

KRBL Ltd. (KRBL)
Rice
CMP - Rs. 138.7, 6M Target Price – Rs. 175
(Buy at CMP & add on dips to Rs. 121)

Stock Details

BSE Code	530813
NSE Code	KRBL
Bloomberg	KRB.IN
Price as on Aug 04, 2008 (Rs.)	138.7
Equity Capital (Rs. mn)	244.0
Face Value (Rs.)	10.0
Equity Shares O/s (mn)	24.4
Market Cap (Rs. mn)	3377.9
Book Value (Rs)	147.3
Avg. Daily Vol. (52 week)	82411
52 wk H/L	178.65 / 67.5

Shareholding Pattern	(%)
(As on 31 March.2008)	
Non Promoter Corp Hold	8.6
Promoters	53.2
Foreign	1.6
Institutions	1.2
Public & Others	35.4
Total	100.0

Krafting strategies to preserve & enrich the legacy of Basmati globally ...

Incorporated in 1993 & promoted by Anil Kumar Mittal, KRBL is the world's largest exporter of Basmati rice from India. KRBL processes Basmati rice, Non Basmati rice, parboiled rice & co-products of rice milling process such as furfurals, lignin & rice bran. KRBL has four facilities including two manufacturing plants - one in Ghaziabad (45MT/hr) & one in Dhuri (150 MT/hr) and two sorting / repacking plants - one in Kandla (40 MT/hr) and one in Alipur (30 MT/hr).

Triggers

- KRBL's strong presence in domestic & international market could enable it to command better market share in the rapidly growing rice industry, with the food-processing sector gaining industry status gradually in India. Due to its popular brand image & better quality products, KRBL has been able to maintain healthy relationship with its overseas customers in major countries like Saudi Arabia, US, Kuwait & Middle East, which account for 80-85% of its total exports revenue. This has enabled KRBL to fetch better realisations.
- Improved utilisation of 150 MT/hr rice milling capacity at Dhuri plant (which started commercial production in FY07) could enable KRBL to meet the rising demand & boost its revenues going forward. KRBL's significant addition of warehousing & storage facilities at Dhuri could enable it to procure large amount of paddy, which can be stored for longer period. Thus, the record inventory of paddy could translate into higher ageing period, leading to better margins, albeit with higher interest costs. At present KRBL can handle 25% of total basmati paddy grown in India.
- KRBL has lined a CAPEX of Rs. 500 mn in FY09 for setting up a fully automated packaging plant having two units, to be installed at Dhuri & Ghaziabad. The plant is expected to be operational from March 2009 & would provide high-tech packaging assuring hygiene & safety. Pelletization of cargo would ensure easy handling & faster productivity, thus enabling KRBL to increase its presence in the overseas markets like US & Europe, which demand mechanised packaged products.
- To command better margins & to improve its overall brand image, KRBL has shifted its focus from trading to manufacturing activities. KRBL introduced Pusa 1121 rice variety in 2004, which has now become commercialized & is now virtually certain to be officially called Basmati. At present, it falls technically in the category of non-basmati rice in the absence of a proper definition of what constitutes basmati rice. The government has however not banned its export along with other non-basmati rice. This variety has been the major hit in the exports market due to its exceptional elongation, higher ageing, aroma & non-sticky soft & fluffy texture. KRBL would benefit immensely from the inclusion of this variety of rice as Basmati, since its realisation would be far better than the other Basmati categories.
- KRBL's has pioneered the concept of contract farming, which facilitates the easy & assured availability of high quality basmati & non-basmati paddy (the main input for rice). Currently, KRBL has 160000 acres of land in Uttar Pradesh & Punjab under cultivation (up from 106000 acres in FY07). KRBL plans to procure over 70% of paddy through the contract-farming program by FY10 from 45% at present.
- The 10.5 MW & 3.2 MW power plants (run on rice husk) implemented at Dhuri (in FY07) & Gaziabad (In April 2007) respectively have enabled KRBL to reduce the power cost substantially. KRBL doesn't need to buy electricity, since entire power generated from these plants is captively consumed. KRBL had also implemented a 12.5 wind turbine plant at Dhulia in September 2006. The energy generated here is sold, thus boosting revenues further.
- KRBL's turnover & PAT has grown at a CAGR of 13.7% & 32.7% respectively over the last five years. We expect this growth rate to improve going forward. In FY09, we expect KRBL's turnover & PAT to increase by 40.2% & 55.1% respectively on the back of better capacity utilisation, improved realisations & popular brand image.

Financials at a Glance

	(Rs. In Million)			
Rs. In Mn	FY06	FY07	FY08	FY09E
Sales	7265.4	9130.3	9965.2	13969.1
% Growth y-o-y	44.5	25.7	9.1	40.2
EBITDA	905.2	1212.6	1538.8	2426.9
% Growth y-o-y	19.4	34.0	26.9	57.7
PAT	320.3	495.0	547.5	849.1
% Growth y-o-y	96.7	54.6	10.6	55.1
EPS	13.2	20.3	22.5	34.9
% Growth y-o-y	44.7	54.6	10.6	55.1
PE	10.5	6.8	6.2	4.0

Valuations & Recommendation:

At CMP, KRBL trades at 6.2x FY08 & 4x FY09E EPS. KRBL's FY08 performance was dull due to volatility in the paddy prices, change in government policies & lower capacity utilisation of its expanded capacity at Dhuri. However, in FY09, we expect KRBL's performance to be much better on the back of better utilisation at Dhuri & its popular brand image. Further, the impact of change in the government policies by way of raising minimum export price & levying the export duty has already been absorbed. KRBL has also added significant storage & warehousing facility at Dhuri, which could enable the company to procure large amount of paddy, thus enabling the storage for longer period. This is likely to increase the ageing period of basmati rice & could improve realisations. Also, KRBL's trading activity has reduced significantly & the focus has mainly shifted to manufacturing. This could further enhance the company's operating margins. We expect KRBL to post a strong revenue & profitability growth of 40.2% & 55.1% respectively in FY09.

