

## Picks from Rice Industry

Company	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
KRBL Ltd	Rs 345	Buy at CMP and add on declines	Rs 300-306	Rs 371 & Rs 409	2-3 quarters
LT Foods Ltd	Rs 378	Buy at CMP and add on declines	Rs 325-335	Rs 400 & Rs 445	2-3 quarters
Chaman Lal Setia Exports Ltd.	Rs 98	Buy at CMP and add on declines	Rs 88-92	Rs 112 & Rs 125	2-3 quarters

### Investment Rationale

- Huge entry barriers for new entrants
- Strong demand in the Middle East
- Iran may resume purchases of Basmati rice
- Opening up of Chinese markets for basmati
- Rising disposable income leading to shift towards premiumisation

### Concerns

- High working capital requirement
- Falling realizations for basmati rice exports
- High debt and interest expenses
- Price volatility leading to inventory losses
- Import controls and export regulations

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### Industry Overview

Rice is one of the most crucial food crops in the world and a staple diet for nearly half the global population. Over 90% of the global rice output and consumption is centered in Asia, wherein the world's largest rice producers, China and India, are also the world's largest rice consumers. High domestic consumption and restrictive trade policies of several countries for rice have restricted the international trade of rice to only 6-7% of the production. Food security objectives and the need to provide income support to domestic producers are the main reasons cited by countries to restrict rice imports. Among the several varieties of rice, Basmati is considered the most superior in terms of product characteristics and, therefore, the most premium.

Rice is the most important food crop in India contributing to more than 40 percent of total food grain production and cultivated/consumed across the country. Rice is predominantly a rainfed crop planted in the kharif season after the onset south-west monsoon rains during June through August.

Basmati rice constitutes a small portion of the total rice produced in India. By volume, the share of Basmati in total rice production is around 6% (as of FY2016), but by value, Basmati exports account for 60% (as of FY2016) of India's total rice exports and its exports have increased at a compounded annual growth rate (CAGR) of 13% from Rs. 10,890 cr in FY2010 to Rs. 22,718 cr in FY2016. The proportion of Basmati export in India's total exports was at around 1.3% in FY2016 and it remains an important constituent of the Indian export basket. (Source: ICRA)

"Basmati" is long grain aromatic rice grown for many centuries in the specific geographical area, at the Himalayan foot hills of Indian sub-continent, blessed with characteristics extra- long slender grains that elongate at least twice of their original size with a characteristics soft and fluffy texture upon cooking, delicious taste, superior aroma and distinct flavor, Basmati rice is unique among other aromatic long grain rice varieties.

Agro- climatic conditions of the specific geographical area as well as method of harvesting, processing and aging attribute these characteristic features to Basmati rice. Owing to its unique characteristics the "scented Pearl" lends a touch of class that can transform even the most ordinary meal into a gourmet's delight.

### Varieties

The main varieties of Basmati rice as notified under the seeds Act, 1966 are Basmati 386 , Basmati 217 , Ranbir Basmati , Karnal Local/ Taraori Basmati, Basmati 370, Type-3 (Dehradooni Basmati), Pusa Basmati-1, Pusa Basmati 1121, Punjab Basmati-1, Haryana Basmati- 1, Kasturi and Mahi Sugandha. Pusa Basmati 1121 developed by the Indian Agricultural Research Institute (IARI) and released for commercial cultivation in kharif season of 2003 is the most widely used variety as it requires less water, matures early and yields 19–20 quintals of paddy per acre as compared to 9–10 quintals for traditional tall basmati.

**Areas of Cultivation**

The areas of Basmati Rice production in India are in the states of J & K, Himanchal Pradesh, Punjab, Haryana, Delhi, Uttarakhand and western Uttar Pradesh. Besides it is also cultivated in Punjab/Sindh regions of Pakistan.

India is the leading exporter of the Basmati Rice to the global market. The country has exported 4.05 MMT of Basmati Rice to the world for the worth of Rs. 22,718 cr during FY16. This compares with 6.36 MMT of non basmati rice exported in FY16. Saudi Arabia, Iran, United Arab Emirates, Iraq and Kuwait are the major export destinations for Basmati rice.

**Geographical Indication**

The Geographical Indicated (GI) Protection has been specially conceived for well-known speciality products which are associated with a particular region. Geographical Indication is a form of Intellectual Property Right (IPR) included along with other IPR forms like patents and copyrights, in the Trade Related Intellectual Property Rights (TRIPs) section of GATT/WTO. The long grain aromatic rice grown in the foothills of the Indo-Gangetic plain has been given GI and bars other players from using the term Basmati rice in India. The GI would provide protection as it would bar other countries from using the term 'basmati' which is a higher quality product and commands premium pricing.

In 1997, RiceTec, a Texas based company, patented certain types of rice which they developed as "American Basmati". After putting together the evidence, the Indian Government, officially challenged the patent in June 2000 on the evidence that the above mentioned plant varieties and grains already exist and thus cannot be patented. RiceTec withdrew four key claims from the original that it had made to get the patent and which had been challenged in the Indian brief, ultimately India emerging victorious. Recently the Madhya Pradesh government has filed a writ petition in Madras High Court demanding that the areas, in which the rice is cultivated in the State of Madhya Pradesh, be also included for the GI tag.

**Non-Basmati Rice**

Rice other than basmati rice is called non- basmati rice. In the world it has been reported that there are 10000 varieties of rice, the maximum number being in India. In fact, basmati rice equals to only 1% production of the total rice grown in India. Non- basmati rice comes in all kinds of different shapes and sizes. Some are long and slender, some are short and thick, some are like beads, and some may be round. None have the same characteristics as basmati rice.

India is one of the major rice producing, consuming and exporting countries in the world. India continued to be the world's largest rice exporter for the fourth consecutive year. It has a significant competitive edge in rice exports due to combination of external factors, domestic market dynamics, high yielding and better paddy quality, low cost of paddy production and efficient execution of contracted business both from east and west coast ports of India. India's rice industry has seen a transformation in the last decade, with growth of branded business in the domestic market and a strong impetus to export. This is reflected in the growth rates of leading Indian rice companies, with CAGRs ranging between 20% and 30% in value terms over the last four years. India is also the largest player in export of Non-Basmati Rice. Key markets in the non-basmati

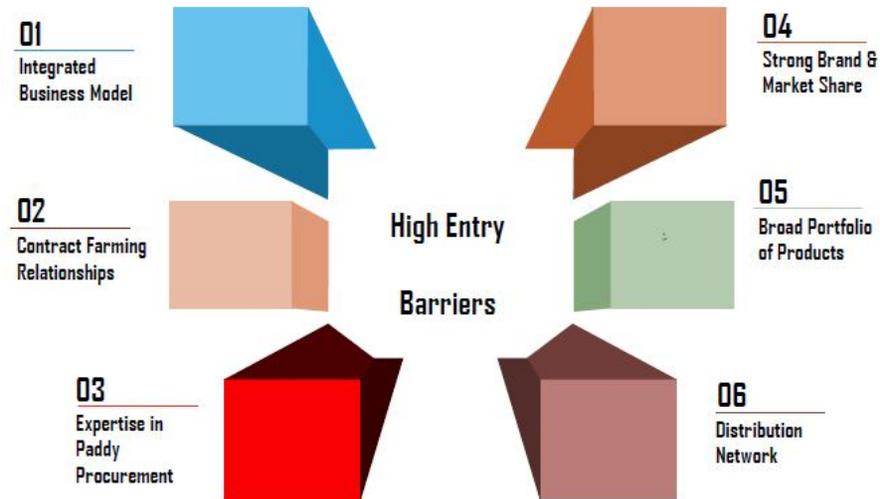
segment are Benin, Bangladesh, Senegal, South Africa, Liberia and Côte d'Ivoire. Indian rice industry has developed a strong position in exports, reaching 25% of market share of global trade.

**Investment Rationale**

**Huge entry barriers for new entrants**

The Basmati players in India have built a robust profile which is difficult to replicate by any new entrant in the short term. Most players in the organized sector have an integrated business model and have forged strong relationships with farmers including contract farming which takes care of raw material requirements. They have built expertise in paddy procurement and state of the art manufacturing facilities. A wide number of brands have been launched with a wide distribution network. Expenses on advertisement and brand promotion have ensured huge brand recall resulting in huge base of loyal customers. The high level of working capital requirement dissuades new entrants.

*Significant entry barriers for new entrants*



*(Source: LT Foods, HDFC sec)*

Basmati rice has a very high acceptance all over the world. Basmati rice exports have grown at CAGR of 16.2% over FY07-FY16 from ~1mn MT to ~4mn MT.

