

CRISIL IER Independent Equity Research



KRBL Ltd

Detailed Report

Enhancing investment decisions



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) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation 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 Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Sown well to reap benefits in the basmati rice industry

Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Food Products

FY14 was an outstanding year for the basmati rice industry; prices increased 25-30% and demand was strong. KRBL, India's leading exporter of branded basmati rice and an established player in the domestic market, recorded robust growth. Going forward, we expect growth momentum to continue driven by 12-13% volume growth and steady realisations. While the balance sheet of most peers' deteriorated over the past five-six years, KRBL's efficient working capital management resulted in superior balance sheet. A well-known brand, relatively superior financial performance (high RoE) and experienced management further strengthen the company. We maintain our fundamental grade of 3/5. However, the competitive and commoditised nature of the basmati rice industry could hinder KRBL's future prospects.

FY14: An outstanding year for basmati rice industry; expect strong growth to continue

Rising domestic demand for basmati rice, robust exports and significant increase in prices led to healthy growth in the basmati rice industry in FY14. It grew 37% y-o-y to ₹416 bn driven by 7% growth in volumes and 28% growth in realisations. We expect growth momentum to continue over the next two years. Though paddy prices are expected to decline 10% in FY15 due to higher crop in the current season, demand growth is expected to remain strong at 12-13% driven by changing lifestyles, shift in consumer preference to branded rice and rise in quality awareness. Strong demand coupled with lower inventory with most of the organised players in the industry is likely to lead to stable prices in FY15. In the past two years, India has taken a substantial share from Pakistan – its only competitor in basmati rice exports – due to higher production and superior quality; we expect this trend to continue.

KRBL: One of the best basmati players in India

Being one of the leading basmati rice players in India (30% share in the organised domestic market and 20% in branded basmati exports) with an established brand (India Gate), KRBL is well placed to tap growth opportunity in the basmati rice industry. The company enjoys better realisations and RoEs, and has lower debt than peers.

High competition in the industry and geo-political risks could hinder growth

Competition in the basmati rice industry is high with unorganised players accounting for ~50% share. This is also visible from KRBL's lower-than-industry growth in exports over the past four years. The Middle East is the biggest export market for Indian basmati rice; it accounts for over 36% of KRBL's revenues. Any political turmoil in this region may impact exports and, consequently, the company's financials.

Revenues to grow at a two-year CAGR of 16%; valuation: CMP has strong upside

We expect revenues to increase at a two-year CAGR of 16% to ₹39 bn by FY16 driven by 13% growth in volumes and 3.5% growth in realisations. PAT is expected to record higher growth of 18%. We expect RoE to remain healthy at 24% in FY16. We continue to value KRBL by the P/E multiple method and have revised our fair value to ₹147 per share from ₹64. Apart from revision in earnings estimates due to better-than-expected performance, we have raised the P/E multiple to 10x from 5x factoring in superior balance sheet and expected healthy return ratios. At the current market price, our valuation grade is 5/5.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	16,229	20,741	29,053	33,278	39,301
EBITDA	2,292	2,943	4,415	4,976	5,897
Adj net income	1,009	1,300	2,505	2,662	3,472
Adj EPS (₹)	4.1	5.3	10.6	11.3	14.7
EPS growth (%)	(10.6)	28.9	92.8	6.2	30.5
Dividend yield (%)	0.3	0.8	1.2	1.3	1.4
RoCE (%)	11.5	14.5	18.6	18.1	20.2
RoE (%)	14.8	16.8	26.7	22.9	24.3
PE (x)	24.1	18.7	9.4	8.9	6.8
P/BV (x)	3.4	2.9	2.3	1.8	1.5
EV/EBITDA (x)	14.6	11.2	8.3	6.8	5.9

CMP: Current market price, financial numbers re-classified as per CRISIL's standards

Source: Company, CRISIL Research estimates

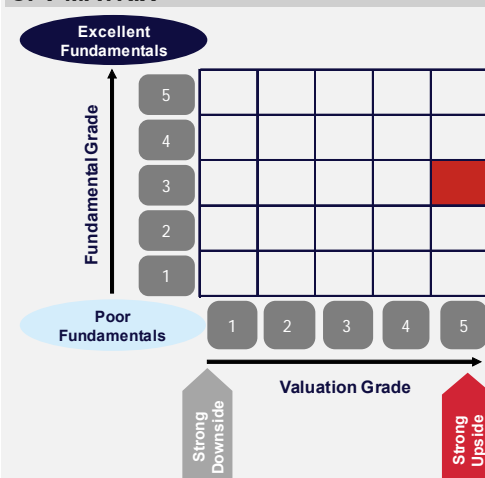
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September 22, 2014

Fair Value ₹147
CMP ₹100

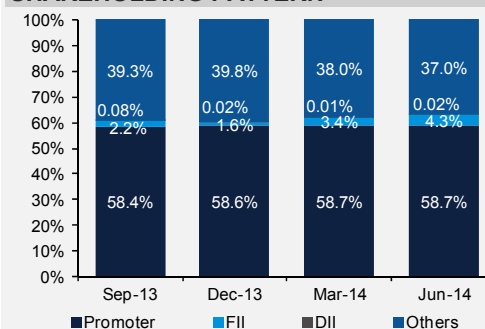
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	8146/27207
NSE/BSE ticker	KRBL
Face value (₹ per share)	1
Shares outstanding (mn)	235.8
Market cap (₹ mn)/(US\$ mn)	23,582/388
Enterprise value (₹ mn)/(US\$ mn)	32,925/541
52-week range (₹)/(HL)	107/24
Beta	1.5
Free float (%)	41.4%
Avg daily volumes (30-days)	593,202
Avg daily value (30-days) (₹ mn)	56

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KRBL	17%	31%	106%	318%
CNX 500	4%	9%	31%	44%

ANALYTICAL CONTACT

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Table 1: KRBL's business environment

Product / Segment	Rice	Energy
Revenue contribution (FY14)	Rice: 95.2%, by-products: 3.5%	1.4%
Revenue contribution (FY16)	98.5%	1.5%
Product / service offering	<ul style="list-style-type: none"> ■ Basmati rice: Flagship brand – India Gate – contributes 55% to total revenues. Also has ~20 brands including Al Wisam, Bemisal, Doon, Nurjahan, Train (93% contribution to revenues) ■ Non-basmati rice: Mostly private labels (2.5% contribution to revenues) ■ By-products: Bran oil, furfural oil and de-oiled cakes (3% contribution to revenues) 	<ul style="list-style-type: none"> ■ Power generation capacity: 80.7 MW <ul style="list-style-type: none"> – Captive: 15.8 MW – Commercial: 64.9 MW ■ Wind: 50.2 MW, biomass: 15.8 MW and solar: 14.8 MW
Geographic presence	<ul style="list-style-type: none"> ■ India – 56%, the Middle East – 35%, others – 9% ■ Key export markets: Saudi Arabia, UAE, Kuwait, Iraq 	<ul style="list-style-type: none"> ■ Power plants located in Andhra Pradesh, Madhya Pradesh, Maharashtra, Karnataka, Punjab, Rajasthan and Tamil Nadu
Market position	<ul style="list-style-type: none"> ■ ~30% share in the domestic branded basmati segment ■ 20% share in branded basmati exports. Branded basmati comprises 20% of the total exports from India ■ Largest branded basmati player in Saudi Arabia 	<ul style="list-style-type: none"> ■ Self-sufficient in captive requirement; thrust on wind and solar energy tax benefits
Industry growth expectations	<ul style="list-style-type: none"> ■ Consumption of basmati rice in the domestic market is expected to grow at 12-13% over the next two years ■ Basmati rice exports are expected to grow at 20% over the next two years 	-
Sales growth (FY11-FY14 – 3-yr CAGR)		22%
Average EBITDA margin (FY11-14)		14.6%
Earnings growth (FY11-FY14 – 3-yr CAGR)	30% (PAT growth was higher than revenues due to higher margin and lower interest growth)	
Sales forecasts (FY14-16E – 2-yr CAGR)		16%
Average EBITDA margin (FY14-16E)		15%
Earnings growth (FY14-FY16E – 2-yr CAGR)	18% (driven by revenue growth and improvement in margins)	
Demand drivers	<ul style="list-style-type: none"> ■ Changing lifestyles, rise in income level and shift in consumer preference to branded rice. Besides, quality consciousness about food is on the rise ■ Preference for basmati in the export markets, especially the Middle East, is increasing due to superior quality 	<ul style="list-style-type: none"> ■ State utilities are required to purchase at least 5% of power from renewable energy
Key competitors	<ul style="list-style-type: none"> ■ Domestic and export markets: REI Agro, Kohinoor Foods, LT Foods, Amira Foods, Best Foods, unbranded basmati and private labels 	<ul style="list-style-type: none"> ■ Renewable energy producers in respective states
Key risks	<ul style="list-style-type: none"> ■ Geo-political issues to impact basmati rice exports ■ Regulatory issues in exports of non-basmati rice 	<ul style="list-style-type: none"> ■ Regulatory - withdrawal of favourable tax treatment, preferential tariff, etc.