Due to over-discounting of fears, the scrip is currently trading below its book value of Rs. 147.3 & is also much below its replacement value. Its peer company Kohinoor Foods witnessed a hostile takeover attempt recently due to this very reason. However, KRBL does not face this risk, since the promoters hold 53%, but the trigger of valuation reverting to highs remains. The scrip has the potential to trade at 5x FY09E EPS, which gives the price target of Rs. 175 over the next six months. Hence we recommend the investors to buy this scrip at the current price & to average it on dips to Rs. 121. (For red flag level on the stock under technical analysis, refer to Page No. 12).

Investment Rationale

Increasing demand for rice - A perfect opportunity for market leader like KRBL

With food processing gaining industry status gradually in India, the rice sector is expected to grow at an increasing momentum. Improvement in logistics, de commoditization of rice & a shift towards retail is likely to add momentum to the growth of Indian rice sector. Both the basmati & non-basmati sectors offer significant opportunities to organised players, as their share is significantly low with 35% in basmati and 5% in the non-basmati. The fragmented players lack the technology & expertise required for the high-end activities such as procurement & milling. With rice milling sector adopting hi-end technology, courtesy organised players, downstream value-added products are adding significantly to the revenues of the rice sector. KRBL is the largest exporter of Basmati rice in India (Basmati sales account for 85% of KRBL's total revenues) & its packaged basmati products have gained a brand image of their own & are marketed under the brand names Noorjahan, Doon, Indian Gate, Bemisal, Lotus & Aarti. Today, the company holds 11% market share of the total Basmati exports from the country & has strong presence internationally in markets like Saudi Arabia, Kuwait, US & Middle East, which account for 80-85% of KRBL's total export revenues. This, coupled with popular brand image has enabled the company to fetch better realisation from these export markets. During FY08, the company's average export realisation of Basmati Rice increased by 26% to Rs. 41.1 per kg as compared to Rs. 32.6 per kg in FY07. However, in Q1 FY09, the average realisations were much higher at Rs. 66 per kg (including export duty of Rs. 8 per kg levied in April 2008).

Off late, Iran has emerged as a major Basmati importer & is expected to import 4 lac tonnes of Basmati rice from India, since locally grown Iranian rice has become more expensive. Currently, Basmati sells for roughly half the price of locally grown Iranian rice. With the market leadership & aggressive expansion plans, KRBL would be able to capitalize on the growing opportunities in the domestic and overseas markets. The table given below provides with KRBL's average realisation price of Basmati & Non Basmati rice for FY08 & Q4FY08 in the domestic & overseas markets.

(Rs. per kg)

Category	FY08		FY07		Q4 FY08	
	Domestic	Export	Domestic	Export	Domestic	Export
Basmati	27.4	41.1	23.1	32.6	30	50
Non Basmati	12.1	21.4	12	13.2	13.2	25

The recent levy of export duty on the basmati rice could post a threat to smaller players, but is unlikely to impact KRBL, who has easily been able to pass on the export duty burden to the consumers, considering its popular brand image & quality production. The company seems to be in talks with several Pakistani rice millers for importing basmati rice. KRBL wants to leverage the advantage of zero import duty & create a new brand for Pakistani basmati rice in India. KRBL is also looking to buy out mills in Pakistan & export from there. Also the ban on non-basmati rice exports is likely to have a marginal impact on KRBL's performance since the company's share of non-basmati rice export accounts for only 5.5% of the total export revenue of KRBL. The company would make up the loss by introducing more affordable ranges of non-basmati rice to target the lower end of the domestic market (where the prices are much lower than in the international markets) to lift up the volumes. Also, the government has hinted that it may consider easing a ban on export of non-basmati rice after November this year, when fresh crop reaches the market.

Focus on manufacturing & value added products to improve margins

KRBL carries out some trading activity in rice, lentils & pulses. However, the contribution of trading turnover to the total revenue has reduced substantially from 10% in FY07 to 0.5% in FY08. KRBL seems to have shifted its focus from trading to manufacturing activity to enhance its margins by introducing new varieties of rice & focusing more on value added products like rice bran oil. Rice Bran oil is a vegetable oil, once it is stabilized & extracted. Going forward, KRBL expects to generate decent revenues from this product. The company introduced Pusa 1121 rice variety in 2004, which has now become commercialized & is virtually certain to be officially called Basmati, which at present falls technically in the category of non-basmati rice in the absence of a proper definition of what constitutes basmati rice. The government has however not banned its exports along with the other non-basmati rice. This variant has been a major hit in the exports market due to its exceptional elongation, higher ageing, aroma & non-sticky soft & fluffy texture. The realisation of this variety of Basmati rice is more than the other varieties of Basmati normally due to more ageing required (around 12-14 months) as compared to other Basmati categories (around 9-10 months). KRBL is expected to benefit immensely from the inclusion of this variety as Basmati.