High acceptance of basmati rice as indicated by rising exports

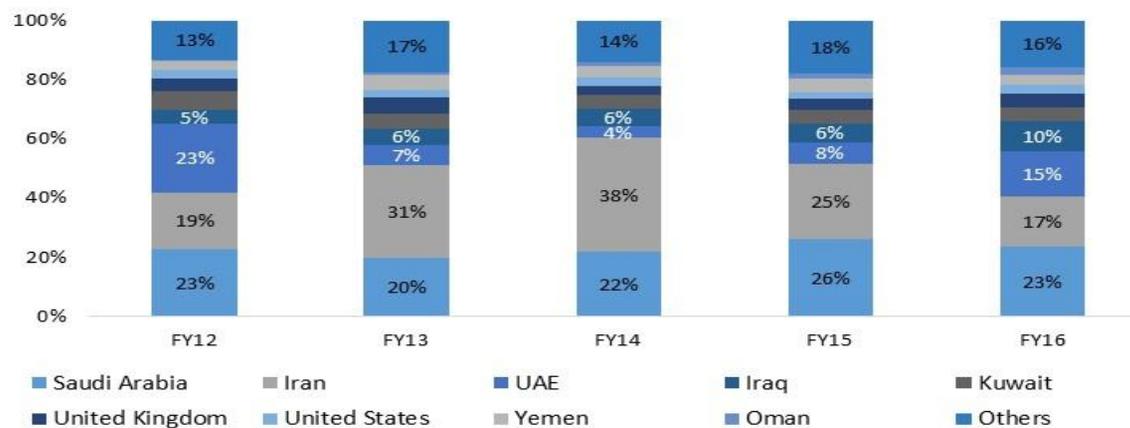


(Source: APEDA, HDFC sec)

Strong demand in the Middle East

While basmati rice is consumed across the globe, West Asian countries account for 75 per cent of Indian basmati rice exports in 2015-16. Within West Asia, Iran and Saudi Arabia are the two largest buyers, together accounting for over 40 per cent of basmati rice exports from India. UAE and Iraq stepped up their purchase of basmati rice (owing to absence of Iran) resulting in exports to those two countries increasing by 103% and 38% CAGR over FY14-FY16. Overall exports increased by 3.8% CAGR during the same period to 4.05 MMT.

Middle East countries account for over 75% of India's Basmati exports



(Source: APEDA, HDFC sec)

### Iran may resume purchases of Basmati rice

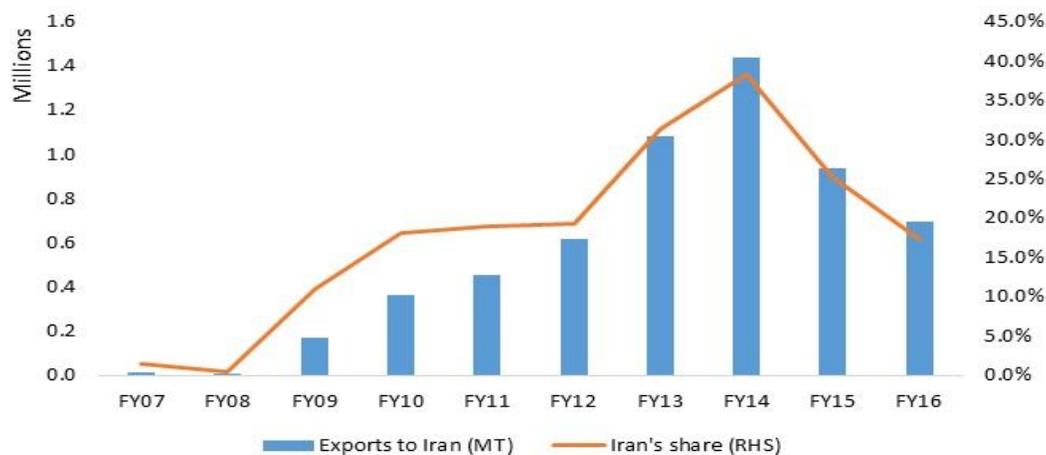
Although Iran has emerged as one of the largest importers of basmati rice in recent years, it had imposed a ban on basmati rice imports from India in 2014-15, citing its own healthy rice crop and large basmati inventory. The ban by Iran on Basmati rice imports resulted in huge stock of Basmati rice with manufacturers leading to a decline in realizations from rice.

Exports to Iran had touched a high of 1.4 MMT in 2013-14 before the country imposed a ban on imports of basmati rice. Iran lifted the ban in November 2015 but later reimposed it in July 2016 to support local farmers in their harvest season. This ban was reportedly lifted in Jan 2017. In FY16, basmati rice exports from India to Iran almost halved to \$571 million from \$1.1 billion in the previous financial year. In the first half of the current fiscal year, basmati rice exports from India to Iran amounted to \$356 million.

Consequently, the sowing of basmati across the key growing areas of Punjab, Haryana, western Uttar Pradesh and Uttarakhand had seen a sharp fall of 25% to 1.57 million hectares in the last kharif season, from close to 2 million hectares reported in 2015. With lower supplies hitting the markets, realisation from the exports of aromatic and long-grain rice rose to \$800 a tonne in Dec-16 from \$750 a tonne prevailing in the last couple of months. Besides Iran, the biggest exports destination for India's basmati rice, is likely to resume imports of rice shortly. A commerce ministry official said that exports realisation could reach \$900 a tonne in the next couple of months because of lesser supplies because of lower production and firming up global demands.

Share of basmati exports to Iran had risen from negligible levels in FY08 to ~38.3% in FY14 post which it declined to 17.2% in FY16. The ban imposed by the country on basmati imports is likely to be lifted resulting in higher exports to Iran.

*Iran's share of basmati exports declined post ban by the country*



(Source: Company, HDFC sec)

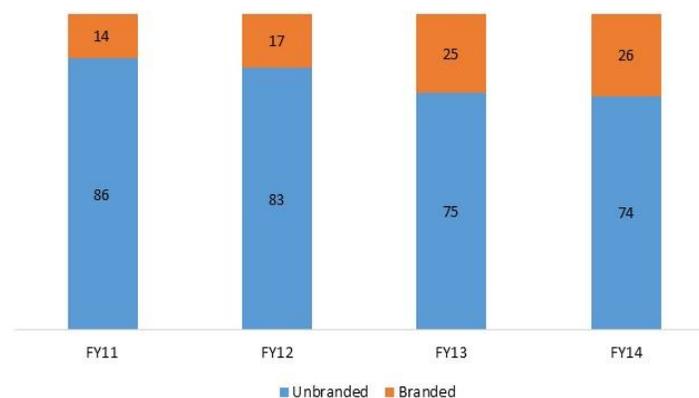
**Opening up of Chinese markets for basmati**

China has agreed to import basmati rice from 14 companies in India (including KRBL, LT Foods and Kohinoor Foods). Opening up of China as an export destination is a positive for the Indian basmati rice industry providing a fillip to exporters, who are just recovering from the muted global demand and a correction in prices in the recent past. According to ICRA, India and China together contribute around 40 per cent of the global rice production, which is estimated at around 740 million tonne of paddy. However, both the countries are also the largest consumers of rice, thereby restricting their participation in the international trade. While India is a net exporter of rice, China is a net importer. Chinese rice is typically short in length and non- aromatic. However, with the increasing income levels and flourishing global trade, the population in China has also developed a preference for other varieties of rice. China has emerged as the largest importer of rice in recent years.

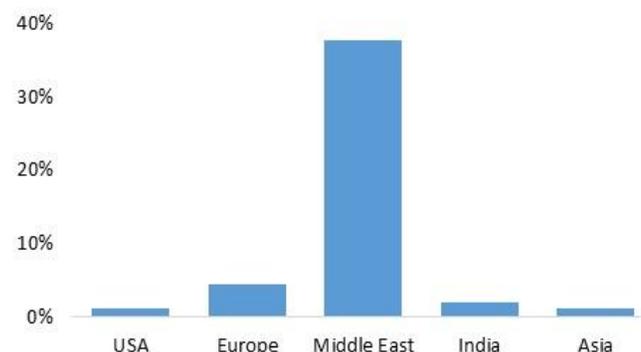
**Rising disposable income leading to shift towards premiumisation**

The domestic basmati rice market is estimated at Rs 12,000-15,000 cr. India's rice industry has seen a transformation in the last decade, with growth of branded business in the Indian market and a strong impetus to exports. Over the last four years, the industry has shown strong revenue growth, with an increasing focus on branded business, according to CRISIL Research, Euromonitor & Ministry of Agriculture. Branded basmati is still only 26% of total basmati sold in India, highlighting the opportunity for large players to gain share. Consumers are gradually switching towards branded Basmati Rice as they become more quality and health conscious. With regards to consumption, the share of basmati as a percentage of total rice consumption is still extremely low in India at ~2% as compared to the Middle East (38%). Growth in the domestic basmati consumption would further provide support to basmati rice demand.