Source: Company, CRISIL Research

Grading Rationale

FY14: An outstanding year for the basmati rice industry

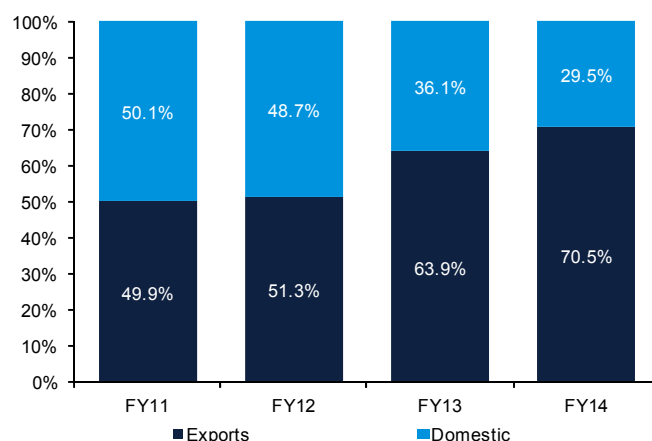
Rising domestic demand for basmati rice, robust exports and significant increase in prices led to healthy growth in the basmati rice industry in FY14. It grew 37% y-o-y to ₹416 bn driven by 7% growth in volumes and 28% growth in realisations. In FY11-13, growth was 16% driven by 5% growth in volumes and 10% growth in realisations.

Basmati rice industry in India grew 37% y-o-y in FY14

Table 2: High realisations drove overall growth

	FY11	FY12	FY13	FY14
Volume (mn MT)	6.5	7.5	7.1	7.6
y-o-y growth		15.4%	-5.3%	6.7%
Realisation (₹/MT)	35,014	40,124	42,770	54,835
y-o-y growth		14.6%	6.6%	28.2%
Value (₹ mn)	227,588	300,928	303,669	415,597
y-o-y growth		32.2%	0.9%	36.9%

Figure 1: Exports growing at faster pace than local demand*



*Based on CRISIL Research's calculations

Source: Company, CRISIL Research

Source: Company, CRISIL Research

KRBL, being an established player, reaped huge benefits

Being one of the leading basmati rice players in India with an established brand, KRBL recorded revenue growth of 40% y-o-y in FY14, above peers' average of 12%. Driven by strong revenue growth, its profit in FY14 almost doubled to ₹2.5 bn from ₹1.3 bn in FY13. KRBL has more than 30% market share in the organised domestic basmati rice market and 20% share in the branded basmati rice exports market.

KRBL has 30% share in the organised domestic basmati rice market

Table 3: KRBL reported higher-than-industry growth in FY14

Companies	FY14 revenue growth	Five-year revenue CAGR (FY09-14)
KRBL	40.1%	17.1%
REI Agro	6.4%	32.9%
LT Foods	11.7%	18.6%
Kohinoor Foods	16.2%	13.8%

Source: Company, CRISIL Research

Current high production trend signals a fall in paddy prices...

Based on advance estimates, basmati rice production is expected at 8.5 mn tonnes in the current kharif season compared with 7.6 tonnes last year. We expect paddy prices to decline 10% to ₹32-34 per kg vs ₹36-38 per kg last year due to good crop in the current season. Launch of new basmati variety Pusa 1509 and farmers' expectations of high paddy prices in the current kharif season (June-October 2014) led to an increase in area under acreage to 3.5

Paddy prices expected to decline 10% in FY15

mn hectares from 2.5 mn hectares last year. As per Indian Agricultural Research Institute's (IARI) scientists, Pusa 1509 has a yield of 5.5-6.25 tonnes per hectare, 25% higher than Pusa 1121's average yield of 4.5-5 tonnes per hectare. This variety also consumes less water than Pusa 1121 and is likely to replace 40-50% of the area under acreage.

Basmati rice production in the last kharif season (June-October 2013) was higher by 7%. Despite higher crop, paddy prices increased 35-40% in the past one year due to strong demand from domestic and export markets.

Table 4: Area under basmati acreage on the rise

Particulars	FY10	FY11	FY12	FY13	FY14	FY15E
Area under acreage (hectares)	1,968,390	2,165,229	2,570,000	2,310,000	2,500,000	3,500,000
Total basmati production (mn MT)	4.50	6.47	7.48	7.10	7.58	8.50
Paddy prices (₹/MT)	19,567	22,504	16,508	22,660	34,232	30,809

Source: CRISIL Research

... but realisations to remain stable due to healthy demand and low inventory

While paddy prices are expected to decline 10% in FY15, we expect basmati realisations to remain stable or increase marginally by 2-3% due to healthy demand and low inventory. We expect demand to remain healthy at 12-13% over the next two years both in the domestic and exports markets. India's share in basmati rice exports is increasing at a rapid pace; we expect the trend to continue due to superior quality and higher production compared with Pakistan, the only competitor. Also, consumption of basmati rice in the domestic market is rising at a healthy pace driven by changing lifestyles and expansion of organised retail.

We expect basmati prices to remain stable in the current year due to higher output, rise in demand and low inventory levels. Our analysis of inventory of most of the organised basmati rice players in India suggests that the current stock is the lowest in the past two years as demand has outpaced supply.

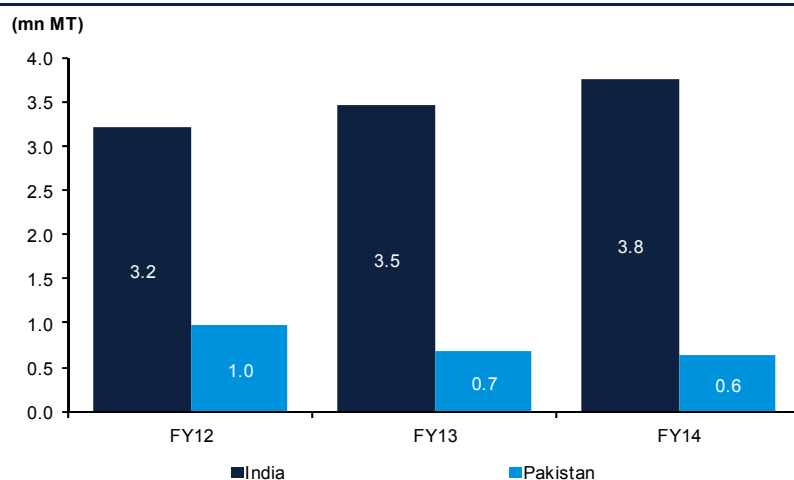
Declining basmati rice production in Pakistan => advantage India

In the basmati rice market, India is at an advantageous position due to steady growth in production vs declining trend in Pakistan. India's share in the exports market increased to 85% in FY14 from 77% in FY12 driven by delivery of superior quality products.