Facility at Dhuri to act as a major catalyst for future growth

KRBL acquired a new integrated rice processing plant at Dhuri (in state of Punjab) in FY06 at the cost of Rs. 750 mn. With this acquisition, KRBL became the largest rice miller in the world with a total capacity of 195 MT/hr, including 150 MT/hr capacity at Dhuri & existing 45 MT/hr capacity at Gaziabad. The plant also has rice bran oil capacity of 50 MT/hr. For setting up this plant, KRBL incurred almost Rs. 2500 mn (besides the acquisition cost). The commercial production commenced in FY07. However the capacity utilization at this plant was low at 32% in FY08. KRBL expects to increase capacity utilization to around 42.5% in FY09. The facility also has a captive power generation plant of 10.5 MW run on rice husk. At present, the entire power generated is consumed for milling purpose. Dhuri facility is expected to be a major catalyst for future growth of KRBL. The facility also enjoys mandi tax exemption (4% tax exempted for 7 years) that could enable it to market the produce at a more competitive price. Also, most of the paddy requirement for this plant would be met by procuring it from Punjab, thus leading to savings in the logistics cost. At present, KRBL can handle 25% of total basmati paddy grown in India. Recently, KRBL has also made a significant

addition of storage & warehousing facility at this plant incurring Rs. 200 mn. This could enable KRBL to procure large amount of paddy, which can be stored for longer period, thus increasing the ageing period of Basmati rice. As a result, the realisation is expected to improve & margins could rise going forward. In FY08, the ageing period increased from 252 days in FY07 to 349 days in FY08 leading to record inventory level of Rs. 8348 mn in FY08 vs Rs. 5813 mn in FY07.

Mechanised Packaging to enable easy & faster handling of cargo with assured safety & hygiene

KRBL is in the process of setting up a fully automated packaging plant, wherein one unit would be installed in Dhuri & the other one in Ghaziabad. The CAPEX for this expansion is Rs. 500 mn, which would be financed through internal accruals. The plant is expected to be operational from March 2009 & would provide high-tech packaging assuring hygiene & safety. Pelletization of cargo would ensure easy handling & faster productivity, thus enabling KRBL to increase its presence in the overseas markets like US & Europe, which demand mechanised packaged products.

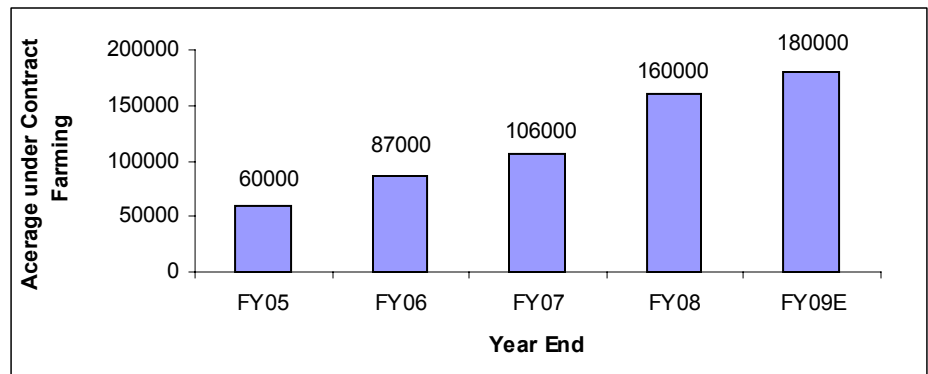
Captive power plant to help reduce the power cost substantially & wind turbine plant to add fuel to the turnover growth

KRBL implemented 3.8 MW power plant at Ghaziabad (run on rice husk) in May 2007. In FY07, KRBL had also implemented a 10.5 MW power plant at Dhuri run on rice husk & has a 12.5 MW wind power plant at Dhulia, which became operational in September 2006. The captive power plant has helped KRBL to reduce the power cost substantially since the company is not required to purchase power from outside. The energy generated from wind turbine is sold outside. The force of wind power & its supply is generally the best in Nov & Dec. Revenues from this business could add fuel to KRBL's turnover growth. In Q1FY09, more power was generated, which increased the energy revenues substantially from Rs. 8.3 mn in Q1FY08 to Rs. 47.6 mn in Q1FY09. For FY09, the revenue from sale of power is expected to be approx. Rs. 120 mn vs Rs. 29 mn in FY08. In FY08, KRBL was able to save almost Rs. 80 mn of its power & fuel cost & could continue to do so in future as well. Also, due to use of rice husk instead of coal for generating power, KRBL is also entitled to carbon credit. The company has applied for CER & has received approval for Ghaziabad unit. The credits would start coming from April 2009 onwards & is expected to fetch revenues of approx. Rs. 10 mn p.a.

Backward Integration into Contract Farming could lead to margin expansion, better quality procurement with assurance

KRBL pioneered the concept of contract farming almost 10 years back to boost the quality & yield of rice. It currently has 1.6 lacs acres of land under cultivation, spread across states such as Uttar Pradesh & Punjab. The company procures about 45% of its paddy requirement through contract farming (in FY08), which is expected to increase to 70% by FY10. This could have a beneficial impact on the margins of KRBL. KRBL distributes hybrid quality seeds to the farmers, who in turn plant it & after harvesting, supply it to KRBL. This paddy is procured from the farmers at the higher of contract farming price agreement or market price. This backward integration strategy could help KRBL to procure good quality paddy with assurance, which could be a point of concern for its competitors. The Agri-Service Division works closely with the farmers during each lifecycle of the crop i.e., from sowing & replantation to harvesting & threshing, thereby ensuring procurement according to the desired standard. With the adoption of contract farming, KRBL pushes the farmers to shift to the basmati rice cultivation, which is the thrust area for KRBL.