*Basmati share in domestic consumption*



*Basmati share in total rice consumption*



(Source: Company, HDFC sec)

**ICRA has a positive outlook on Volumes and Realisation over H2FY17 and FY18**

As per ICRA, lower production volume and stable global demand is expected to push up realisations of basmati rice in FY2017 and FY2018, despite short-term impact of demonetisation. Basmati rice industry is expecting a rebound in H2 FY2017 and FY2018 with demand driven improvement in realisation and low inventory prices. The export demand, which has remained subdued for last two years, is expected to witness a pickup in the coming months when a majority of export orders are received. This is expected to push up the realisations in H2 FY2017 and FY2018. Most of the large exporters, who are holding relatively lower priced inventory, are expected to benefit from this. While paddy prices have inched up in the current procurement season, this would be comfortably covered by growth in realisations. In the past two years, the basmati rice industry has been under financial stress on account of excess paddy supply and weak international demand, leading to a sharp decline in realisations. The average export realisations declined from Rs 77,988/MT in FY2014 to Rs 56,149/MT in FY2016.

However, there has been some improvement in demand in Q1 FY2017 also reflected by the increase in export realisations to Rs 59,247/MT. For the remaining period, the export demand is expected to improve further, with Iran also expected to join the order booking. Further, steady domestic demand growth would add to the overall improvement in realisations for the industry. Paddy production is expected to be lower in FY2017 by 15-20 per cent. Thus, paddy prices have opened higher by around 20 per cent in the current procurement season starting October 2016 and are expected to remain firm. Nevertheless, this is expected to be outweighed by the growth in realisations in H2 FY2017 and FY2018. ICRA expects the export volumes in FY2017 to be around 3.99 million MT (almost similar to the volumes in FY2016). However, the improvement in realisations is expected to push the values of exports to around Rs 23,000 cr in FY2017 as against Rs 22,718 cr in FY2016. For FY2018, ICRA estimates the volume and value of exports to be around 4.03 million MT and Rs 25,800 cr respectively.

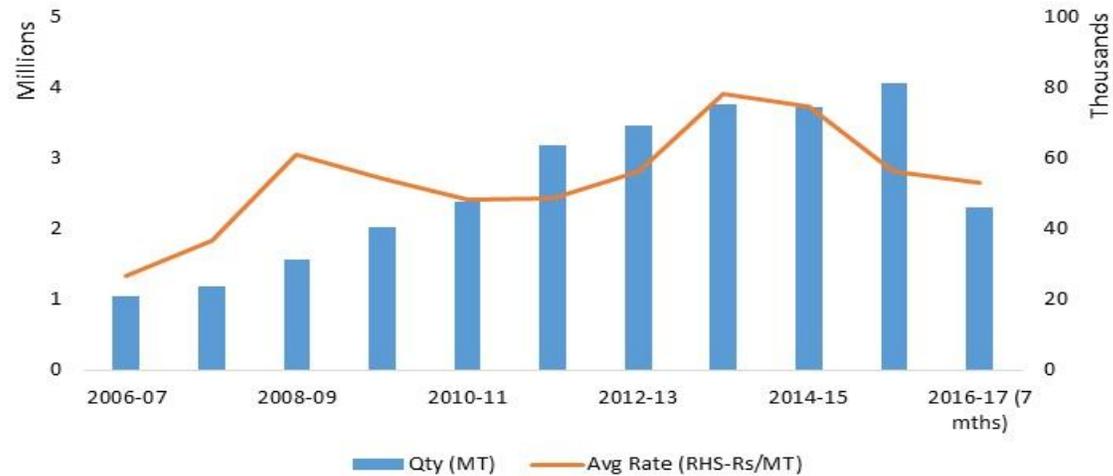
**Concerns****High working capital requirement**

The basmati rice industry is characterized by high working capital intensity as all the players are required to keep sizeable stock of inventory given the seasonality in the availability of basmati paddy (October to December). The inventory requirements are further accentuated by the need to 'age' the rice by storing it for a period of time, as the ageing improves the quality of rice and attract premium pricing. Thus the working capital requirements of the business remain high.

**Falling realizations for basmati rice exports**

Over the past 2 and a half years, basmati prices have been on a down trend. Average realization from basmati rice exports have declined by 32.3% from ~Rs 77,982/MT in FY14 to Rs 52,789 in FY17 (upto Oct). This is the lowest levels in over 8 years. However, the lower realizations led to farmers incurring losses in the previous year and acreage for basmati is expected to be lower in this year which should support prices.

Realizations have fallen to 8 year lows



(Source: Company, HDFC sec)

**High debt and interest expenses**

Due to the high working capital requirement, most companies have higher short term borrowings resulting in higher interest expenses which could curb the profits.

**Price volatility leading to inventory losses**

Final sale prices of Basmati rice keep on fluctuating. Since the manufacturers have to keep high inventory due to the long ageing process, they may suffer inventory losses if the prices correct significantly.

**Climatic conditions leading to lower production**

Cultivation of basmati depends on monsoon rainfall and suitable weather. Hence, deficient rains and harsh climatic conditions could affect its cultivation and output.

**Import controls and export regulations**

Although most countries importing basmati have a fairly open policy, restrictions due to quality or socio-political reasons could impact the growth of Indian players. Any tariff or non-tariff barriers imposed by any of the countries could also hurt the future growth of the. Similarly any export curbs by the Indian government could impact the growth.

**Forex fluctuations**

As a large part of the revenues for most players comes from exports any appreciation of rupee vis-a-vis other currencies would impact revenues.

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Rice Processing	Rs 345	Buy at CMP and add on declines	Rs 300-306	Rs 371 & Rs 409	2-3 quarters

HDFC Scrip Code	KRBLTDEQNR
BSE Code	530813
NSE Code	KRBL
Bloomberg	KRB IN
CMP as on 20 Jan 17	344.55
Eq. Capital (Rs Cr)	23.54
Face Value (Rs)	1
Equity Sh. Outs (Cr)	23.54
Market Cap (Rs Cr)	8110
Book Value (Rs)	68.98
Avg. 52 Week Vol	223941
52 Week High (Rs)	346.00
52 Week Low (Rs)	174.50

KRBL derives its name from its founders Khusi Ram & Behari Lal, who founded the world's most favoured Basmati brand way back in 1889 at Lyallpur currently known as Faisalabad in Pakistan. Over the years the company has refocused its business from agricultural commodities such as wheat, cotton and oil to become India's first integrated rice producing company with a comprehensive product chain. It has developed various rice brands to meet different requirements of customers. Being an integrated player, the Company generates value-added by-products like brain oil, de-oiled cakes and uses rice husks for captive power plant. The company has total rice processing capacity of 195MT/hour and also has renewable energy plants of 119.6 MW comprising of wind, solar and biomass.

#### Investment Rationale (other than industry triggers)

- Strong market share in Middle East countries
- Higher realization than industry average
- Diversification in Renewable energy/ Captive power
- Integrated operations resulting in minimum wastage
- Inhouse R&D facilities

#### Concerns (other than industry concerns)

- Absence of Iraq order post FY16

#### Financial Summary

(Rs Cr)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	FY15	FY16	FY17E	FY18E
Net Sales	733.0	918.8	-20.2	800.3	-8.4	3197.2	3428.1	3030.7	3430.7
EBITDA	150.9	138.8	8.7	138.5	9.0	525.8	533.1	584.1	705.1
PAT	96.8	89.8	7.7	84.1	15.1	321.7	337.1	364.5	458.7
EPS (Rs)	4.1	3.8		3.6		13.7	14.3	15.5	19.5
P/E (x)						25.2	24.1	22.3	17.7
EV / EBITDA (x)						17.6	17.3	15.8	13.1
RoE (%)						16.4	15.6	19.3	20.6

(Source: Company, HDFC sec)

#### View and Valuation

Years of experience in the basmati rice industry gives KRBL brands a strong recall value and it is able to attract premium pricing on back of quality basmati rice. KRBL has been performing consistently despite subdued market conditions on back of increased supply of paddy. It has been able to fund its working capital requirements through its net worth, limiting bank

Shareholding Pattern-% (Dec-2016)	
Promoters	58.81
Institutions	6.47
Non Institutions	34.71
Total	100.00

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borrowings and having a strong liquidity position. KRBL has demonstrated better financials and characteristics of a consumer player. Given the backdrop of rising demand for branded basmati rice globally and domestically with wide network of distribution, KRBL is better placed to capitalize on opportunities. Integrated operations of the company and its expansion into renewable energy generation has helped the company become self-sufficient to largely meet its energy needs and has mitigated the risk of rice business to some extent.

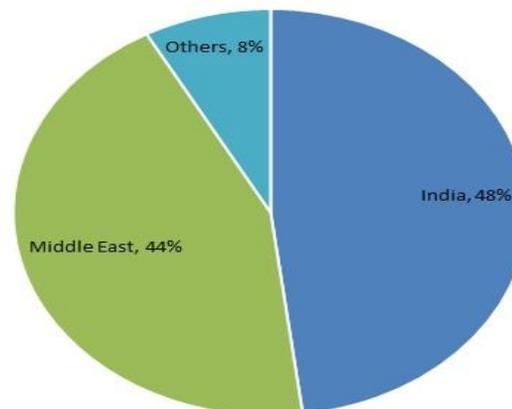
KRBL is the largest basmati rice exporter which has high barriers to entry. It is the largest basmati rice player in many of the Middle East markets where the demand for basmati rice has been increasing. With Iran expected to lift its ban on imports of basmati rice and China also looking to import rice from India, demand is expected to pick up and falling prices are likely to be arrested. We feel KRBL deserves a higher multiple as compared to other players due to its leadership, size, higher realization and strong presence in the largest Basmati market i.e. Middle East.

