Adjusted PAT margin (%)	0.1	7.8	–	5.5	5.8	–	4.9	–
EPS (Rs)	–	11.6	23,308.3	22.5	38.3	70.5	42.8	11.8

- The revenue contribution by the power segment increased by 300% YoY. During the quarter the company generated ~22 mn units of power. Out of which, 9 mn units were consumed in-house and the remaining units were sold to third parties, at a rate of Rs 3.65/unit.
- The other income declined by 90% YoY (because of the withdrawal of DEPB benefit) and the interest cost increased by 57% YoY (because of the increased borrowing for higher working capital requirement and the increased borrowing cost).

Segmental results (Primary)

(Rs mn)	1QFY09	1QFY08	YoY (%)	FY07	FY08	YoY (%)
Segmental revenue						
Agri	3,532	1,352	161.2	9,100	9,929	9.1
Energy	81	27	201.1	68	144	112.2
Total	3,612	1,379	162.0	9,168	10,073	9.9
Less Inter Segmental Revenue-Power	33	19	78.9	37	108	187.9
Net sales	3,579	1,360	163.1	9,130	9,965	9.1
Segmental EBIT						
Agri	1,052	311	238.1	2,048	2,614	27.6
Energy	25	(9)	(373.3)	(31)	(37)	20.2
Total	1,077	302	256.4	2,018	2,577	27.7
Less: i) Interest	227	144	57.6	458	646	41.2
ii) Other unallocable inflows net of outflows	487	148	228.7	980	1,280	30.5
PBT	363	10	3,563.6	579	651	12.4
Capital employed						
Agri	3,082	2,834	–	2,730	2,804	–
Energy	806	283	–	386	803	–
Total	3,888	3,117	–	3,116	3,607	–

Segmental results (Secondary)

(Rs mn)	1QFY09	1QFY08	YoY (%)	FY07	FY08	YoY (%)
Agri						
-India	1,190	737	61.6	4,510	4,737	5.0
-Rest of the world	2,341	615	280.5	4,590	5,192	13.1
Sub total	3,532	1,352	161.2	9,100	9,929	9.1
Energy						
-India	81	27	201.1	68	144	112.2
-Rest of the world	–	–	–	–	–	–
Sub total	81	27	201.1	68	144	112.2
Total	3,612	1,379	162.0	9,168	10,073	9.9
Less: Inter segmental revenue	33	19	78.9	37	108	188.5
Net sales	3,579	1,360	163.1	9,130	9,965	9.1

Return ratio

Segmental margin (EBIT) (%)	1QFY09	1QFY08	FY07	FY08
Rice	29.8	23.0	22.5	26.3
Power	30.5	(33.6)	(45.3)	(25.6)
Total	29.8	21.9	22.0	25.6
RoCE				
Rice	34.1	11.0	75.0	93.2
Power	3.1	(3.2)	(8.0)	(4.6)
Total	27.7	9.7	64.8	71.5

Income Statement

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Net sales	9,130	9,965	16,060	21,043
<i>Growth (%)</i>	25.7	9.1	61.2	31.0
Operating expenses	(8,010)	(8,558)	(13,427)	(17,639)
Operating profit	1,120	1,408	2,633	3,403
Other operating income	16	0	0	0
EBITDA	1,136	1,408	2,633	3,403
<i>Growth (%)</i>	37.5	23.9	87.0	29.3
Depreciation	(175)	(241)	(271)	(310)
Other income	62	115	0	0
EBIT	1,023	1,281	2,361	3,094
Interest paid	(443)	(630)	(1,077)	(1,553)
Pre-tax profit (before non-recurring items)	579	651	1,285	1,541
Pre-tax profit (after non-recurring items)	579	651	1,285	1,541
Tax (current + deferred)	(77)	(105)	(353)	(501)
Net profit	502	546	931	1,040
Adjusted net profit	502	546	931	1,040
<i>Growth (%)</i>	54.8	8.7	70.5	11.7
Prior period adjustments	(7)	1	0	0
Net income	495	548	931	1,040

Balance Sheet

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Current assets	7,373	10,944	15,846	22,740
Investments	113	25	25	25
Net fixed assets	2,383	2,349	2,304	2,194
Total assets	9,868	13,318	18,175	24,959
Current liabilities	1,797	1,900	2,723	3,551
Total debt	4,867	7,727	11,000	16,000
Other non-current liabilities	88	85	0	0
Total liabilities	6,752	9,712	13,723	19,551
Share capital	244	244	244	244
Reserves & surplus	2,872	3,363	4,209	5,164
Shareholders' funds	3,116	3,607	4,453	5,408
Total equity & liabilities	9,868	13,318	18,175	24,959
Capital employed	8,071	11,419	15,453	21,408

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Pre-tax profit	579	651	1,285	1,541
Depreciation	169	232	271	310
Chg in working capital	(76)	(3,381)	(4,378)	(5,999)
Total tax paid	(84)	(105)	(445)	(501)
Other operating activities	(7)	1	0	0
Cash flow from oper. (a)	582	(2,602)	(3,267)	(4,649)
Capital expenditure	(1,080)	(198)	(226)	(200)
Chg in investments	(113)	88	0	0
Cash flow from inv. (b)	(1,193)	(110)	(226)	(200)
Free cash flow (a+b)	(611)	(2,712)	(3,492)	(4,849)
Equity raised/(repaid)	13	0	0	0
Debt raised/(repaid)	349	2,860	3,273	5,000
Dividend (incl. tax)	(55)	(55)	(57)	(85)
Cash flow from fin. (c)	306	2,804	3,216	4,915
Net chg in cash (a+b+c)	(305)	92	(276)	66

Key Ratios

Yr end 31 Mar (%)	FY07	FY08	FY09E	FY10E
EPS (Rs)	20.7	22.5	38.3	42.8
EPS growth	54.8	8.7	70.5	11.7
EBITDA margin	12.4	14.1	16.4	16.2
EBIT margin	11.2	12.9	14.7	14.7
RoCE	13.3	13.1	17.6	16.8
Net debt/Equity	144.5	201.6	243.0	291.3

Valuations

Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
PER	6.2	5.7	3.4	3.0
PCE	4.6	4.0	2.6	2.3
Price/Book	1.0	0.9	0.7	0.6
Yield (%)	1.6	1.6	2.3	2.3
EV/Net sales	0.8	1.0	0.9	0.9
EV/EBITDA	6.7	7.4	5.3	5.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
Net margin (%)	5.5	5.5	5.8	4.9
Asset turnover	1.0	0.9	1.0	1.0
Leverage factor	3.0	3.4	3.9	4.4
Return on equity (%)	17.4	16.3	23.1	21.1

Rishab Bothra
rishab.bothra@bksec.com
+91-120-4605 627

Pramod Tiwari
pramod.tiwari@bksec.com
+91-120-4605 624

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Equity Research Division: 12/14, Brady House, 2nd Floor, Veer Nariman Road, Fort, Mumbai-400 001, India. Tel.: 91-22-4007 6000, Fax: 91-22-2287 2766/1136.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-033-2243 7902.

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