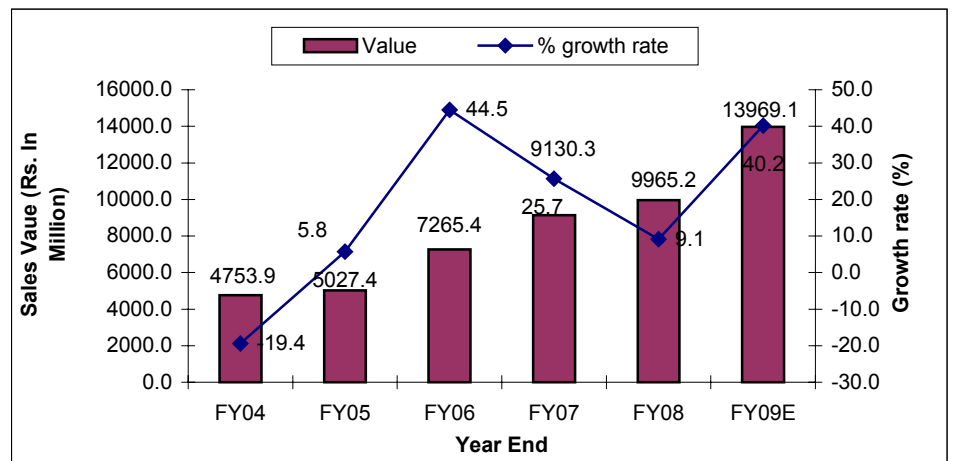
The chart given below gives an overview of KRBL's acreage under contract farming since FY05:



(Source: Company)

Revenue & Margins to improve going forward

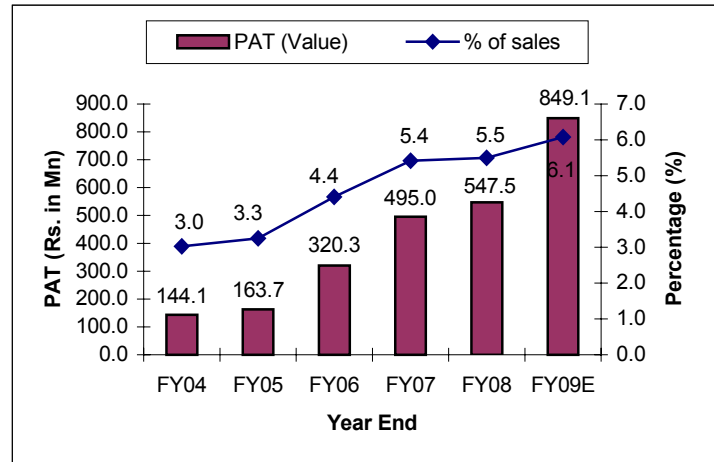
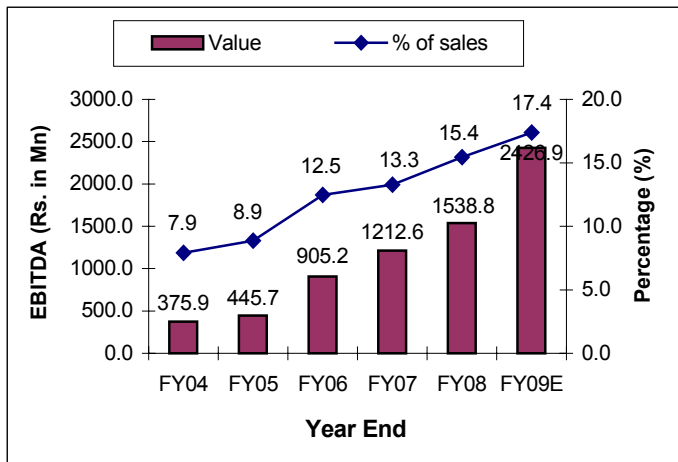
KRBL's turnover has grown at a CAGR of 13.1% over the last five years. In FY08, the turnover & PAT increased by only 9.1% & 10.6% respectively. Lower capacity utilisation at Dhuri, change in government policies & the volatility in paddy prices were the main reasons for slower growth. However, Q1FY09 results were impressive on account of improvement in capacity utilisation & higher realisations. Capacity utilisation at Dhuri is expected to improve from 32% in FY08 to 42.5% in FY09. KRBL has also incurred Rs. 200 mn for adding storage & warehousing facility at Dhuri. This could enable KRBL to procure large amount of paddy for a longer period of time, thus increasing the ageing period of Basmati leading to higher realisations. We expect KRBL to post a decent growth of 40.2% in revenues in FY09. The chart given below gives a clear picture of KRBL's turnover performance over the last five years & its projection for FY09



Robust growth expected in EBITDA & PAT

KRBL's EBITDA & PAT has grown at a CAGR of 33.8% & 32.7% respectively over the last five years. The EBITDA margins have increased from 7.9% in FY04 to 15.4% in FY08, while the PAT margins have grown from 3% in FY04 to 5.5% in FY08. KRBL is shifting its focus from trading to manufacturing activity, which could enable the company to enhance its margins going forward. KRBL's trading sales contribution to the total revenues has reduced significantly from 10% in FY07 to almost 0.5% in FY08. The larger manufacturing base at Dhuri plant would reduce the overall per unit cost of production. Also Dhuri plant has 50 MT/hr rice bran oil capacity, which is a value added product & could help in further expansion of margins. EBITDA is expected to grow by 57.7% in FY09 & EBITDA margins are expected to improve from 15.4% in FY08 to 17.4% in FY09. PAT is expected to grow by 55.1% in FY09 & PAT margins are expected to improve from 5.5% in FY08 to 6.1% in FY09. However, the effective tax

rate could increase to 30% in FY09 from 16% in FY08, since the MAT credit would not be available from FY09 onwards.