We feel investors could buy the stock at the CMP and add on declines to Rs 300-306 band (~15.5x FY18E EPS) for sequential targets of Rs 371 (19x FY18E EPS) and Rs 409 (21x FY18E EPS) in 2-3 quarters.

### Company Overview

KRBL derives its name from its founders Khusi Ram & Behari Lal, who founded the world’s most favoured Basmati brand way back in 1889 at Lyallpur currently known as Faisalabad in Pakistan. Over the years the company has refocused its business from agricultural commodities such as wheat, cotton and oil to become India’s first integrated rice producing company with a comprehensive product chain. It has developed various rice brands to meet different requirements of customers. Being an integrated player, the Company generates value-added by-products like brain oil, de-oiled cakes and uses rice husks for captive power plant. The company has total rice processing capacity of 195MT/hour and also has renewable energy plants of 119.6 MW comprising of wind, solar and biomass.

#### *Geographical revenue breakup*



(Source: Company, HDFC sec)

Its flagship brand India Gate is recognized both in India and abroad with strong presence and impressive market share. KRBL has one wholly owned subsidiary KRBL DMCC incorporated in Dubai. Besides it also holds 70% in KB Exports Pvt. Ltd. its Indian subsidiary. KRBL DMCC had a turnover of Rs 75 cr in FY16 with PAT of Rs 54 cr.

#### State of the art manufacturing facilities

Location	Function	Capacity (MT/Hr)	Grading/Packing (MT/Hr)
Ghaziabad	Rice Processing	45	30
Dhuri	Rice Processing	150	60
Delhi	Grading, Sorting & Packaging	-	30
Sonipat	Grading, Sorting & Packaging	-	20
<b>TOTAL</b>		<b>195</b>	<b>140</b>

(Source: Company, HDFC sec)

#### Milestones

Year	Milestone
<b>1889</b>	KRBL was founded in Faisalabad, Pakistan and owned 10 cotton spinning mills, 2 rice mills, 16 commission agencies and a bank
<b>1947</b>	Re-established operations to Naya Bazar, New Delhi post partition
<b>1978</b>	Started exporting rice becoming the pioneers of packaged rice
<b>1992</b>	Established the country's largest basmati processing plant exclusively for exports in Uttar Pradesh
<b>1998</b>	Entered into domestic market with flagship brands – India Gate and Doon
<b>1999</b>	Pioneered the concept of contract farming in Uttaranchal, UP and Punjab
<b>2002</b>	Listed on NSE
<b>2003</b>	Acquired rice processing unit in Dhuri, Punjab for USD 3.6 mn
<b>2006</b>	Diversified into wind power generation

#### Key Management Personnel

Name	Brief Profile
Mr. Anil Kumar Mittal Chairman & Managing Director	Mr. Mittal is the Founder Chairman of KRBL Limited. He has been instrumental, in turning the company into a global brand and the leader in the Indian Basmati industry. He was the President of the All India Rice Exporters Association and the Vice President of the Basmati Rice Farmers & Exporters Development Forum. He has been a Board Member of the Export Inspection Council as well as Basmati Development Fund.

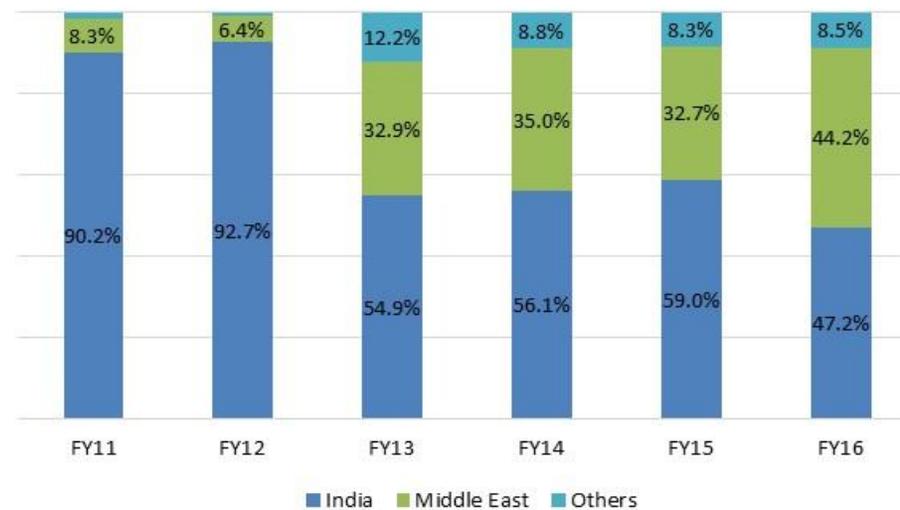
<p>Mr. Arun Kumar Gupta Jt. Managing Director</p>	<p>An expert on the Basmati paddy supply chain management and the paddy milling technology, Mr. Gupta has steered the company into a growth trajectory. He holds various eminent positions in various reputed organisations, one of them being an Executive Member of the Basmati Rice Farmers &amp; Exporters Development Forum.</p>
<p>Mr. Anoop Kumar Gupta Jt. Managing Director</p>	<p>Mr. Gupta has added immense value to the company's financial stability. He has been the Executive Committee Member of All India Rice Exporters Association. Also, he is currently, the Chief Mentor of Basmati Rice Farmers &amp; Exporters Development Forum.</p>

**Investment Rationale**

**Strong market share in Middle East countries**

KRBL, with the largest and most modern milling capacities and R&D capability of Basmati Rice, is well placed to tap growth opportunity. The company enjoys more than 30% market share in organized domestic market and 25% share in export market. KRBL is the largest Indian branded Basmati Rice player in most of the Middle East countries which account for 82% of its branded rice exports. Over the years, the company has developed rice brands such as India Gate, Nur Jahan, Telephone, Train, Unity and Bawabat Al-hind to meet the requirements of different categories of consumers. India Gate happens to be its flagship brand with two variants namely, Classic and Super, having higher than industry average realization. It has further expanded its exports to the Middle East, particularly Saudi Arabia, UAE, Iraq, Kuwait and Qatar. Middle East countries now account for 44% of the company's revenues as compared to 6.4% in FY12.

*Growing revenue share of Middle East region*

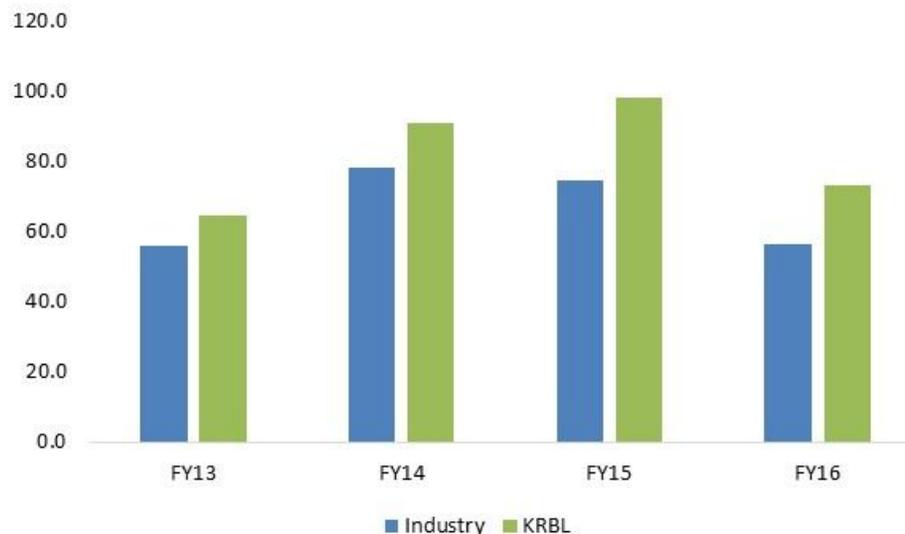


(Source: Company, HDFC sec)

### Higher realization than industry average

KRBL has built a strong brand in 'India Gate' on which it leverages and gets a higher realization than the industry average for its basmati rice. India Gate has a high recall value among the customers and is liked by the people in Middle East countries. KRBL average export realization was ~15% higher than industry average till FY14 which has increased to 30% in FY16. Premium realization enables the company to report better margins and return ratios.

