

RESULT UPDATE

KRBL

Maintain Market Performer

Price: Rs 140

BSE Index: 17,649

01 February 2008

Share Data

Reuters code	KRBL.BO
Bloomberg code	KRBIN
Market cap. (US\$ mn)	86
6m avg. daily turnover (US\$ mn)	0.9
Issued shares (mn)	24

Performance (%)	1m	3m	12m
Absolute	(11)	63	(19)
Relative	2	84	(35)

Valuation Ratios

Yr to 31 Mar	FY08E	FY09E
EPS (Rs)	17.6	21.3
+/- (%)	(13.0)	21.0
PER (x)	7.9	6.5
Dividend/Yield (%)	2.0	2.2
EV/Sales (x)	0.9	0.9
EV/EBITDA (x)	7.0	6.6

Major shareholders (%)

Promoters	51
FII's	1
MF's	1
ADR's/GDR's/Other Foreign	1
Public & Others	46

Financial highlights

(Rs mn)	3QFY07	3QFY08	YoY (%)	9MFY07	9MFY08	YoY (%)	FY07	FY08E	YoY (%)	FY09E	YoY (%)
Net Sales	2,795	2,703	(3.3)	6,976	6,624	(5.0)	9,129	9,401	3.0	10,510	11.8
EBITDA	385	412	6.9	994	934	(6.1)	1,143	1,208	5.7	1,377	14.0
EBITDA Margin (%)	13.8	15.2	-	14.3	14.1	-	12.5	12.9	-	13.1	-
Other Income	14	21	49.3	36	79	119.2	69	99	44.1	100	1.2
Interest	151	141	(6.2)	336	418	24.4	458	526	15.0	547	3.8
Depreciation	50	67	34.5	119	183	53.4	175	230	31.4	263	14.1
PBT	199	225	13.0	576	412	(28.4)	579	550	(4.9)	667	21.4
Tax	9	29	235.3	94	73	(22.7)	86	121	41.2	148	22.7
Reported PAT	190	196	3.1	482	340	(29.5)	493	429	(13.0)	519	21.0
Adj. PAT margin (%)	6.8	7.3	-	6.9	5.1	-	5.4	4.6	-	4.9	-
EPS (Rs)	7.8	8.1	3.3	19.8	14.0	(29.4)	20.3	17.6	(13.0)	21.3	21.0

3QFY08 Results – Higher branding lesser trading

KRBL results are in lines with our expectations at the topline but surpassed at the bottomline. Topline slipped marginally by 3% due to reduction in trading activities. Revenues from rice business witnessed a growth of 12.4% due to improvement in average realisations by 22% YoY to Rs 28,865 per tonne. Increasing demand from the export market for basmati rice (especially Middle East) and domestic market for non-basmati rice resulted in improved average realisations of 54% and 6% YoY, respectively. Reduction in trading activity and improvement in realisation in rice business has helped the EBITDA margin to improve by 146 bps to 15.2% in 3QFY08. The improvement in EBITDA margin was squeezed by increase in depreciation and tax expense. This resulted in 45 bps increment in the PAT margin at 7.3% in 3QFY08.

Highlights

- Topline declined marginally by 3% to Rs 2.7 bn due to decrease in trading activity (export of pulses being banned by Government of India (GoI)). In spite of fall in volumes in export for non-basmati (82% YoY) and in domestic market for basmati rice (19% YoY), the revenues from rice business (excluding by-products) grew by 12% YoY to Rs 2.5 bn on account of improvement in average realisation of basmati rice (28% YoY) and export market realisations (54% YoY).
- Though material cost increased by 200 bps at 72% in 3QFY07, reduction in other operating expenses at 11.8% in 3QFY08 against 15.2% in 3QFY07 (both as a% of sales) helped in improving EBITDA margin by 146 bps at 15.2% in 3QFY08.
- Other income increased by 49% mainly due to increase in income from DEPB licence (increased to 3% of exports against 1% in previous year) and interest cost dipped by 6.2% on account of 2% subvention from the GoI w.e.f. April 2007 the impact of which has been considered in 3QFY08.