Industry Scenario & KRBL's position:

Indian Agriculture

As per the revised estimates of GDP put out by the Government, buoyancy in agriculture has pushed the Indian economic growth to 9% in FY08, up from 8.7% estimated earlier, even as the performance of manufacturing sector has been deteriorating. The upward revision in the GDP growth rate was mainly on account of the revision made in the estimated production of agricultural crops by the Department of Agriculture & Cooperation. The agricultural and allied activities grew by 4.5%, compared to earlier estimates of 2.6%, while the manufacturing sector growth has been lowered to 8.8% from 9.4%.

Being an important constituent of Indian Economy, agriculture still contributes almost 18.5% to the national income. The presence of varied agro-climatic conditions favourable for cultivation has helped India to become the world's leading producer of numerous agricultural produce. India is the largest producer of coconuts, mango, banana, milk, dairy products, cashew nuts, ginger, turmeric and black pepper. It is the second largest producer of rice, wheat, groundnuts, sugar, fruits and vegetables.

The agriculture sector is witnessing an increased flow of institutional credits, which will help it in longer run. There has been greater participation from private players in a range of agriculture and allied sectors including contract farming, agro-retail & food processing. These trends will result in better yield from the farm as well as the processing aspect. With such prospective developments, the agricultural industry is going to play a more dynamic role in the Indian economy.

Indian Rice Industry

Being the second largest producer of rice, India prides itself as the largest producer of basmati rice, producing 74% of the global produce. Rice production increased from 91 mn tonnes in FY07 to 95.7 mn tonnes during FY08. Rice accounts for 13% of overall agricultural exports & approximately 1.6% of total exports from India. India exported 4.5 mn tonnes of rice in FY07 valued at Rs 80 bn of which 1 mn tonnes of basmati were exported. During the first nine months of FY08, the non-basmati rice exports shot up significantly to 4 mn tonnes. In FY08, the Basmati rice exports stood at 1.14 mn tonnes. The Major Importing countries of Indian Non Basmati rice include Nigeria, Bangladesh, South Africa, U.A.E and Ivory Coast etc, while major Basmati Rice importers include West Asia & Middle East. Basmati is a staple food in Gulf with Saudi Arabia being the largest importer of Indian basmati rice, accounting for 50% of India's total basmati exports. Off late, Iran has emerged as a major Basmati importer & is expected to import 4 lac tonnes of Basmati rice from India, since locally grown Iranian rice has become

more expensive. Currently, Basmati sells for roughly half the price of locally grown Iranian rice.

With food processing gaining industry status gradually in India, the rice sector is expected to grow at an increasing momentum. Improvement in logistics, de commoditization of rice and shift towards retail is likely to add momentum to the growth of Indian rice sector. In FY09, the rice production is estimated to be 96 mn tonnes. The domestic & international prices of Basmati rice have jumped up significantly over the last one year. This year, better than expected crop output could lead to softening of paddy prices. However, due to significant increase in demand expected for rice, mainly from the overseas markets where the basmati rice prices are much higher than in India, the end product prices could decline only marginally. Also, KRBL, the largest exporter of Basmati from India, has increased the ageing period of rice by making significant addition to warehousing & storage facilities, which could enable the company to sell its end products at better prices even if the paddy prices decline.

Both the basmati and non-basmati sectors offer significant opportunities to organised players, as their share is significantly low with 35% in basmati and 5% in the non-basmati. The fragmented players lack the technology & expertise required for the high-end activities such as procurement & milling. With rice milling sector adopting hi-end technology, courtesy organised players, downstream value-added products are adding significantly to the revenues of the rice sector. India is the largest producer of rice bran oil in the world, producing 7 lakh tonne of bran oil per annum. It still is producing much below its potential of 12 lakh tonne per annum.

Complete Ban on Non-Basmati exports & levy of export duty on Basmati rice to impact the Indian rice exporters

In April 30, 2008, the Government levied an export tax of Rs. 8,000 (\$200) per tonne on basmati rice. However, it lowered the minimum export price (MEP) to \$1,000 per tonne from \$1,200 per tonne. The MEP was raised from \$900 per tonne in March 2008 to \$1200 per tonne early in April 2008 to halt the unprecedented jump in the Basmati rice prices. Normally rice exporters undertake contracts on a committed volume and price with the latter being invariably lower than the spot market price. They have little room for manoeuvre to bear the extra export duty burden cast on them. As 90 per cent of the country's basmati rice is exported, this sort of additional duty burden & higher MEP could cause a big dent on the contractual obligations of exporters, weaning the importers away from Indian suppliers in the global grain markets. If this sort of sustained assault is upon the basmati rice export industry, India's rivals such as Pakistan, Vietnam and Thailand would capture a large chunk of the traditional markets built & nurtured by domestic industry over long years. However, KRBL is unlikely to be impacted much since the company has been able to pass on the export duty to its customers due to its popular brand image & strong relationship with its overseas customers.