#### *Higher realization than industry average*



(Source: Company, HDFC sec)

### Diversification in Renewable energy/ Captive power

With its increasing focus on green manufacturing, KRBL had diversified into renewable energy and has been increasing its capacity. Its green energy portfolio stood at 119.60 MW at the end of FY16 with wind power capacity at 87.05 MW, Solar at 15 MW and Biomass at 17.55 MW. The diversification into power and renewable energy has not only helped the Company to become self-sufficient in its captive requirements, but has also emerged as a strong revenue earner for the Company, which gets preference in power procurement by state utilities as renewable energy plants are included in the 'Must Run' category. The energy division accounted for just 2.5% of net sales it contributed to 22% of cash profits in FY16.

### Integrated operations resulting in minimum wastage

KRBL is India's first fully integrated rice company. Being an integrated player, it generates value-added by-products like bran oil, de-oiled cakes and uses rice husks for captive power plant. It is continuously expanding its presence in, value-

added products and Power business as a diversification measure which also mitigates the risk from rice business to some extent. Over the years, the company has developed rice brands such as India Gate, Nur Jahan, Telephone, Train, Unity and Bawabat Al-hind to meet the requirements of different categories of consumers.

### **Largest branded rice company in India**

KRBL is India's largest selling branded Basmati Rice Company. It has created a Strong Brand presence through collaborations with global retail chains. "India Gate", the flagship brand of Company, is the topmost selling rice in the Branded Rice segment, both in India and Overseas market.

### **Inhouse R&D facilities**

KRBL has established a special 300 hectare (741 acre) seed farm and a seed grading plant. It sources 'breeder' seeds from various leading Indian Agriculture Research Institutes, which are then grown as 'foundation' seeds under the supervision of scientists and the government seed certification agency, before being distributed to farmers. The collaboration also facilitates continuous improvement in quality cropping methodologies, seed varieties and harvesting techniques of the farmer partners. KRBL is the pioneer in the most widely used Pusa 1121 seeds for Basmati rice. Almost 35% basmati seeds in India are provided by KRBL.

### **Comfortable debt to equity position**

Given that basmati needs to be aged for ~18 months (ranges according to variety), the industry has a large amount of capital tied up in inventory leading to high working capital requirements. However KRBL has a comfortable net-debt to equity position of 1x as compared to its peers. With limited capex requirement in the coming years the company will utilize its cash flows to reduce its debt and bring down its interest costs thereby improving its profitability.

### **Institutional holding**

Being the largest rice exporting company in India, with a strong and established brand and integrated operation, it has caught the attention of institutional investors as well. Institutional holding has increased from 1.6% in Dec-2013 to 6.55% in Dec-2016.

### **Concerns**

#### **Absence of Iraq order**

Last year KRBL executed a major export of 95000 MT tender sale to Iraq Government. However there is no repeat of similar order so far this year which could pull down the sale volumes.

### **View and Valuation**

Years of experience in the basmati rice industry gives KRBL brands a strong recall value and it is able to attract premium pricing on back of quality basmati rice. KRBL has been performing consistently despite subdued market conditions on back of increased supply of paddy. It has been able to fund its working capital requirements through its net worth, limiting bank

borrowings and having a strong liquidity position. KRBL has demonstrated better financials and characteristics of a consumer player. Given the backdrop of rising demand for branded basmati rice globally and domestically with wide network of distribution, KRBL is better placed to capitalize on opportunities. Integrated operations of the company and its expansion into renewable energy generation has helped the company become self-sufficient to largely meet its energy needs and has mitigated the risk of rice business to some extent.

KRBL is the largest basmati rice exporter which has high barriers to entry. It is the largest basmati rice player in many of the Middle East markets where the demand for basmati rice has been increasing. With Iran expected to lift its ban on imports of basmati rice and China also looking to import rice from India, demand is expected to pick up and falling prices are likely to be arrested.

We feel investors could buy the stock at the CMP and add on declines to Rs 300-306 band (~15.5x FY18E EPS) for sequential targets of Rs 371 (19x FY18E EPS) and Rs 409 (21x FY18E EPS) in 2-3 quarters.

## Financial Statements

### Income Statement

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>Income from operations</b>	<b>2910.5</b>	<b>3197.2</b>	<b>3428.1</b>	<b>3030.7</b>	<b>3430.7</b>
Cost of materials consumed	2262.2	2401.1	2591.1	2039.4	2274.8
Employee Cost	45.7	54.3	63.6	75.8	92.6
Other expenses	162.1	216.0	240.3	331.4	358.3
Total expenses	2469.9	2671.4	2895.0	2446.6	2725.7
<b>EBITDA</b>	<b>440.5</b>	<b>525.8</b>	<b>533.1</b>	<b>584.1</b>	<b>705.1</b>
Depreciation	57.7	52.7	50.1	57.9	61.9
EBIT	397.4	479.2	490.5	544.2	666.8
Other Income	14.5	6.1	7.5	17.9	23.7
Finance expenses	76.0	80.9	63.4	73.8	71.1
Profit Before Tax	326.4	394.1	429.7	470.4	595.7
Tax Expenses	71.3	72.4	92.6	105.8	137.0
<b>Profit After Tax</b>	<b>255.1</b>	<b>321.7</b>	<b>337.1</b>	<b>364.5</b>	<b>458.7</b>
EPS	10.8	13.7	14.3	15.5	19.5

### Cash Flow statement

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Profit Before Tax	326.4	394.1	429.7	470.4	595.7
Depreciation	57.7	52.7	50.1	57.9	61.9
Others	60.4	177.8	-54.0	64.4	56.1
Change in working capital	-533.3	-210.9	175.9	-103.4	-110.3
Tax expenses	-69.3	-77.1	-95.7	-105.8	-137.0
<b>CF from Operating activities</b>	<b>-158.1</b>	<b>336.5</b>	<b>505.9</b>	<b>383.4</b>	<b>466.4</b>
Net Capex	-177.2	-232.1	-172.3	-60.0	-60.0
Other investing activities	0.7	0.3	0.5	0.0	0.0
<b>CF from Investing activities</b>	<b>-176.2</b>	<b>-231.5</b>	<b>-171.7</b>	<b>-60.0</b>	<b>-60.0</b>
Proceeds from Eq Cap	-15.4	0.0	0.0	0.0	0.0
Borrowings / (Repayments)	480.0	-38.0	-189.4	-150.0	-220.0
Dividends paid	-19.0	-28.2	-84.4	-59.3	-70.6
Interest paid	-63.3	-80.9	-63.4	-73.8	-71.1
<b>CF from Financing activities</b>	<b>387.3</b>	<b>-146.9</b>	<b>-330.2</b>	<b>-283.1</b>	<b>-361.8</b>
<b>Net Cash Flow</b>	<b>53.0</b>	<b>-41.9</b>	<b>4.0</b>	<b>40.3</b>	<b>44.6</b>