India and Pakistan are the only producers of basmati rice across the globe – while India exported 3.8 mn MT of basmati rice, Pakistan's exports were 0.6 mn MT in FY14. Basmati rice production in Pakistan grew marginally to 2.5 mn MT in FY14 vs 2.2 mn MT in FY13. Despite rise in demand for basmati rice in the domestic and exports markets, production in Pakistan declined to 2.5 mn MT in FY14 from 2.8 mn MT in FY10 due to low yield and limited spend on research of new seeds unlike other countries. During the same period, India's basmati rice production grew to 7.6 mn MT in FY14 from 3.8 mn MT in FY09 due to increase in acreage owing to higher yield and returns, and continuous investments in research activities.

Realisations to remain stable in FY15

India's share increasing in the basmati exports market

Figure 2: India's share in the exports markets on the rise


Source: Company, CRISIL Research

Exports to Iran to decline; other geographies expected to pick up

Share of Iran in total basmati rice exports from India is expected to decline over the next two years as Iran increased the import duty to 40% in July 2014 from 23% earlier. Also, it reduced the accepted level of arsenic in basmati rice from 150 parts per million (ppm) to 120 ppm. Owing to these developments, we expect export volume to Iran to decline marginally over the next two years from 1.44 mn MT in FY14. However, demand for basmati rice is on the rise in other Middle East countries such as Iraq, Kuwait and Saudi Arabia due to rise in income levels.

Table 5: Iran's share increased significantly; expect it to decline during FY15-16

Share in exports	FY11	FY12	FY13	FY14
Iran	17.9%	18.4%	33.3%	37.5%
Saudi Arabia	27.6%	21.9%	18.9%	22.9%
UAE	25.0%	22.2%	6.7%	4.1%
Iraq	1.5%	4.4%	5.6%	5.5%
Kuwait	9.6%	8.8%	5.5%	5.2%
Yemen Republic	2.6%	2.6%	4.5%	3.8%
The US	2.2%	3.3%	2.9%	3.0%
The UK	3.1%	4.1%	4.4%	2.7%

Source: CRISIL Research

Domestic consumption increasing at a healthy pace

Demand for basmati rice at home is expected to remain healthy and grow at 12-13% over the next two years driven by changing lifestyles, rise in income and expansion of organised retail in India. Despite 25-30% increase in prices in FY14, demand remained strong at 7% y-o-y. Based on our interaction with industry sources, customers are willing to pay a higher price for basmati due to its premium quality and rising affluence; domestic consumption in the past five years grew at 12%. South India remains the largest market of branded basmati rice with ~35% share followed by North and West India with ~25% each and East India with 15%.

Expect domestic consumption of basmati rice to grow at 12-13% over the next two years

Competitively placed to benefit from strong growth in industry

KRBL, with a strong balance sheet owing to well-managed working capital cycle and an established position in the basmati rice industry, is competitively placed to benefit from robust industry growth. We expect growth momentum to continue driven by rising demand for branded basmati rice. Revenues are expected to grow at a two-year CAGR of 16% in FY16 driven by 13% growth in volumes and 3.5% growth in realisations. We expect EBITDA margin to remain stable at 15% over the next two years.

Maintained healthy growth in profitability over the long term; strong RoE of 15%+

While the yearly trend in profitability might be volatile, KRBL reported five-year CAGR of 15%+ during FY11-14. Unlike most other players in the industry, KRBL has reported RoE of 15%+ over the past eight years; in FY14, the company reported highest ever RoE of 26.7%.

The company has also managed its balance sheet well; working capital cycle has been stable at around 230 days over the past two years. Its gearing declined to 1.3x in FY14 from 1.6x in FY07 and interest coverage improved to 5.8x from 2.6x during the same period.

Table 6: Strong long-term growth in profitability

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
PAT (₹ mn)	325	502	548	656	1,250	1,128	1,009	1,300	2,505
y-o-y growth (%)		54.6	9.3	19.5	90.7	-9.8	-10.6	28.9	92.8
Five-year CAGR (%)						28.3	15.0	18.8	30.8

Source: Company, CRISIL Research

Table 7: Well-managed balance sheet with strong RoE

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Working capital days	214	321	211	178	277	282	222	228
Gearing (x)	1.6	2.1	1.4	1.1	1.4	1.3	1.0	1.3
Interest coverage (x)	2.6	2.3	2.2	5.2	4.4	3.2	4.2	5.8
RoE (%)	17.4	16.3	16.7	26.1	19.1	14.8	16.8	26.7

Source: Company, CRISIL Research

Buying of semi-finished rice from open market still a concern

Over the past seven-eight years, KRBL has continuously bought semi-finished rice from the open market. Though the company made marginal profit through this strategy in some of the years in the past, we remain sceptical about the strategy as the company could have enjoyed some economies of scale by purchasing paddy and processing the same in its plants.

As a strategy, KRBL purchases lower quantity of paddy if prices are high. However, if demand is better than the management's expectations, the company buys semi-finished rice from the open market. In the past two years, the company purchased ~25% of its total rice volumes from the open market. The company benefitted as the price paid for semi-finished rice was ~7% lower than conversion price of paddy in the past two years. During FY09-10, the company also paid a premium of ~40% over the conversion price to meet the demand.

Yearly profitability trend has been volatile...

...but five-year profit CAGR has consistently been 15%+

Despite the largest capacity, KRBL purchases ~25% of total volumes from the open market

Table 8: KRBL constantly purchases semi-finished rice

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Volume of semi-finished rice (MT)	189,109	136,505	41,008	49,783	110,373	157,250	144,841	91,000	114,704
% of total sales volume	55.3%	40.9%	13.8%	17.1%	32.9%	48.4%	43.2%	22.9%	25.4%
Buying price of semi-finished rice (₹/MT)	13,765	18,245	27,454	50,406	42,022	40,085	25,648	32,967	48,211
Paddy purchase price (₹/MT)	9,897	12,131	17,721	20,734	19,567	22,504	16,508	22,660	34,232
Paddy conversion price (₹/MT)	15,226	18,663	27,263	31,898	30,103	34,621	25,398	34,861	52,665
Premium/(discount over conversion price)	-9.6%	-2.2%	0.7%	58.0%	39.6%	15.8%	1.0%	-5.4%	-8.5%

Source: Company, CRISIL Research

Marginal returns from power division; investment to continue for tax benefits

Of ₹24.4 bn capital employed in FY14, ~10% is deployed in the wind, solar and biomass power plants, where returns are ~2%. As of June 2014, KRBL has power plants with generation capacity of 80.7 MW. Currently, 11 MW is being used for captive purposes; the balance is sold at merchant rates to state utilities. The company will continue to invest in renewable power primarily to avail tax benefits; it plans to invest ₹1.5 bn per annum over the next two years. As renewable energy qualifies for accelerated depreciation for tax purposes, the company's effective tax rate has been ~22% in the past two years.

Table 9: KRBL's power generation capacity

Plant	Type	Total capacity (MW)	Captive (MW)	Commercial (MW)
Dhuri	Biomass	12.3	7.4	4.9
Ghaziabad	Biomass	3.5	3.5	-
Maharashtra	Wind	12.5	-	12.5
Rajasthan	Wind	11.9	-	11.9
Tamil Nadu	Wind	8.1	-	8.1
Karnataka	Wind	11.1	-	11.1
Andhra Pradesh	Wind	2.1	-	2.1
Madhya Pradesh	Wind and solar	19.2	-	19.2
Total		80.7	10.9	69.8

Source: Company, CRISIL Research

Continues to outperform peers in the basmati rice industry

KRBL continues to outperform peers in the basmati rice industry on most of the parameters due to its strong brand and relatively conservative debt and export policy. As a strategy, the company does not export without letter of credit or where bill discounting (with risk passed on to the banker) is unavailable. We believe this strategy helps while exporting to politically unstable countries in the Middle East. Over the past five years, the company has consistently reported higher PAT growth and superior RoE than peers.

