

KRBL

VISIT NOTE

Sensex: 13,860

CMP: Rs 148

December 27, 2006

We recently visited the plant of KRBL & met the management to better understand company's overall strategy in light of opportunities, both domestically & overseas.

Company Brief

KRBL is one of the leading manufacturers & exports of Basmati Rice in India today & the company traces its origins to pre-partition Pakistan. Founded by two brothers Khushi Ram (KR) & Bihari Lal (BL) in 1889, the promoter team has rich experience in the Rice industry.

Though, it has always focused on Basmati rice only, post the Dhurri acquisition, enables it to dabble in non-basmati as well, which generates valuable by-products.

Dhurri Acquisition Catapults it to top league

KRBL has acquired a 145 TPH rice processing plant at Dhurri, Punjab from Oswal Agro in 2004. This is the largest single location plant in India today & was acquired through liquidation courts at a very competitive price. Also, Dhurri plant has the capacity to process both Basmati & Non Basmati rice, thereby giving it flexibility to choose, depending on market requirements. Post the acquisition, KRBL has emerged as the largest rice processing company (Total Installed Capacity-185TPH) in the world.

Export focus to continue

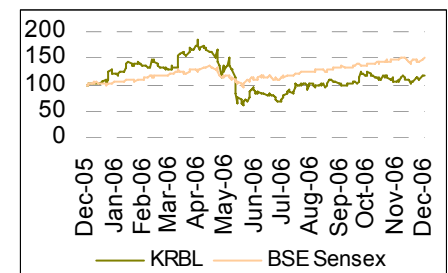
About 11% of India's total Basmati exports are contributed by KRBL, as the company for long has been building its relationships with global trading houses. Significantly, company has been able to increase the proportion of branded export sales over time & currently, close to 85% of its exports is done under its own brands. Recently, company commissioned parboiling plant, which will enable it to cater to large middle east markets.

Bloomberg Code	:	KRB IN
Reuters Code	:	KRBL.BO
BSE Code	:	530813
NSE Code	:	KRBL
52-Week Range(H/L)	:	244 / 76
Market Cap (Rs mn)	:	3596.7
Shares O/S (mn)	:	24.31
Free Float (mn)	:	12.24
3m Avg. Volume	:	168,784
Face Value	:	10

Price Performance: (%)

	3m	6m	12m
Absolute	14.8	38.8	15.3
Relative	2.8	2.4	-34.4

Relative Price Movement



(Rs.Mn)	FY05	FY06	H1FY07	FY07E
Net Sales	5027	7248	4180	9280
Ebitda	445	911	631.4	1401.3
<i>Ebitda Margin(%)</i>	<i>8.85</i>	<i>12.57</i>	<i>15.11</i>	<i>15.10</i>
Depreciation	74	119	69.2	160
Interest	116	306	185	400
PBT	255	486	377.2	841.28
Tax	93	166	85.4	218.7
PAT	162	320	291.8	622.5
<i>Net Margin (%)</i>	<i>3.22</i>	<i>4.42</i>	<i>6.98</i>	<i>6.71</i>
EPS	8.72	15.33	12.0	25.6

"India Gate" marches on...

As per the last A.C Nielsen survey (2005), India Gate is running very close to Kohinoor (its closest competitor). Though the company has been a late entrant in domestic branded sales, within a decade it has been able to build its brands to a significant size. Though India Gate is the flagship brand, KRBL also has other brands like Doon, Noor Jahan, Bemisal etc targeting different geographical markets and different price points. Company has a distribution network of 480 dealers & is available with 215,000 retailers.

Modern Retail to accelerate branded growth

Domestic Basmati market has been growing at about 6% annually, but as modern retail formats gain prominence, the contribution from these modern channels will inevitably rise. Currently, we are witnessing a faster growth of about 15% in basmati rice category from modern retail formats & to cater to this growing demand, company has set up a separate professional team to deal with modern retail.

Entrenched in Uttar Pradesh

Given the unique agro-climatic requirements for basmati, it is grown only in U.P, Haryana, Punjab & Himachal Pradesh only. Out of these, almost 50% of area under Basmati cultivation exists in U.P (incl. Uttaranchal) & KRBL is the only large organized player here to have access to paddy cultivated in these areas. KRBL has been able to procure paddy this year, when other players are facing problems on that front.

Also, KRBL has engaged in Contract farming in a major way, with close to 40% of its paddy requirements coming that way. Company has also signed a MOU with Punjab Government to replicate the U.P model in Punjab as well for Contract Farming.

Value-added By-Products

Post the Dhurri acquisition, KRBL will have access to valuable by-products like Bran & husk, which can be converted into valuable by-products. From Husk, one could produce power & from Bran, one could manufacture Bran oil (one of the healthiest edible oil). Company intends to launch its own branded Bran oil from this plant, utilizing the same distribution network it currently has. Husk is a good raw-material for boilers to generate electricity at a cost-effective rate.

Wind Mill to save Costs & Taxes

Company has recently commissioned 12.5 MW wind mill farm at Dhulia, Maharashtra. Besides this, it is also setting up a captive power plant at Ghaziabad to reduce power costs, which form the second largest component in manufacturing costs.

Hands on management style

We were particularly impressed with the hands-on management style of top management team, which we feel is necessary to succeed in this business. Besides the promoter family, top management is ably supported by senior management team, who we found to be quite conversant with the ground realities of this business.

Key Shareholders

In 2004, KRBL had done a placement to Reliance Commodities DMCC, which represents about 12.34% of the company. More recently, Mr. Abdulla Balsharaf (prominent trader from Middle East & one of company's distributor there) picked up about 3.08% stake in the company. These alliances bode well for the long term growth of the company.

Concerns

Changing Competitive Landscape

Enamored by the opportunities in India's Food processing sector could tempt some of the large global players to set up operation here, which could tilt the industry's hierarchy. However, the past track record of Pepsi, Levers in this industry underscores the importance of companies with a keen understanding of ground realities.

Valuations

We expect the company to report sales of Rs.9,280 mn & PAT of Rs.622 mn. At the CMP of Rs.148, it's trading at 5.8x FY07E earnings. We are positive about the long-term potential of this company.