**Balance Sheet**

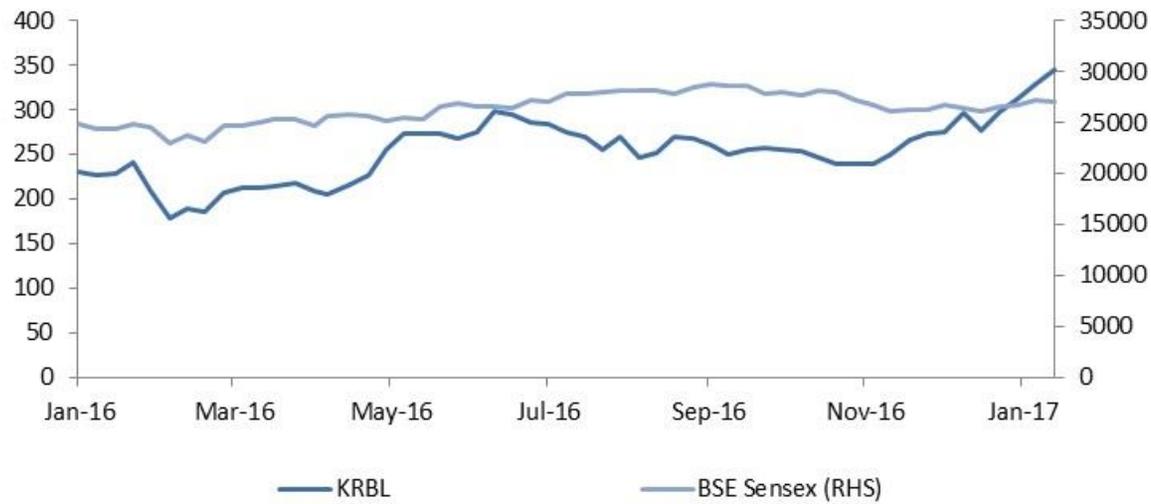
Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>EQUITY AND LIABILITIES</b>					
Share Capital	23.6	23.5	23.5	23.5	23.5
Reserves and Surplus	1020.4	1301.2	1600.2	1905.4	2293.5
<b>Shareholders' Funds</b>	<b>1044.0</b>	<b>1324.8</b>	<b>1623.7</b>	<b>1928.9</b>	<b>2317.0</b>
	0.9	0.9	0.9	0.9	0.9
Long Term borrowings	268.3	305.9	269.1	199.1	129.1
Deferred Tax Liabilities (Net)	15.9	12.7	19.4	19.4	19.4
Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	1.5	2.5	3.6	7.4	7.9
<b>Non-current Liabilities</b>	<b>285.7</b>	<b>321.0</b>	<b>292.1</b>	<b>225.8</b>	<b>156.3</b>
Short Term Borrowings	1111.2	1045.2	891.4	811.4	661.4
Trade Payables	149.6	155.1	142.2	143.1	156.8
Other Current Liabilities	87.9	173.5	64.4	73.6	92.6
Short Term Provisions	35.5	45.7	12.5	25.5	27.1
<b>Current. Liabilities</b>	<b>1384.2</b>	<b>1419.4</b>	<b>1110.5</b>	<b>1053.6</b>	<b>937.9</b>
<b>TOTAL</b>	<b>2714.7</b>	<b>3066.1</b>	<b>3027.1</b>	<b>3209.3</b>	<b>3412.1</b>
<b>ASSETS</b>					
<b>Fixed Assets</b>					
Gross Block	884.1	1015.9	1200.8	1346.1	1406.1
Less: Acc. Depreciation	321.4	376.3	425.8	483.6	545.5
<b>Net Block</b>	<b>562.6</b>	<b>639.6</b>	<b>775.0</b>	<b>862.4</b>	<b>860.6</b>
Capital work-in-progress	14.4	113.7	100.3	15.0	15.0
Non current Investments	0.0	0.0	0.0	0.0	0.0
Long-Term Loans and Advances	44.7	24.4	49.6	56.7	71.0
Other Non-current Assets	1.4	1.3	3.7	6.0	6.8
<b>Non-current Assets</b>	<b>46.1</b>	<b>25.8</b>	<b>53.3</b>	<b>62.7</b>	<b>77.7</b>
Current Investments	6.3	6.6	7.3	7.3	7.3
Inventories	1690.0	1859.7	1744.2	1881.6	1991.0
Trade Receivables	287.3	340.0	253.6	245.4	268.5
Cash and Bank Balances	66.2	24.3	28.3	68.6	113.2
Short-Term Loans and Advances	34.6	48.8	50.9	53.2	64.8
Other Current Assets	7.3	7.6	14.2	13.1	13.9
<b>Current Assets</b>	<b>2091.6</b>	<b>2287.0</b>	<b>2098.5</b>	<b>2269.1</b>	<b>2458.8</b>
<b>TOTAL</b>	<b>2714.7</b>	<b>3066.1</b>	<b>3027.1</b>	<b>3209.3</b>	<b>3412.1</b>

**Financial Ratios**

Particulars	FY14	FY15	FY16E	FY17E	FY18E
EPS (Rs)	10.8	13.7	14.3	15.5	19.5
Cash EPS (Rs)	13.2	15.9	16.4	17.9	22.1
BVPS (Rs)	44.2	56.3	69.0	81.9	98.4
PE (x)	31.9	25.2	24.1	22.3	17.7
P/BV (x)	7.8	6.1	5.0	4.2	3.5
Mcap/Sales (x)	2.8	2.5	2.4	2.7	2.4
EV/EBITDA	21.0	17.6	17.3	15.8	13.1
EBITDAM (%)	15.1	16.4	15.6	19.3	20.6
EBITM (%)	13.7	15.0	14.3	18.0	19.4
PATM (%)	8.8	10.1	9.8	12.0	13.4
ROCE (%)	19.3	18.8	18.0	19.0	22.1
RONW (%)	27.2	27.2	22.9	20.5	21.6
Current Ratio (x)	1.5	1.6	1.9	2.2	2.6
Quick Ratio (x)	0.3	0.3	0.3	0.4	0.5
Debt-Equity (x)	1.3	1.0	0.7	0.5	0.3
Debtor Days	37	39	27	30	29
Inventory Days	250	254	220	281	267
Creditor Days	22	21	18	21	21

*(Source: Company, HDFC sec)*

One year Price chart



# LT Foods Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Rice Processing	Rs 378	Buy at CMP and add on declines	Rs 325-335	Rs 400 & Rs 445	2-3 quarters

HDFC Scrip Code	LTOLTDEQNR
BSE Code	532783
NSE Code	DAAWAT
Bloomberg	LTFO IN
CMP as on 20 Jan 17	378.50
Eq. Capital (Rs Cr)	26.66
Face Value (Rs)	10
Equity Sh. Outs (Cr)	2.67
Market Cap (Rs Cr)	1009.20
Book Value (Rs)	201.31
Avg. 52 Week Vol	44000
52 Week High (Rs)	380.00
52 Week Low (Rs)	180.00

Shareholding Pattern-% (Dec-2016)	
Promoters	67.19
Institutions	1.03
Non Institutions	31.78
Total	100.00

**Research Analyst: Atul Karwa**  
[atul.karwa@hdfcsec.com](mailto:atul.karwa@hdfcsec.com)

LT Foods offers branded basmati rice, value-added staples and organic food. Its brands 'Royal' and 'Daawat' enjoy No.1 & No.2 positions in US and India respectively. While Basmati rice remains its core proposition, the Company's vision is to emerge as a Global Specialty Food Company, admired for its wider range of quality products. Its integrated operations span the entire rice value chain – right from farm to fork. The Company has 5 state-of-the-art manufacturing units in India, 2 packaging facilities in US and in addition deploys 5 more third-party facilities to manufacture high quality food products. LT Foods operations include contract farming, procurement, storage, processing, packaging and distribution. It is also engaged in research and development to add value to rice and rice food products.

### Investment Rationale (other than industry triggers)

- Growing demand for organic food, expanding value added portfolio
- JV with Future Consumer to increase domestic demand
- Inorganic acquisitions leading to healthy growth
- Wide distribution network
- Leading brand ambassadors help in increasing recall value

### Concerns (other than industry concerns)

- Insurance claim of Rs 180 cr pending out of which Rs.44 provided so far

### Financial Summary

(Rs Cr)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	FY15	FY16	FY17E	FY18E
Net Sales	844.5	690.9	22.2	709.9	18.9	2734.6	2973.4	3241.0	3581.3
EBITDA	93.1	90.2	3.2	97.3	-4.3	263.7	356.6	372.7	426.2
PAT	25.0	22.9	9.3	28.9	-13.5	72.5	72.1	121.1	157.6
EPS (Rs)	9.4	8.7		10.8		27.4	27.0	45.4	59.1
P/E (x)						13.8	14.0	8.3	6.4
EV / EBITDA (x)						9.8	7.2	6.9	6.0
RoE (%)						9.6	12.0	11.5	11.9

(Source: Company, HDFC sec)

### View and Valuation

LT Foods has transformed itself from a B2B player to B2C. It has a strong market presence with its brand 'Daawat' and 'Royal' are the leader in premium packaged basmati rice in India and US respectively. It has a diversified geographical presence backed by an established marketing network and strong brands. Recently the company has also added organic

products and staples to its product portfolio. It has also acquired brands from HUL, further strengthening its presence in the Middle East and North American markets.

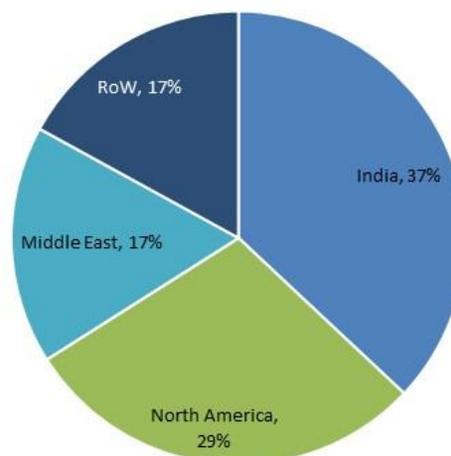
LT Foods is amongst the largest basmati rice exporter which has high barriers to entry. It is the largest basmati rice player in North American markets where the demand for basmati rice has been increasing. With Iran expected to lift its ban on imports of basmati rice and China also looking to import rice from India, demand is expected to pick up and falling prices are likely to be arrested.

We feel investors could buy the stock at the CMP and add on declines to Rs 325-335 band (5.5x FY18E EPS) for sequential targets of Rs 400 (6.75x FY18E EPS) and Rs 445 (7.5x FY18E EPS) in 2-3 quarters.

**Company Overview**

LT Foods offers branded basmati rice, value-added staples and organic food. Its brands ‘Royal’ and ‘Daawat’ enjoy No.1 & No.2 positions in US and India respectively. While Basmati rice remains its core proposition, the Company’s vision is to emerge as a Global Specialty Food Company, admired for its wider range of quality products. Its integrated operations span the entire rice value chain – right from farm to fork. The Company has 5 state-of-the-art manufacturing units in India, 2 packaging facilities in US and in addition deploys 5 more third-party facilities to manufacture high quality food products. LT Foods operations include contract farming, procurement, storage, processing, packaging and distribution. It is also engaged in research and development to add value to rice and rice food products.