- Net income increase marginally by 3% to Rs 196 mn. EBITDA margin of 15.2% was filtered down to 7.3% at PAT margin level. This was due to increase in depreciation cost and tax expense on account of capitalisation of power plant at Ghaziabad and increased profitability (previous year MAT was applicable), respectively.

Segmental analysis

With power segment contributing to revenues, revenue mix changed slightly to 99:1 for rice and power segment, respectively, in 3QFY08.

- **Rice**

Turnover from the segment grew by 12% YoY to Rs 2.7 bn in 3QFY08. The revenue mix for 3QFY08 from the segment was 56:44 for domestic and export against 53:47. During the quarter basmati and non-basmati mix changed to 89:11 against 87:13 for 3QFY07. Despite of the fall in volume in export market (32% YoY) and for basmati rice (11% YoY) the improvement in realisation for both at Rs 37,328 per tonne and Rs 34,446 per tonne, respectively, has helped the segment to report a growth at topline. The segment reported an EBIT margin 27% at Rs 727 mn for 3QFY08.

- **Power**

The revenue from this segment was Rs 28 mn with negative EBIT margin of 86% with a loss of Rs 24 mn for 3QFY08. The unfavourable climatic conditions led to lower revenue which in turn resulted in loss at EBIT level on account of under absorption of fixed overhead. The company derives its power income from the wind farm in Dhulia (Maharashtra), whereas power generated at its Dhuri and Ghaziabad plant are currently used for captive consumption.

Outlook

KRBL is the largest player (after the acquisition of Dhuri plant (150TPH)) in the basmati rice processing industry with capacity of 195TPH for processing paddy. It is increasing its area under contract farming (expected to be 0.4 mn acres by FY09 end against 40,000 acres currently) in order to hedge against procurement risks and to have better quality, yield and quantity of paddy at lower cost. It discontinued job work for FCI due to non availability of raw material and business being unattractive (low margin). These will help it to have a better utilisation of its huge capacity at Dhuri. Though the cost of procurement and realisations has witnessed a steep increase in the FY08 but such increase is not expected in the FY09 and the growth is likely to cool off a bit. It also plans to sell surplus power (~5 MW) generated from its power plant located in Dhuri. The saving in power cost is likely to move up and will help in improving the margins.

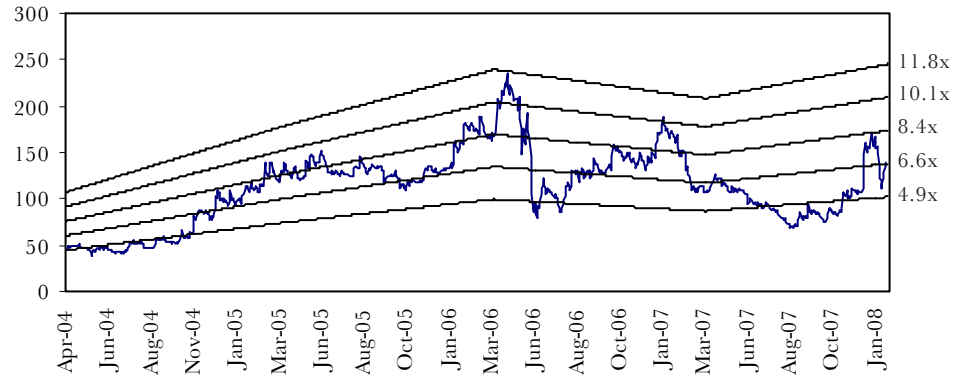
Valuation

At the current market price of Rs 140, the stock is trading at 7.9x FY08E EPS of Rs 17.6 and 6.5x FY09E EPS of Rs 21.3. We maintain our Market Performer rating on the stock.