KRBL has consistently recorded higher PAT growth and superior RoE than peers

Table 10: KRBL has the largest manufacturing capacity and strong brand equity

Particulars	KRBL	REI Agro	LT Foods	Kohinoor	Amira
Capacity – MT/hour	195	118	50	60	24
Product offerings	Basmati, non-basmati	Basmati, non-basmati	Basmati, non-basmati, snacks	Basmati, non-basmati, ready-to-eat foods	Basmati, non-basmati, ready-to-eat foods
Key brands	India Gate, Doon, Bemisal	Raindrops	Daawat, Royal, Heritage, Chef's Secretz	Kohinoor, Charminar, Trophy	Amira
Brand equity	One of the leading brands	Moderate	One of the leading brands	Strong but market share is declining	Moderate, focusing more on exports
Geographic presence	India, the Middle East, the US and the UK	India, the Middle East, Mauritius	India, the Middle East, the US	India, the Middle East, the US and the UK	India, the Middle East, the US and the UK

Source: Company, CRISIL Research

Table 11: KRBL's financials are one of the best in the basmati rice industry

Particulars	KRBL	REI Agro	LT Foods	Kohinoor	Amira*
Revenue growth (FY09-14)	17%	32%	19%	14%	28%
Avg. gross margin (FY09-FY14)	20%	21%	22%	19%	11%
Avg. EBITDA margin (FY09-FY14)	14.6%	17.0%	11.5%	9.7%	8.0%
PAT growth (FY09-14)	31%	17%	22%	2%	55%
Gearing (FY14) (x)	1.3	1.4	3.6	2.1	1.1
Interest coverage (FY14) (x)	5.8	1.7	2.4	1.4	2.8
RoE (FY14)	26.7%	11.9%	20.1%	9.3%	21.0%

*Data from FY10-14

Source: Company, CRISIL Research

Key Risks

Geo-political issues may affect exports

The Middle East accounts for 36% of KRBL's revenues. It is also the biggest export market for Indian basmati rice. The company mostly exports to Saudi Arabia, UAE, Iraq and Kuwait. Any political turmoil in this region may adversely impact exports and, consequently, KRBL's financial performance.

Non-hedging of foreign currency exposure to impact revenues, margins

Given that exports constitute ~45% of KRBL's total revenues, it is exposed to the foreign currency risk. Though KRBL has been consistently hedging its foreign currency exposure through forward contracts, if it fails to do so in the future, revenues and margins might be impacted.

Fluctuations in raw material prices can impact profitability

KRBL purchases both paddy and semi-processed rice depending on the demand and price expectations at a given point of time. This exposes the company to fluctuations in raw material prices. Further, while a longer inventory holding period may result in higher realisations (on account of ageing), it results in higher interest costs too.

Regulatory changes

Though historically India has not witnessed any ban on basmati rice exports as it earns substantial foreign currency, any policy change in that regard (like non-basmati) could impact the industry including KRBL. In April 2008, the Indian government banned exports of non-basmati rice to curb inflation, which was subsequently lifted in September 2011.

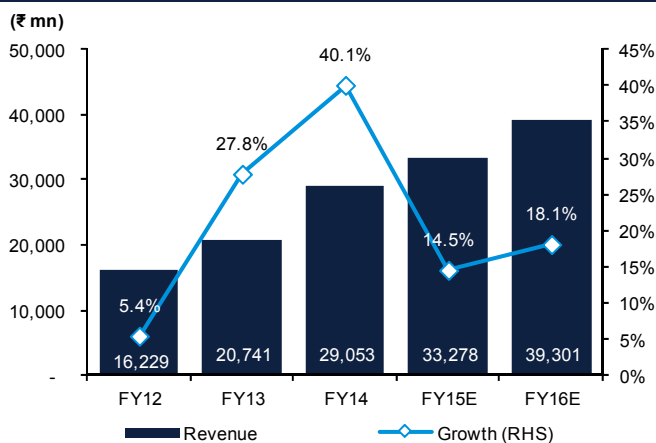
Financial Outlook

Expect revenues to grow at a two-year CAGR of 16%

We expect revenues to grow at a two-year CAGR of 16% in FY16 driven by 13% growth in volumes and 3.5% growth in realisations. We expect realisation growth to be marginal at 2% in FY15 due to expectations of higher crop in the current kharif season; it is expected to increase to 5% y-o-y in FY16.

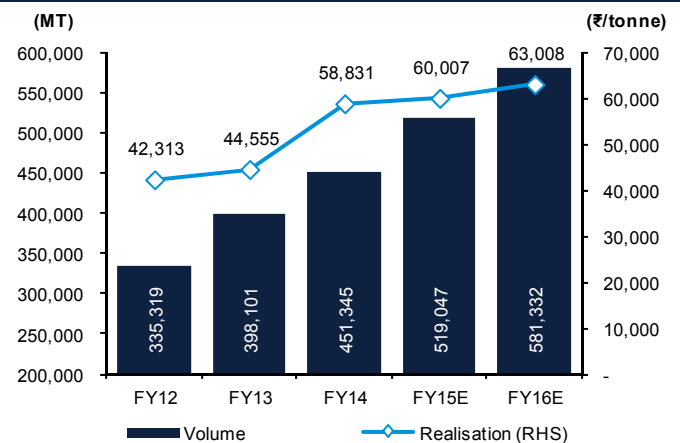
Revenues expected to grow at a two-year CAGR of 16% driven by volume growth

Figure 3: Revenues to grow 16% over the next two years



Source: Company, CRISIL Research

Figure 4: Volumes to drive revenue growth

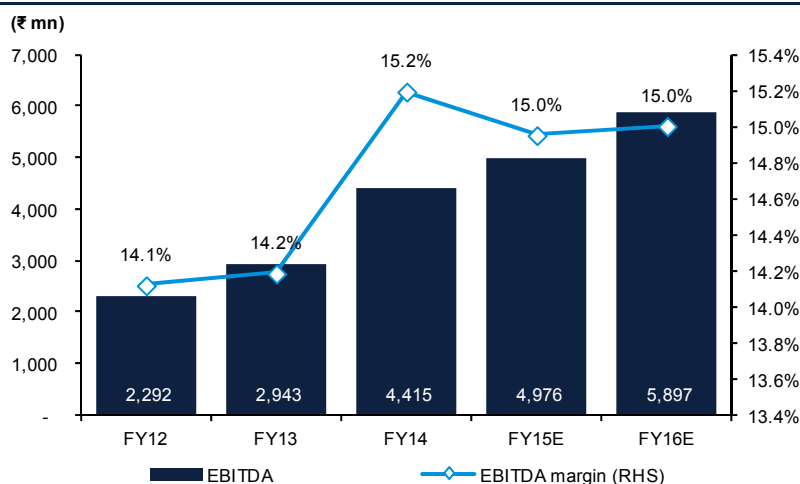


Source: Company, CRISIL Research

EBITDA margin to remain stable at 15%

Driven by higher realisations in the domestic and exports markets, EBITDA margin expanded by 100 bps y-o-y to 15.2% in FY14. Going forward, we expect EBITDA margin to remain stable at 15% during FY15-16.