In March 2008, the Government also imposed a complete ban on exports of non-basmati rice to tame the increasing inflation. This could lead to a significant fall in the Indian rice exports to 2,50,000 tonnes this financial year, from as high as 5.5 million tonnes in 2007-08. The farmers & traders would have to bear heavy losses since the rice varieties, that earlier fetched a premium in the international markets will now have to be sold in the local markets at low rates. The non-basmati rice exporters are likely to witness a reduction in the volumes & this could impact their financial performance. However, KRBL would not be impacted significantly, since its non-basmati rice exports account for just 5.5% of its total exports revenues. The company would try to make up the loss by introducing more affordable ranges of non-basmati rice to target the lower end of the domestic market (where the prices are much lower than in the international markets) to lift up the volumes.

Rice exporters in India eyeing Pakistan mills

The ban on the export of non-basmati rice & an imposition of an export duty has forced the exporters to think out of the box. Companies are looking at acquiring mills in Pakistan & are tying up with retailers like Pantaloon to package cheaper varieties of rice. The government has hinted that it may consider easing a ban on export of non-basmati rice after November this year, when fresh crop reaches the market. But the ban

coupled with the imposition of export duty on basmati rice has made exporters wary of the future.

Exporting companies are worried about the loss of market share in other regions too. To maintain volumes in India, rice exporters are now looking at short-term measures. Companies like Kohinoor have introduced more affordable ranges to target the lower end of the domestic market. Pantaloon is talking to companies like Tilda & Kohinoor for an increased presence of non-basmati packaged rice on its shelves. KRBL is already in talks with several Pakistani rice millers for importing basmati rice. The company wants to leverage the advantage of zero import duty and create a new brand for Pakistani basmati rice in India. Infact, KRBL may even buy out mills in Pakistan and export from there.

Company Background

Incorporated in 1993 & promoted by Anil Kumar Mittal, KRBL is the world's largest exporter of Basmati rice from India. KRBL processes Basmati rice, Non Basmati rice, parboiled rice & co-products of rice milling process such as furfurals, lignin & rice bran. KRBL has four facilities including two manufacturing plants - one in Ghaziabad (45MT/hr) & one in Dhuri (150 MT/hr) and two sorting / repacking plants - one in Kandla (40 MT/hr) and one in Alipur (30 MT/hr).

In 1992, KRBL established India's largest, most advanced rice manufacturing plant (on the outskirts of Delhi) exclusively for exports. In 1998 the company entered the domestic market with premium brands - 'Doon' and 'India Gate'. KRBL is an ISO 9001: 2000 certified company & has been awarded APEDA Silver Trophy for the eighth consecutive year for being the largest Basmati Rice Exporter.

Today, KRBL holds 11% share of the total Basmati exports from the country. KRBL has major presence in all the traditional basmati markets of the world including Saudi Arabia, Kuwait and UAE. The company accounts for 50% of the total Basmati imports into US & 10% of the imports into Saudi Arabian market. Basmati sale accounts for around 85% of the total revenues of KRBL. In the exports markets (which account for 52% of the total revenues), 55% goes to Saudi Arabia, 10% each to US & Kuwait & 8-10% goes to the Middle East. KRBL enjoys USFDA approval for the shipment of its products. Its major domestic markets include places like Tamil Nadu, Andhra Pradesh & Maharashtra, which together account for 35% of its total domestic revenues (Tamil Nadu contribution maximum at 18%). **Its Basmati products are well known & marketed under the brand names India Gate, Doon, Nur Jahan, Bemisal, Lotus & Aarti.** KRBL's branded sales account for 90% of the total revenues. Basmati sales are mostly branded while Non-Basmati sales include bulk sales as well as branded. Its flagship brand India Gate accounts for almost 60-65% of the total basmati sales (exports as well as domestic). KRBL enjoys an extensive presence across more than 2.1 lacs retail outlets through 100 distributors & more than 300 dealers, covering India.

Installed Capacity & Production for FY08

	Installed Capacity	Production	Capacity Utilization (%)
Rice	195 MT per hr (paddy milling)	Milling of 4.96 lacs MTs of paddy resulting into production of 3.2 lacs MTs	42.4 % (taking 20 hrs & 300 days for calculating installed capacity p.a.)
Bran Oil	42 MT per day	4350 MTs	34.5%
Power	23 MW	25.5 mn units	-

Competitive Profile

KRBL's major competitors engaged in the similar line of business include REI Agro, Daawat (earlier known as LT Overseas), Lakshmi Overseas & Kohinoor Foods. KRBL trades at a discount to its peers, mainly in comparison to REI Agro, which is also present in retail business. Generally the companies under this sector are not given higher valuations due to huge fluctuations in the input cost (which is influenced by the Government policies) & price sensitivity due to cut throat competition. Also the financial

performance of peers like REI Agro & Lakshmi Overseas was better than KRBL in FY08, due to which they are commanding better valuations. However, the Q1FY09 results of KRBL have been very impressive. The discount could narrow down going forward considering KRBL's market leadership & popular brand image in basmati & non-basmati. Better capacity utilisation, improved realisation due to increase in the ageing period & more focus on manufacturing activity could boost the turnover & profitability of KRBL going forward.