*Geographical revenue breakup*



(Source: Company, HDFC sec)

More than 80% of the revenues come from the sale of basmati rice. The Company's branded business is growing steadily and now contributes close to 53% of the total sales. Geographically India accounted for 37% of the revenues in FY16, North America 29%, Middle East countries 17% and RoW the balance 17%.

**State of the art manufacturing facilities**

	Sonepat (Bahalgarh)	Sonepat (Kamaspur)	Bhopal	Amritsar	Varpal
Rice Capacity (TPH)	33	5 (organic)	26	6	12
Key Products	Raw rice	Organic rice, snack	Rice, plain chips, chips seasoning, rice/wheat flour, brown rice	Rice, parboiled rice	Rice (golden, creamy, boiled, parboiled and raw)
Accreditation	ISO, SQF, BRC, SA, Kosher, OU, Halal	ISO, NOP, NPOP, EEC and Kosher	FSSC, Halal, Kosher and BRC	ISO	FSSC and BRC
USP	1st to have complete storage in 1 MT bags	100% organic facility with cold and CO2 treatment	1st to get FSSC 22000 certification		Fully integrated and automated facility

(Source: Company, HDFC sec)

**Strong brands for each range of product**



(Source: Company, HDFC sec)

**Milestones**

Year	Milestone
<b>Pre 1985</b>	Founded by Arora family in the 1950s First rice mill in 1978
<b>1985-1995</b>	Incorporated LT Overseas and launched 'Daawat' brand Expanded the brand of 'Daawat' in 20 countries
<b>1995-2006</b>	Presence extended to 35+ countries Raised US\$ 7.8 mn at Rs 56 per shares for the expansion of manufacturing facilities
<b>2007-2014</b>	Acquired 'Royal' brand in US Rabo PE invested equity capital of ~US\$10 mn over 2011-14 Daawat attained a leading position among basmati rice brands in India Launched value added staples
<b>2015-2016</b>	Expanded presence to 60+ countries Launched "Ecolife" in USA & India Acquired "Gold Seal Indus Valley", "Rozana" brands from HUL
<b>2016-2017</b>	Acquired "817 Elephant" Expanding products portfolio in India and US

**Key Management Personnel**

Name	Brief Profile
Mr. Vijay Kumar Arora Chairman & Managing Director	Mr. Vijay is a B.Sc graduate. He joined LT Foods in 1978 and has an experience of ~38 years. His key areas of responsibility are international marketing, strategic planning, finance and business development. He has served as member of the "Task Force on Food Grain Sector" constituted by the Ministry of Food Processing.
Mr. Ashwani Kumar Arora CEO, CFO & Managing Director	Mr. Ashwani is a commerce graduate and responsible for marketing and the brand promotion of products in India. He is also the CFO of the company.
Mr. Surinder Kumar Arora Managing Director	Mr. Surinder has vast experience in production and plant operation and looks after the production and procurement for LTFL.

**Investment Rationale**
**Growing demand for organic food, expanding value added portfolio**

According to the Organic Trade Association's (OTA) 2016 Organic Industry Survey, 2015 was a record-breaking year for the U.S. organic industry. The number of consumers choosing to purchase organic products over their conventional counterparts is rapidly expanding for a variety of reasons. A recent Consumers Report survey showed that 84 percent of American consumers would purchase an organic product over the same conventional product. The Indian markets is also witnessing a similar trend about healthy food products. LTFL is looking to capitalize on this opportunity and has launched its

organic basmati rice brand 'Ecolife' through its wholly owned subsidiary Nature Bio-Foods Ltd. Its portfolio comprises 40 products and includes organic rice, pulses, soya and spices, launched across 13 states in India. Internationally, the subsidiary has a range of 200 products being exported around the globe. It is the first Company in India to globally export certified organic basmati rice.

Recently, LTFL augmented its product portfolio with the launch of value-added staples such as Maida, Suji, Daliya, Poha, Besan and Atta under the brand "Devaaya". These staples are now available in 10 other countries and sees growing consumer acceptance. LTFL is looking to keep introducing innovative high value products in India as well as overseas markets. Going forward, LTFL intends to incur capex mainly on the value added premium segments and not on its core operations, which is adequately resourced which should aid in better return ratios.

#### **JV with Future Consumer to increase domestic demand**

LT Foods has entered into JV with Future Consumer for possible opportunities to manufacture, market and distribute rice and other products. Both the companies will hold 50% in Genoa Rice Mills which shall be dealing in Sona Masoori / regional South Indian rice. Future Consumer is a major retailer in the domestic market and the JV would provide ready market for LT Foods products in India.

#### **Leading Basmati rice brand in the US market**

India enjoys ~80% share in the global basmati exports which is growing ~13-15% p.a. Even the domestic market basmati consumption is growing at ~14% p.a. LT foods leads the US market with its brand 'Royal' while its 'Daawat' brand is the leader in the Indian market with 21.8% market share in packaged basmati rice.

#### **Inorganic acquisitions leading to healthy growth**

LTFL has acquired HUL's brands 'Gold Seal Indus Valley' and 'Rozana'. These acquisitions has strengthened its position especially in the Middle East and provided an entry into markets of Qatar, Bahrain and Oman. It also provided access to HUL's established distribution network which the company was able to leverage and develop relationships with key distributors to improve its reach and margins. In June-2016 it acquired the iconic '817 Elephant' brand of Deva Singh Sham Singh which has a strong recall and presence particularly in Canada, USA and Dubai.

#### **Wide distribution network**

In India, LT Foods has a wide and superior distribution network with local and specialized sales force for each distribution channel. It has a wide distribution network with the ability to impact stocking and retailer preference in more than 1.5 Lakhs retail outlets. In addition to this, its distribution is spread across 3,000 wholesalers and 2,500 modern trade stores such as hypermarkets, supermarkets and mini markets. In India, the number of towns with distributors has doubled over the last 3 years. Moving forward, the "Daawat" brand is aiming to appoint a distributor in all Class 1 towns in its business priority states. In most global markets the Company realigned its distributors to create more brand availability and reworked the terms with the major Modern Trade Chains to drive superior retail performance.

### Growing volumes despite tough economic conditions

Despite another year of tough economic conditions globally, LTFL registered strong volume growth of 25% both in India and in international markets as compared to last year. The growth was mainly due to the strong brand strength of Daawat and Royal. Continuous innovations and ramp up of newly introduced brands like “Devaaya” and “Ecolife” in the USA into existing and new markets would drive volume growth in future.

### Leading brand ambassadors helped in increasing recall value

LT Foods had roped in Amitabh Bachchan in 2013 as its brand ambassador. Further it also added India’s top chef Sanjeev Kapoor as its brand ambassador in FY15. It has increased the intensity of its brand promotion exercise across multiple geographies in the last few years. In India, its brand campaign of ‘Daawat’ featuring dual ambassadors, legendary superstar, Amitabh Bachchan and celebrity chef, Sanjeev Kapoor helped it raise the affiliation and premium quotient of the brand. Since FY15 LTFL has increased its brand promotion for ‘Daawat’ brand in the high potential markets such as Europe, Middle East & Far East Asia and Africa. In North America, promotional activities for ‘Royal’ brand has also intensified.

### Strong growth in branded sales

LT Foods Limited (LTFL) is a leading branded specialty foods company, with leading brand positions in the countries, including India and the United States. Over the last 5 years the branded portfolio of the company has grown at a CAGR of over 20% and contributes to over 80% of sales as compared to ~50% in FY13. Its premium quality flagship brand ‘DAAWAT’ has an 18% overall market share and more than 35% in the premium segment. The ‘ROYAL’ brand is the #1 Basmati Rice in North America. The company has recently acquired additional brands such as Gold seal Indus Valley, Rozana and 817 Elephant, all of which give it a readymade entry into specific global markets and strengthen channel networks.

### Committed to reduce debt

The management of LTFL is aware of the high gearing of 3x and is committed to bring it down gradually. It plans to finance its growth into value added premium products through internal accruals. It reduced its debt by ~Rs 94 cr in FY16. With sufficient surplus cash flows to expand its operations the debt levels are likely to come down in the coming years.

### Positive contribution from subsidiaries

Name	Holding	Turnover	PAT
Daawat Foods Ltd	70.48%	783.6	2.9
Nature Bio-Foods Ltd	100%	224.3	12.0
Kusha Inc., USA	100%	13.1	0.5
LT Foods Middle East	100%	6.5	0.4
Fresco Fruits & Nuts	84.94%	50.8	(5.3)
LT International	89.98%	3.7	0.0

## Concerns

### Insurance claim of Rs 180 cr pending

In Jun-14 LTFL's subsidiary Daawat Foods Ltd suffered a fire and raw materials of Rs 180 cr were destroyed. Although the inventory was fully insured and the company filed a claim, the insurance company has disputed the same. While the management is optimistic of recovering the amount, it has nevertheless started providing for the same in a staggered manner. If the company is not able to win the case it would need to make provisions for the remaining ~Rs 140 cr which would impact its profitability, reserves and book value.