Figure 5: EBITDA margin to remain stable

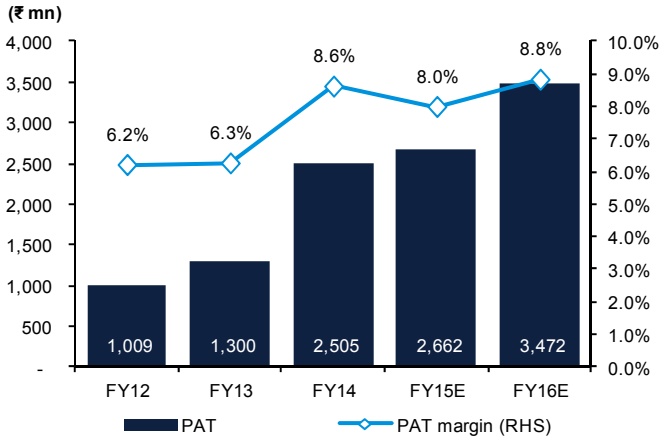


Source: Company, CRISIL Research

Healthy PAT growth over the next two years

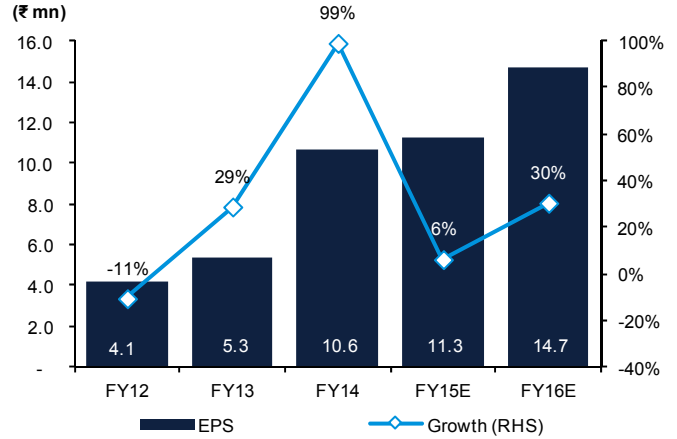
Driven by healthy revenue growth and stable margin, we expect PAT to grow at a two-year CAGR of 18% to ₹3,472 mn in FY16. EPS is estimated at ₹14.7 in FY16 vs ₹10.6 in FY14.

Figure 6: PAT and PAT margin



Source: Company, CRISIL Research

Figure 7: EPS and EPS growth



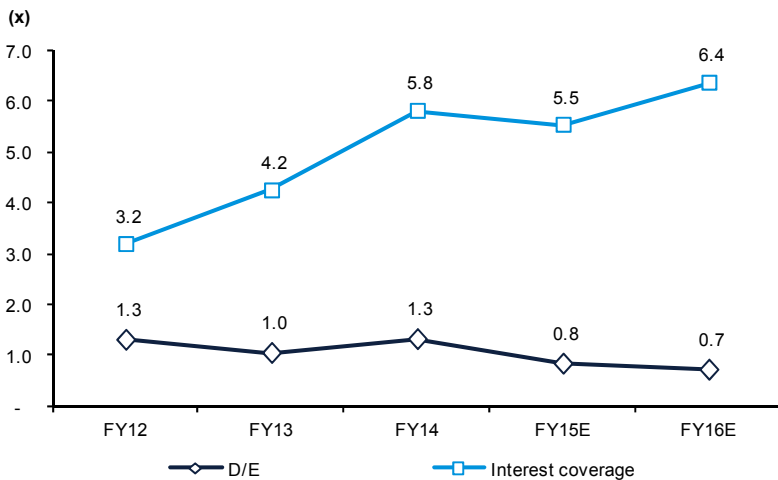
Source: Company, CRISIL Research

Gearing to decline from the current levels

As basmati paddy is required to be stored for one year, we expect inventory levels to increase with rising sales volume. Historically, the company's debt has been the highest in March (end of paddy-buying season) and the lowest in September (beginning of paddy-buying season). We expect inventory to increase to ₹20.4 bn in FY16 from ₹16.9 bn in FY14 but debt is expected to decline to ₹11.4 bn from ₹13.8 bn during the same period as most of the funding is expected to be met through internal accruals. Gross debt-to-equity is expected to decline to 0.7x in FY16 from 1.3x in FY14 with interest coverage likely to improve to 6.4x from 5.8x during the same period. In August 2014, the company's credit rating was revised to "AA-" from "A+".

Gearing is expected to decline to 0.7x in FY16

Figure 8: Gearing to decline from current levels; strong coverage ratio

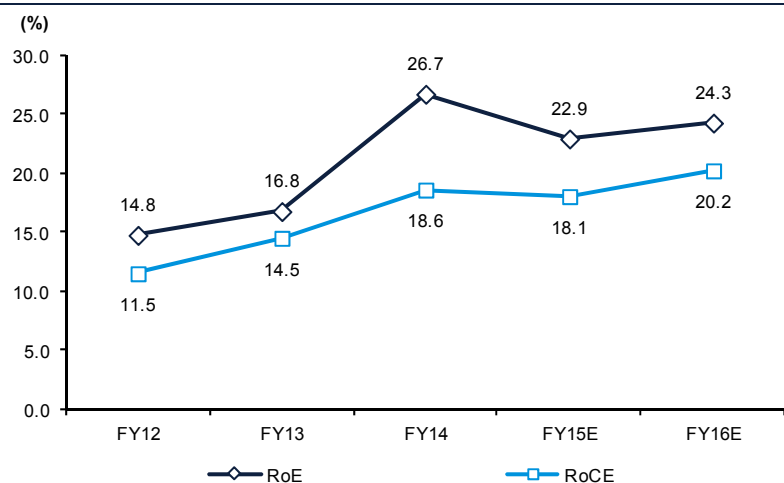


Source: Company, CRISIL Research

Return ratios to remain healthy

We expect RoCE to improve from 18.6% in FY14 to 20.2% in FY16 due to increase in asset turnover ratio and stable margins. RoE is expected to decline marginally but remain healthy at 24.3% in FY16 vs 26.7% in FY14.

Figure 9: Healthy return ratios



Source: Company, CRISIL Research

Earnings Estimates Revised Upwards

Particulars	Unit	FY15E			FY16E		
		Old	New	% change	Old	New	% change
Revenues	(₹ mn)	32,928	33,278	1.1%	36,985	39,301	6.3%
EBITDA	(₹ mn)	4,746	4,976	4.9%	5,317	5,897	10.9%
EBITDA margin	%	14.4%	15.0%	54 bps	14.4%	15.0%	63 bps
PAT	(₹ mn)	2,534	2,662	5.0%	2,998	3,472	15.8%
PAT margin	%	7.7%	8.0%	30 bps	8.1%	8.8%	73 bps
EPS	(₹)	10.7	11.3	5.0%	12.7	14.7	15.8%

Source: CRISIL Research

Reasons for changes in estimates

Line item	FY14E	FY15E
Revenues		Raised factoring in strong domestic demand and higher-than-expected realisations in the domestic and exports markets
EBITDA margins		Raised owing to higher realisations
PAT		Raised owing to higher revenue growth assumptions and higher margins

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.

Experienced management

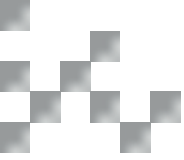
KRBL's management have more than 30 years of experience in the rice industry. It is managed by three brothers - Anil Mittal, Arun Gupta and Anoop Gupta. Mr Anil Mittal (Chairman and Managing Director – 63 years) formulates the marketing strategies and supervises the marketing functions. He is ex-President of All India Rice Exporters Associations. Mr Arun Gupta (Joint Managing Director – 57 years) looks after procurement, processing and production of rice. Mr Anoop Gupta (Joint Managing Director – 55 years) monitors accounts, finance, administration and domestic marketing.