Peer Comparison:

(FY08 Financial Details)

	OPM (%)	NPM (%)	EPS (Rs.)	CMP (Rs.)	PE	Mark. Cap (Rs. In Mn)	Sales (Rs. In Mn)	Mkt. cap/Sales
Lakshmi Overseas	21.3	10.6	16.8	262.5	15.6	15763.1	9544.9	1.7
Daawat (LT Overseas)	12.0	5.0	14.7	63.4	4.3	1411.9	6950.7	0.2
REI Agro	17.7	5.9	22.5	878.7	39.1	42327.0	18537.6	2.3
Kohinoor Foods	13.4	0.8	2.7	116.0	43.0	3062.4	6350.6	0.5
KRBL	15.4	5.5	22.5	138.7	6.2	3377.9	9965.2	0.3

(Source: Capitaline)

(Q1FY09 Financial Details & FY09 estimates)

	OPM (%)	NPM (%)	EPS (Rs.) (Annualised)	CMP (Rs.)	PE	Mark. Cap (Rs. In Mn)	Sales (Rs. In Mn)	Mkt. Cap / Sales (Annualised)
Lakshmi Overseas	19.8	9.5	21.2	262.5	12.4	15763.1	3324.0	1.2
Daawat (LT Overseas)	13.0	5.0	26.8	63.4	2.3	1411.9	2831.6	0.1
REI Agro	19.5	4.9	28.2	878.7	31.2	42327.0	7043.8	1.5
Kohinoor Foods	16.5	1.5	3.6	116.0	32.2	3062.4	1600.8	0.5
KRBL	18.3	7.8	34.9	138.7	4.0	3377.9	3579.2	0.2

(Source: Capitaline)

Risks & Concerns

- Any change in the Government policies with respect to procurement, packaging, movement, process, exports, etc could impact players in this segment positively / negatively.
- Sharp Rupee appreciation could impact KRBL's margins since the company's exports account for 52% of the total revenues. Also, the import of Raw Materials is insignificant, so the company does not benefit from Rupee appreciation.
- Paddy accounts for 65% of the total raw material cost. Thus, any sharp increase in paddy prices due to local or global factors, could put pressure on company's margins in case of its inability / delay to pass on the price increases to the consumers.
- Rice being an agricultural crop is vulnerable to weather conditions. Inadequate monsoons could affect the production & in turn procurement of rice of KRBL.
- Procurement of rice mainly takes place from October to December. The entire inventory has to be stored for the whole year since the harvest season is for a period of two to three months. Hence, there could be concerns of high inventory levels accompanied by higher interest cost, due to more borrowings required for working capital purpose. Huge inventory carrying could impact KRBL negatively if the rice prices reduce significantly.
- KRBL's sales volumes could reduce in FY09 due to recent ban on Non-Basmati exports & the duty levied on Basmati exports by the government to control the domestic rice prices. However, the increasing demand for Basmati from abroad & lower contribution of Non-Basmati sales is unlikely to have a significant impact on KRBL's performance. The disposable income of people in Middle East has improved significantly with the current oil boom & hence they are ready to buy rice even at higher prices.
- Most of the incremental revenue is expected to come from Dhuri plant, since its existing facilities are operating at almost full capacity. Any disruption at this facility could lead to a significant impact on the turnover & profits of KRBL.

Results Update

In FY08, KRBL's revenues increased by 9.1% to Rs. 9965.2 mn (FY07: Rs. 9130.3 mn). PAT grew by 10.6% to Rs. 547.5 mn (FY07: Rs. 495 mn). The EBITDA increased by 26.9% to Rs 1538.8 mn [FY07: Rs. 1212.59 mn]. EPS for FY08 stood at Rs. 22.5 [FY07: Rs. 20.3]. The EBITDA margins improved from 13.3% in FY07 to 15.4% in FY08, while the PAT margins increased from 5.4% in FY07 to 5.5% in FY08.

Q1FY09 results were very impressive due to better capacity utilisation at Dhuri, improved realisation, weakening Rupee & savings in the power cost. Net sales increased by 163.1% to Rs. 3579.2 mn [Q1FY08: Rs. 1360.3 mn]. PAT increased significantly by 23308.3% to Rs. 280.9 mn [Q1FY08: Rs. 1.2 mn]. PAT margins improved substantially from 0.1% in Q1FY08 to 7.8% in Q1FY09. EBITDA rose by 211.1% to Rs. 654.8 mn [Q1FY08: Rs. 210.5 mn]. EBITDA margins improved from 15.5% in Q1FY08 to 18.3% in Q1FY09. EPS for Q1FY09 stood at Rs. 11.5 [Q1FY08: Rs. 0.1].

Conclusion & Recommendation

At CMP, KRBL trades at 6.2x FY08 & 4x FY09E EPS. KRBL's FY08 performance was dull due to volatility in the paddy prices, change in government policies & lower capacity utilisation of its expanded capacity at Dhuri. However, in FY09, we expect KRBL's performance to be much better on the back of better utilisation at Dhuri & its popular brand image. Further, the impact of change in the government policies by way of raising minimum export price & levying the export duty has already been absorbed. KRBL has also added significant storage & warehousing facility at Dhuri, which could enable the company to procure large amount of paddy, thus enabling the storage for longer period. This is likely to increase the ageing period of basmati rice & could improve realisations. Also, KRBL's trading activity has reduced significantly & the focus has mainly shifted to manufacturing. This could further enhance the company's operating margins. We expect KRBL to post a strong revenue & profitability growth of 40.2% & 55.1% respectively in FY09.

Due to over-discounting of fears, the scrip is currently trading below its book value of Rs. 147.3 & is also much below its replacement value. Its peer company Kohinoor Foods witnessed a hostile takeover attempt recently due to this very reason. However, KRBL does not face this risk, since the promoters hold 53%, but the trigger of valuation reverting to highs remains. The scrip has the potential to trade at 5x FY09E EPS, which gives the price target of Rs. 175 over the next six months. Hence we recommend the investors to buy this scrip at the current price & to average it on dips to Rs. 121. (For red flag level on the stock under technical analysis, refer to Page No. 12).