*Discontinued trading activity
(Export of pulses banned)*

*Improved profitability on
account of captive power
consumption*

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY06	FY07	FY08E	FY09E
Net sales	7,248	9,129	9,401	10,510
Growth (%)	44.2	26.0	3.0	11.8
Operating expenses	(6,440)	(7,986)	(8,193)	(9,133)
Operating profit	807	1,143	1,208	1,377
Other operating income	18	–	–	–
EBITDA	826	1,143	1,208	1,377
Growth (%)	115.1	38.4	5.7	14.0
Depreciation	(119)	(175)	(230)	(263)
Other income	57	69	99	100
EBIT	764	1036	1076	1214
Interest paid	(278)	(458)	(526)	(547)
Pre-tax profit	486	579	550	667
(before non-recurring items)				
Pre-tax profit	486	579	550	667
(after non-recurring items)				
Tax (current + deferred)	(162)	(86)	(121)	(148)
Net profit	325	493	429	519
Adjusted net profit	325	493	429	519
Growth (%)	97.3	51.8	(13.0)	21.0
Prior period adjustments	(4)	–	–	–
Net income	320	493	429	519

Balance Sheet

Yr end 31 Mar (Rs mn)	FY06	FY07E	FY08E	FY09E
Current assets	6,076	7,313	7,966	9,085
Net fixed assets	1,472	1,354	1,370	1,335
Total assets	7,547	8,667	9,336	10,420
Current liabilities	285	328	348	372
Total debt	4,519	5,172	5,468	6,092
Other non-current liabilities	80	80	80	80
Total liabilities	4,884	5,580	5,896	6,544
Share capital	471	244	244	244
Reserves & surplus	2,193	2,843	3,196	3,632
Shareholders' funds	2,664	3,087	3,440	3,876
Total equity & liabilities	7,548	8,667	9,336	10,420
Capital employed	7,263	8,339	8,988	10,048

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY06	FY07E	FY08E	FY09E
Pre-tax profit	486	579	550	667
Depreciation	116	145	164	174
Chg in working capital	(1,547)	(1,810)	(263)	(1,120)
Total tax paid	(128)	(81)	(122)	(144)
Other operating activities	(4)	–	–	–
Cash flow from oper. (a)	(1,076)	(1,167)	329	(423)
Capital expenditure	(507)	(27)	(180)	(139)
Cash flow from inv. (b)	(507)	(27)	(180)	(139)
Free cash flow (a+b)	(1,583)	(1,195)	149	(562)
Equity raised/(repaid)	615	–	–	–
Debt raised/(repaid)	1,560	653	296	624
Dividend (incl. tax)	(41)	(55)	(69)	(76)
Cash flow from fin. (c)	2,135	598	227	547
Net chg in cash (a+b+c)	551	(597)	376	(14)

Key Ratios

Yr end 31 Mar (%)	FY06	FY07E	FY08E	FY09E
EPS (Rs)	15.2	20.3	17.6	21.3
EPS growth	97.3	51.8	(13.0)	21.0
EBITDA margin	11.4	12.5	12.9	13.1
EBIT margin	10.5	11.4	11.5	11.6
ROCE	12.7	13.3	12.4	12.8
Net debt/Equity	144.5	165.2	145.9	146

Valuations

Yr end 31 Mar (x)	FY06	FY07E	FY08E	FY09E
PER	9.2	6.9	7.9	6.5
PCE	6.7	5.1	5.1	4.3
Price/Book	1.1	1.1	1.0	0.9
Yield (%)	1.6	1.8	2.0	2.2
EV/Net sales	1.0	0.9	0.9	0.9
EV/EBITDA	8.8	7.4	7.0	6.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY06	FY07E	FY08E	FY09E
Net margin (%)	4.5	5.4	4.6	4.9
Asset turnover	1.1	1.1	1.0	1.1
Leverage factor	2.9	2.8	2.8	2.7
Return on equity (%)	14.6	17.1	13.1	14.2

Rohit Anand
Rohit.anand@bksec.com
+91-120-4259823

Rishab Bothra
Rishab.bothra@bksec.com
+91-120-4259823

Pramod Tiwari
Pramod.tiwari@bksec.com
+91-120-4259823

Analyst Declaration: We, Rohit Anand, Rishab Bothra & Pramod Tiwari, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been whetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

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.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.