An experienced second line

The company is promoter-driven but many of the senior management positions are held by individuals not related to the promoters. The company has a fairly experienced second line of management including (1) Mr Ashok Chand (plant CEO), a mechanical engineer and a post graduate diploma holder in personnel management having worked with Nestle India and Pfizer Ltd, and (2) Mr Rakesh Mehrotra (Group CFO), a chartered accountant with more than 29 years of experience; he has worked with Onida, Mafatlal and DCM group.

Management's growth initiatives have paid off

In the past decade, the management undertook various initiatives to expand the business. These include increasing the in-house processing capacity by acquiring the Punjab-based Dhuri plant, expanding the product range and enhancing distribution channels. The company pioneered the concept of contract farming wherein it provides high-yield certified seeds and training for crop cultivation. Owing to these initiatives, KRBL's revenues grew from ₹7 bn in FY06 to ₹29 bn in FY14; PAT grew from ₹0.3 bn in FY06 to ₹2.5 bn in FY14.



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 Research 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 meets the desired levels supported by an experienced board. However, we believe there is room to improve the disclosure levels.

Board composition

KRBL has 10 board members, of whom five are independent directors. This meets the minimum requirements as per Clause 49 of SEBI's listing guidelines. The directors have a fairly good understanding of the company's business and processes.

Board's processes

The board's processes have evolved over the past three-four years; board meeting notices along with the agenda papers are circulated well in advance. Independent directors include Mr Devendra Agarwal (chairman, audit committee), who has more than 35 years of experience in financial management, corporate taxation and management consultancy, and Dr N.K. Gupta who holds a doctorate in engineering with more than 30 years of experience. He is also on the board of Rei Agro and Cosmo Ferrites. Some independent directors are personally known to the promoters; as a result, we believe their ability to exercise management oversight is limited.

Steady dividend payout ratio

The company has maintained a steady dividend payout ratio of ~10% over the past few years. We believe this is beneficial to the minority shareholders.

Scope to improve disclosure levels

Based on annual reports, quarterly presentations, website and other publicly available information, we believe there is room to improve the disclosure standards.

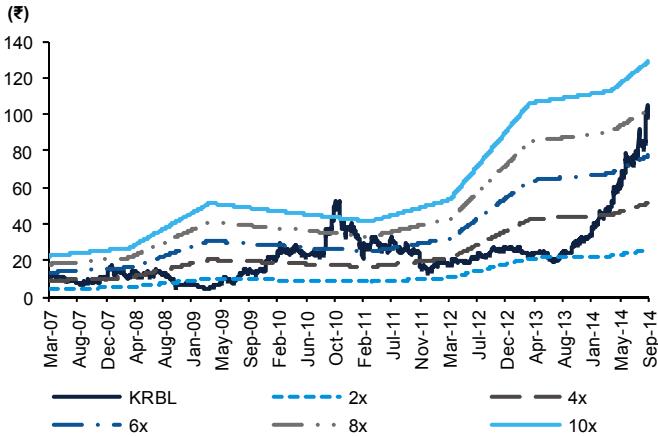
The position of CMD is held by one of the promoters

Valuation

Grade: 5/5

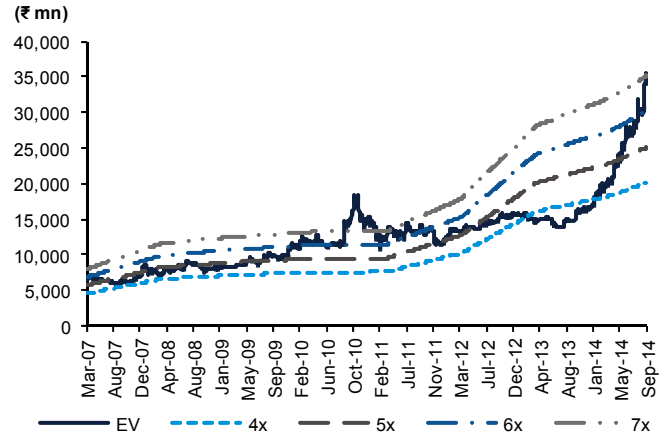
We continue to value KRBL by the P/E multiple method. We have raised the P/E multiple to 10x from 5x factoring in superior balance sheet and expected healthy return ratios. Accordingly, the fair value is revised to ₹147 per share from ₹64. At the current market price, our valuation grade is 5/5.

One-year forward P/E band



Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



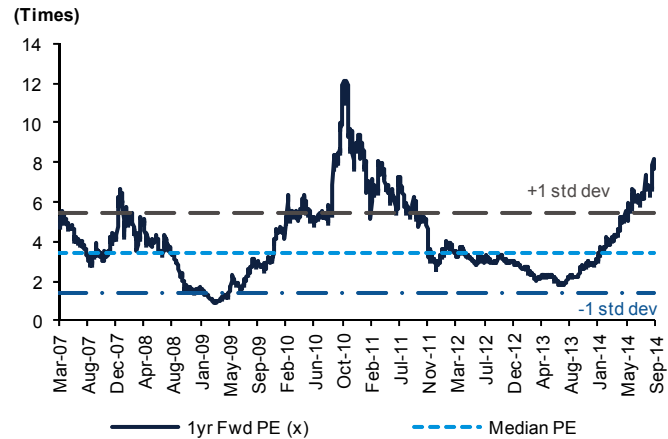
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

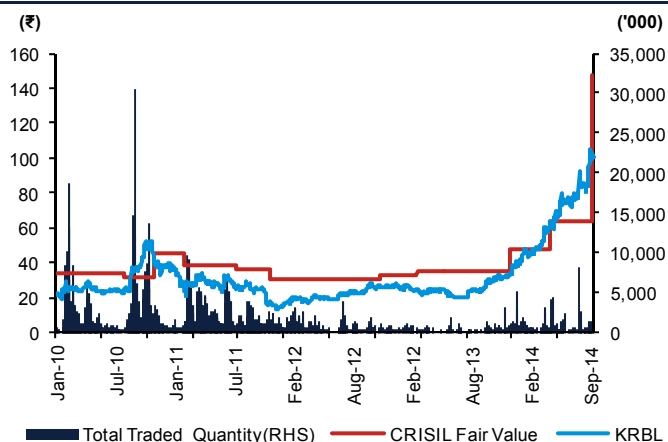
Share price movement



-Indexed to 100

Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

CRISIL IER reports released on KRBL Ltd

Date	Nature of report	Fundamental		Valuation		CMP (on the date of report)
		grade	Fair value	grade		
11-Jan-10	Initiating coverage	3/5	₹34#	5/5		₹22#
01-Feb-10	Q3FY10 result update	3/5	₹34#	5/5		₹19#
02-Jun-10	Q4FY10 result update	3/5	₹34	5/5		₹24
19-Aug-10	Q1FY11 result update	3/5	₹32	5/5		₹24
22-Nov-10	Q2FY11 result update	3/5	₹45	4/5		₹38
24-Feb-11	Q3FY11 result update	3/5	₹39	5/5		₹24
20-Apr-11	Detailed Report	3/5	₹39	4/5		₹32
01-Jun-11	Q4FY11 result update	3/5	₹39	5/5		₹28
12-Aug-11	Q1FY12 result update	3/5	₹36	5/5		₹27
29-Nov-11	Q2FY12 result update	3/5	₹31	5/5		₹18
16-Feb-12	Q3FY12 result update	3/5	₹31	5/5		₹20
17-Apr-12	Detailed Report	3/5	₹31	5/5		₹20
12-Jun-12	Q4FY12 result update	3/5	₹31	5/5		₹19
21-Aug-12	Q1FY13 result update	3/5	₹31	5/5		₹22
12-Nov-12	Q2FY13 result update	3/5	₹33	5/5		₹26
11-Mar-13	Q3FY13 result update	3/5	₹35	5/5		₹24
11-June-13	Q4FY13 result update	3/5	₹35	5/5		₹24
17-Sep-13	Q1FY14 result update	3/5	₹35	5/5		₹24
03-Jan-14	Detailed Report	3/5	₹48	5/5		₹34
27-Jan-14	Q3FY14 result Update	3/5	₹48	4/5		₹41
12-May-14	Q4FY14 result Update	3/5	₹64	3/5		₹61
22-Sep-14	Detailed Report	3/5	₹147	5/5		₹100

After adjusting for stock split of 10:1

Company Overview

Delhi-based KRBL is a 120-year old firm engaged in the business of manufacturing and marketing of basmati rice. It has rice milling capacity of 195 MT/hour; largest in the world. It is also the world's largest miller and exporter of basmati rice and has a strong presence in the Middle East countries such as Saudi Arabia, UAE, Iran and Iraq.