Quarterly Financial Performance:

(Rs. In Million)

Particulars	Q1FY09	Q1FY08	VAR [%]	Q4FY08	VAR [%] (Q-o-Q)	Q4FY07	VAR [%] (Y-o-Y)	Q3FY08	Q2FY08
Net Sales	3579.2	1360.3	163.1	3340.8	7.1	2154.5	55.1	2702.9	2561.2
Other Income	1.8	17.4	-89.7	23.7	-92.4	32.5	-27.1	21.2	40.3
Total Income	3581.0	1377.7	159.9	3364.5	6.4	2187.0	53.8	2724.1	2601.5
Total Expenditure	2926.2	1167.2	150.7	2838.1	3.1	2004.8	41.6	2291.4	2232.3
PBIDT	654.8	210.5	211.1	526.4	24.4	182.2	188.9	432.7	369.2
Interest	227.1	144.1	57.6	228.9	-0.8	122.3	87.2	141.1	132.3
Depreciation	65.0	56.5	15.0	58.5	11.1	56.3	3.9	67.0	59.0
PBT	362.7	9.9	3563.6	239.0	51.8	3.6	6538.9	224.6	177.9
Tax (incl. DT & FBT)	81.8	8.7	840.2	31.3	161.3	-8.2	-481.7	28.5	35.4
PAT	280.9	1.2	23308.3	207.7	35.2	11.8	1660.2	196.1	142.5
EPS	11.5	0.1	22980.0	8.5	35.3	0.5	1660.2	8.1	5.9
Equity	243.5	243.5	0.0	243.5	0.0	243.5	0.0	243.5	243.5
PBIDTM (%)	18.3	15.5	18.2	15.8	16.1	8.5	86.3	16.0	14.4
PATM (%)	7.8	0.1	8796.5	6.2	26.2	0.5	1035.1	7.3	5.6

(Source: Capitaline)

Financial Estimates:
Profit & Loss A/c

(Rs. In Million)

YE March	FY06	FY07	FY08	FY09E
Net Sales	7265	9130	9965	13969
Other Income	76	69	103	10
Total Income	7341	9199	10068	13979
Total Operating Expenses	6436	7986	8529	11552
EBITDA	905	1213	1539	2427
Interest	300	458	646	946
Depreciation	119	175	241	268
Profit Before Tax	486	579	651	1213
Tax (including FBT & DT)	166	84	104	364
Net Profit After Tax	320	495	548	849

(Source: Company, HDFC Sec Estimates)

Balance Sheet

(Rs. In Million)

YE March	FY06	FY07	FY08	FY09E
Share Capital	214	244	244	244
Equity Warrants	257	0	0	0
Reserves & Surplus	2193	2872	3363	4155
Shareholders Funds	2664	3116	3607	4399
Secured Loans	4519	4867	7720	10808
Loan Funds	4519	4867	7720	10808
Deferred Tax Liability	80	88	85	85
Capital Employed	7262	8071	11412	15292
Gross Block	1631	2765	3140	3710
Less: Depreciation	463	632	867	1135
Net Block	1168	2133	2273	2575
CWIP	304	250	70	0
Investments	0	113	25	25
Current Assets	6075	7373	10943	15257
Current Liabilities & Provisions	285	1797	1900	2565
Working Capital	5790	5575	9043	12692
Capital Deployed	7262	8071	11412	15292

(Source: Company, HDFC Sec Estimates)

Cash Flow

(Rs. In Million)

YE March	FY06	FY07	FY08	FY09E
Profit Before Tax	486	579	651	1213
Net Operating Cash Flow	-1399	1637	-1945	-1454
Net Cash from Investing Activities	-510	-1201	-114	-500
Net Cash from Financing Activities	1860	-126	2151	2085
Cash & Cash Equivalent	670	365	456	587
Net Inc/(Dec) in Cash	574	-306	92	131

(Source: Company, HDFC Sec Estimates)

Ratio Analysis

YE March	FY06	FY07	FY08	FY09E
FD EPS (Rs.)	13.2	20.3	22.5	34.9
PE (x)	10.5	6.8	6.2	4.0
FD Book Value (Rs.)	109.4	127.9	148.1	180.6
P/BV (x)	1.3	1.1	0.9	0.8
EBIDTA (%)	12.5	13.3	15.4	17.4
PBT (%)	6.7	6.3	6.5	8.7
NPM (%)	4.4	5.4	5.5	6.1
ROCE (%)	10.9	13.0	11.5	14.2
RONW (%)	12.0	15.9	15.2	19.3
Debt-Equity	1.7	1.6	2.1	2.5
Current Ratio	21.3	4.1	5.8	5.9
Mkt. Cap /Sales (x)	0.5	0.4	0.3	0.2
EV/EBITDA	8.0	6.4	6.9	5.6

(Source: Company, HDFC Sec Estimates)

Technical Outlook:



KRBL has been trading between 110 and 160 for the last four months. This narrow trading range has however come after a strong bullish upmove that took the stock from Rs.68 levels last Sept 07 to the Rs.173 levels in Dec 07. As narrow trading ranges are usually followed by an expansion in trading ranges (As stocks break out of their narrow trading ranges), it implies that KRBL is due for a big move soon. Investors however need to keep a stop loss at 113. This can be assumed as a **Red Flag level** as a close below this level could lead to a sharp sell-off.

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