Manufacturing facility

The company's manufacturing facilities are located in Dhuri, Punjab (150 TPH) and Ghaziabad, Uttar Pradesh (45 TPH). Following subsequent refurbishment and re-engineering to suit basmati rice, the Dhuri plant has the world's largest integrated basmati rice milling capacity, way ahead of its immediate competitors in India. Being a fully integrated player, the company generates other value-added by-products such as bran oil and de-oiled cakes. It also uses rice husks to run its captive power plants.

Energy division

The company's energy division has grown quickly in the past two years, since the company entered into commercial sale of power. At present, KRBL's energy portfolio consists of biomass, wind and solar power projects, with a total capacity of 80.68 MW. KRBL intends to expand its installed capacity to 100 MW by FY16.

Key milestones

1889	KRBL founded at Lyallpur in Faisalabad, Pakistan
1947	Re-established in India and moved operations to New Delhi
1978	Commenced exports and pioneered packaged rice
1992	Established a basmati processing plant in Noida, Uttar Pradesh
1993	Registered as public limited company; started export of 'India Gate' brand
1995	Came out with IPO, shares listed on the Bombay Stock Exchange
1997	Awarded prestigious APEDA trophy for being India's leading 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 from KPMG for its Ghaziabad plant; listed on the National Stock Exchange
2003	Acquired a sick rice processing plant in Dhuri (Punjab) for US\$3.6mn
2005	Earned the distinction of being a four-star export house and completed the first phase of revamping its Dhuri plant to commence operations
2006	Obtained GDR issue of US\$12mn, the largest in India's rice industry; diversified into wind power generation by setting up the 12.5 MW plant in Dhulia, Maharashtra
2008	Revenues crossed ₹10 bn milestone. Dhulia and Ghaziabad plants turned eligible for carbon credits
2010	Recorded the highest ever turnover and net profit (₹15.9 bn and ₹1.2 bn, respectively)
2012	Launched India Gate long grain parmal rice
2013	Turnover crossed ₹20 bn mark; also achieved highest ever PAT of ₹1.3 bn
2014	Launched new Bemisal variants in 1 kg and 5 kg consumer packs
2014	Turnover crossed ₹30 bn mark; achieved highest ever PAT of ₹2.5 bn

Annexure: Financials

Income statement

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	16,229	20,741	29,053	33,278	39,301
EBITDA	2,292	2,943	4,415	4,976	5,897
EBITDA margin	14.1%	14.2%	15.2%	15.0%	15.0%
Depreciation	445	506	577	671	768
EBIT	1,847	2,437	3,838	4,306	5,129
Interest	719	694	760	899	806
Operating PBT	1,128	1,743	3,078	3,406	4,322
Other income	100	99	136	150	197
Exceptional inc/(exp)	(278)	(1)	46	-	-
PBT	949	1,841	3,260	3,556	4,519
Tax provision	219	542	709	894	1,047
Minority interest	-	-	-	-	-
PAT (Reported)	730	1,299	2,551	2,662	3,472
Less: Exceptionals	(278)	(1)	46	-	-
Adjusted PAT	1,009	1,300	2,505	2,662	3,472

Ratios

	FY12	FY13	FY14	FY15E	FY16E
Growth					
Operating income (%)	5.4	27.8	40.1	14.5	18.1
EBITDA (%)	0.6	28.4	50.0	12.7	18.5
Adj PAT (%)	(10.6)	28.9	92.8	6.2	30.5
Adj EPS (%)	(10.6)	28.9	99.1	6.2	30.5

Profitability

EBITDA margin (%)	14.1	14.2	15.2	15.0	15.0
Adj PAT Margin (%)	6.2	6.3	8.6	8.0	8.8
RoE (%)	14.8	16.8	26.7	22.9	24.3
RoCE (%)	11.5	14.5	18.6	18.1	20.2
RoIC (%)	11.5	12.6	16.9	16.0	17.9

Valuations

Price-earnings (x)	24.1	18.7	9.4	8.9	6.8
Price-book (x)	3.4	2.9	2.3	1.8	1.5
EV/EBITDA (x)	14.6	11.2	8.3	6.8	5.9
EV/Sales (x)	2.1	1.6	1.3	1.0	0.9
Dividend payout ratio (%)	11.6	14.7	11.0	11.1	9.8
Dividend yield (%)	0.3	0.8	1.2	1.3	1.4

B/S ratios

Inventory days	349	274	262	227	231
Creditors days	83	55	35	56	56
Debtor days	55	37	38	36	35
Working capital days	282	222	228	182	170
Gross asset turnover (x)	2.7	3.0	3.6	3.4	3.5
Net asset turnover (x)	3.9	4.7	5.7	5.4	5.7
Sales/operating assets (x)	3.9	4.7	5.5	5.2	5.5
Current ratio (x)	4.7	5.3	7.7	4.5	4.5
Debt-equity (x)	1.3	1.0	1.3	0.8	0.7
Net debt/equity (x)	1.3	1.0	1.3	0.8	0.7
Interest coverage (EBIT/Interest)	2.6	3.5	5.0	4.8	6.4
Interest coverage (EBITDA/Interest)	3.2	4.2	5.8	5.5	6.4

Per share

	FY12	FY13	FY14	FY15E	FY16E
Adj EPS (₹)	4.1	5.3	10.6	11.3	14.7
CEPS	6.0	7.4	13.1	14.1	18.0
Book value	29.5	34.1	44.3	54.1	67.2
Dividend (₹)	0.3	0.8	1.2	1.3	1.4
Actual o/s shares (mn)	244	244	236	236	236

Balance Sheet

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Liabilities					
Equity share capital	244	242	236	236	236
Reserves	6,928	8,052	10,204	12,520	15,595
Minorities	9	9	9	9	9
Networth	7,180	8,304	10,449	12,765	15,840
Convertible debt	-	-	-	-	-
Other debt	9,380	8,703	13,795	10,695	11,395
Total debt	9,380	8,703	13,795	10,695	11,395
Deferred tax liability (net)	162	160	159	159	159
Total liabilities	16,722	17,167	24,402	23,619	27,394
Assets					
Net fixed assets	4,169	4,412	5,613	6,442	7,174
Capital WIP	130	188	334	334	334
Total fixed assets	4,298	4,599	5,947	6,776	7,508
Investments	72	66	67	67	67
Current assets					
Inventory	12,377	12,603	16,900	16,903	20,392
Sundry debtors	2,389	2,044	2,970	3,197	3,661
Loans and advances	765	631	578	1,005	1,187
Cash & bank balance	168	141	671	428	182
Marketable securities	-	-	-	-	-
Total current assets	15,700	15,420	21,120	21,532	25,423
Total current liabilities	3,363	2,934	2,745	4,770	5,618
Net current assets	12,336	12,486	18,375	16,762	19,805
Intangibles/Misc. expenditure	16	15	13	13	13
Total assets	16,722	17,167	24,402	23,619	27,394

Cash flow

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Pre-tax profit	1,228	1,842	3,214	3,556	4,519
Total tax paid	(188)	(545)	(710)	(894)	(1,047)
Depreciation	445	506	577	671	768
Working capital changes	(787)	(176)	(5,356)	1,369	(3,288)
Net cash from operations	697	1,626	(2,275)	4,701	952
Cash from investments					
Capital expenditure	(651)	(807)	(1,924)	(1,500)	(1,500)
Investments and others	18	5	(1)	-	-
Net cash from investments	(633)	(801)	(1,926)	(1,500)	(1,500)
Cash from financing					
Equity raised/(repaid)	57	15	(125)	-	-
Debt raised/(repaid)	360	(676)	5,092	(3,100)	700
Dividend (incl. tax)	(85)	(191)	(281)	(345)	(397)
Others (incl extraordinary)	(278)	(1)	46	-	-
Net cash from financing	53	(853)	4,731	(3,445)	303
Change in cash position	118	(27)	530	(244)	(245)
Closing cash	168	141	671	428	182

Quarterly financials

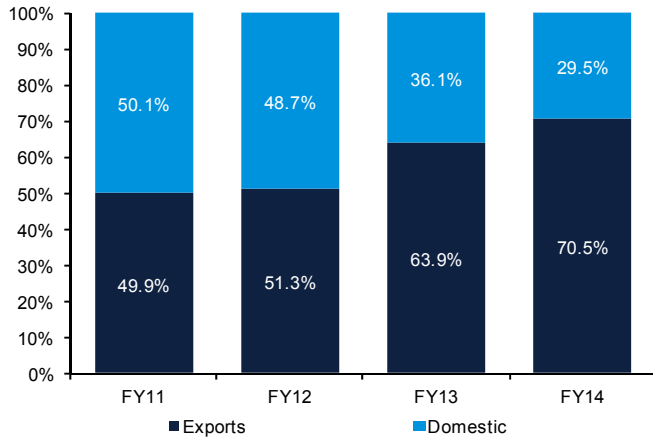
(₹ mn)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Operating income	6,888	6,585	7,036	8,596	8,079
Change (q-o-q)	40%	-4%	7%	22%	-6%
EBITDA	1,083	1,079	1,084	1,160	1,335
Change (q-o-q)	100%	0%	0%	7%	15%
EBITDA margin	15.7%	16.4%	15.4%	13.5%	16.5%
PAT	496	746	711	598	729
Adj PAT	690	651	622	548	749
Change (q-o-q)	343%	-6%	-5%	-12%	37%
Adj PAT margin	10.0%	9.9%	8.8%	6.4%	9.3%
Adj EPS	2.8	2.8	2.6	2.3	3.2

Financial numbers have been re-classified as per CRISIL's standards

Source: CRISIL Research

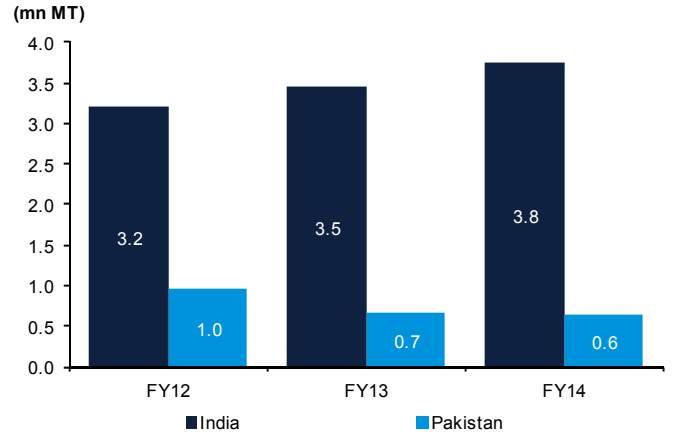
Focus Charts

Exports growing at a faster pace than domestic market



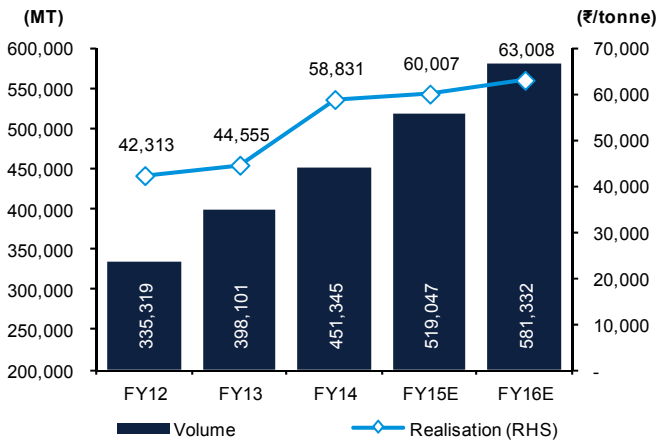
Source: Company, CRISIL Research

India's share in the exports market on the rise



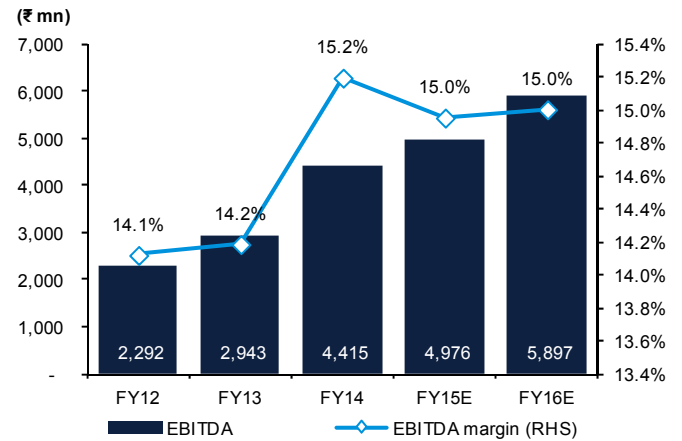
Source: Company, CRISIL Research

Volume growth to drive revenues



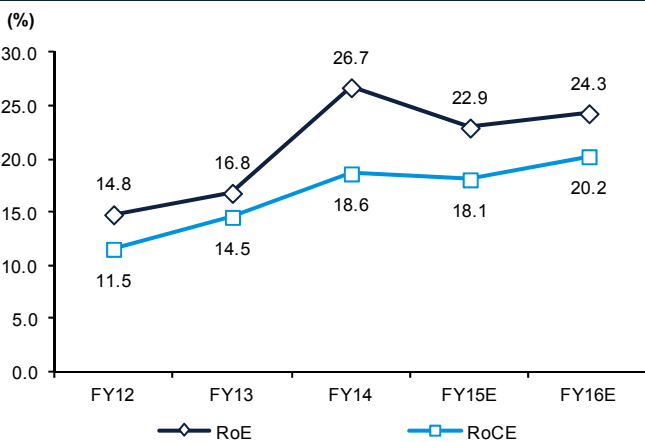
Source: Company, CRISIL Research

EBITDA margin to remain stable



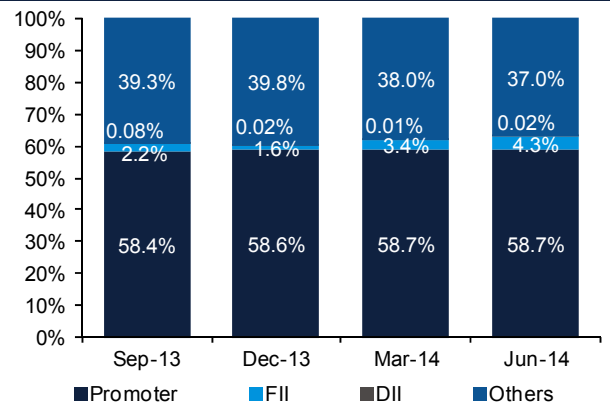
Source: Company, CRISIL Research

Healthy return ratios



Source: Company, CRISIL Research

Shareholding pattern



Source: Company, CRISIL Research

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