## View and Valuation

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LT Foods is amongst the largest basmati rice exporter which has high barriers to entry. It is the largest basmati rice player in North American markets where the demand for basmati rice has been increasing. With Iran expected to lift its ban on imports of basmati rice and China also looking to import rice from India, demand is expected to pick up and falling prices are likely to be arrested.

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## Financial Statements

### Income Statement

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>Income from operations</b>	<b>2474.1</b>	<b>2734.6</b>	<b>2973.4</b>	<b>3241.0</b>	<b>3581.3</b>
Cost of materials consumed	1841.9	2062.2	2104.8	2336.8	2578.6
Employee Cost	63.9	74.2	89.8	100.5	111.0
Other expenses	305.1	334.4	422.2	431.1	465.6
Total expenses	2210.8	2470.8	2616.8	2868.3	3155.2
<b>EBITDA</b>	<b>263.3</b>	<b>263.7</b>	<b>356.6</b>	<b>372.7</b>	<b>426.2</b>
Depreciation	37.4	46.6	51.5	55.9	59.3
EBIT	244.5	262.4	311.4	323.3	374.1
Other Income	18.6	45.2	6.3	6.5	7.2
Finance expenses	113.4	151.2	147.8	140.6	136.5

### Cash Flow statement

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Profit Before Tax	131.0	111.2	119.6	182.7	237.5
Depreciation	37.4	46.6	51.5	55.9	59.3
Others	157.1	197.9	157.8	134.2	129.6
Change in working capital	-199.2	-297.2	2.2	-29.4	-42.8
Tax expenses	-22.7	-49.5	-33.8	-62.1	-80.8
<b>CF from Operating activities</b>	<b>103.6</b>	<b>9.0</b>	<b>297.2</b>	<b>281.3</b>	<b>302.9</b>
Net Capex	-54.5	-55.3	-53.7	-55.0	-50.0
Other investing activities	0.5	-1.0	0.7	0.0	0.0
<b>CF from Investing activities</b>	<b>-51.8</b>	<b>-57.7</b>	<b>-53.6</b>	<b>-55.0</b>	<b>-50.0</b>
Proceeds from Eq Cap	0.5	0.8	4.6	0.0	0.0

Profit Before Tax	131.0	111.2	119.6	182.7	237.5
Tax Expenses	46.3	34.8	47.1	62.1	80.8
<b>Profit after Tax</b>	<b>84.8</b>	<b>76.4</b>	<b>72.5</b>	<b>120.6</b>	<b>156.8</b>
Associate/Minority share	-6.5	-3.9	-0.4	0.5	0.8
<b>Adj. PAT</b>	<b>78.3</b>	<b>72.5</b>	<b>116.1</b>	<b>121.1</b>	<b>157.6</b>
EPS	29.8	27.4	43.6	45.4	59.1

### Balance Sheet

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>EQUITY AND LIABILITIES</b>					
Share Capital	26.3	26.5	26.7	26.7	26.7
Reserves and Surplus	364.6	436.3	510.1	624.8	774.4
<b>Shareholders' Funds</b>	<b>390.9</b>	<b>462.7</b>	<b>536.8</b>	<b>651.4</b>	<b>801.0</b>
Minority Interest	30.5	34.5	34.3	33.8	33.0
Long Term borrowings	180.9	141.9	77.2	37.6	0.0
Deferred Tax Liabilities (Net)	1.3	-1.2	-7.3	-7.3	-7.3
Other Long Term Liabilities	0.1	0.1	0.1	0.1	0.1
Long Term Provisions	1.3	1.3	1.4	1.4	1.4
<b>Non-current Liabilities</b>	<b>183.5</b>	<b>142.1</b>	<b>71.4</b>	<b>31.8</b>	<b>-5.7</b>
Short Term Borrowings	1321.4	1549.8	1520.3	1490.3	1440.3
Trade Payables	148.3	100.0	149.4	151.0	176.6
Other Current Liabilities	72.0	121.7	91.4	106.6	107.9
Short Term Provisions	46.0	33.3	53.6	52.9	55.7
<b>Current. Liabilities</b>	<b>1587.8</b>	<b>1804.8</b>	<b>1814.6</b>	<b>1800.7</b>	<b>1780.6</b>
<b>TOTAL</b>	<b>2192.7</b>	<b>2444.1</b>	<b>2457.1</b>	<b>2517.7</b>	<b>2608.9</b>
<b>ASSETS</b>					
<b>Fixed Assets</b>					
Gross Block	569.2	638.3	675.8	735.2	790.2
Less: Acc. Depreciation	219.5	267.9	314.5	370.4	429.7
<b>Net Block</b>	<b>349.7</b>	<b>370.4</b>	<b>361.2</b>	<b>364.8</b>	<b>360.5</b>
Capital work-in-progress	18.6	14.7	24.4	20.0	15.0
Non current Investments	5.1	6.9	6.4	6.4	6.4
Long-Term Loans and Advances	21.1	28.7	167.6	171.8	179.1
Other Non-current Assets	3.4	2.7	0.4	2.7	2.3
<b>Non-current Assets</b>	<b>29.6</b>	<b>38.4</b>	<b>174.4</b>	<b>180.9</b>	<b>187.8</b>
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	1349.4	1362.2	1299.6	1287.5	1324.6

Borrowings / (Repayments)	69.0	184.0	-93.0	-69.6	-87.6
Dividends paid	-5.2	-5.9	-5.3	-6.4	-8.0
Interest paid	-108.2	-145.8	-140.6	-140.6	-136.5
<b>CF from Financing activities</b>	<b>-44.7</b>	<b>32.1</b>	<b>-235.3</b>	<b>-216.6</b>	<b>-232.1</b>
<b>Net Cash Flow</b>	<b>7.2</b>	<b>-16.6</b>	<b>8.2</b>	<b>9.6</b>	<b>20.8</b>

### Financial Ratios

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Adj. EPS (Rs)	29.8	27.4	43.6	45.4	59.1
Cash EPS (Rs)	44.0	45.0	62.9	66.4	81.3
BVPS (Rs)	148.6	174.9	201.3	244.4	300.5
PE (x)	12.7	13.8	8.7	8.3	6.4
P/BV (x)	2.5	2.2	1.9	1.5	1.3
Mcap/Sales (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA	9.8	9.8	7.2	6.9	6.0
EBITDAM (%)	10.6	9.6	12.0	11.5	11.9
EBITM (%)	9.9	9.6	10.5	10.0	10.4
PATM (%)	3.2	2.7	3.9	3.7	4.4
ROCE (%)	13.5	13.0	14.5	15.0	16.9
RONW (%)	22.3	17.0	23.2	20.4	21.7
Current Ratio (x)	1.1	1.1	1.0	1.1	1.1
Quick Ratio (x)	0.3	0.4	0.3	0.4	0.4
Debt-Equity (x)	3.8	3.7	3.0	2.3	1.8
Debtor Days	48	42	46	45	42
Inventory Days	223	201	181	164	153
Creditor Days	24	15	21	19	20

Trade Receivables	326.1	317.9	375.7	399.6	412.1
Cash and Bank Balances	35.1	21.2	32.3	42.0	62.7
Short-Term Loans and Advances	82.9	318.8	188.9	222.0	245.3
Other Current Assets	1.4	0.6	0.4	1.0	0.8
<b>Current Assets</b>	<b>1794.8</b>	<b>2020.7</b>	<b>1897.0</b>	<b>1952.0</b>	<b>2045.5</b>
<b>TOTAL</b>	<b>2192.7</b>	<b>2444.1</b>	<b>2457.1</b>	<b>2517.7</b>	<b>2608.9</b>

(Source: Company, HDFC sec)

**One year Price chart**



# Chaman Lal Setia Exports Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Rice Processing	Rs 98	Buy at CMP and add on declines	Rs 88-92	Rs 112 & Rs 125	2-3 quarters

HDFC Scrip Code	CHASEEQNR
BSE Code	530307
NSE Code	NA
Bloomberg	CMLTX IN
CMP as on 20 Jan 17	98.40
Eq. Capital (Rs crs)	10.35
Face Value (Rs)	2
Equity Sh. Outs (Cr)	5.17
Market Cap (Rs crs)	509.06
Book Value (Rs)	23.44
Avg. 52 Week Vol	41192
52 Week High (Rs)	106.95
52 Week Low (Rs)	43.72

Shareholding Pattern-% (Dec-2016)	
Promoters	74.79
Institutions	0.29
Non Institutions	24.91
Total	100.00

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Chaman Lal Setia Exports Ltd (CLSE) was set up as a partnership firm by Mr Chamanlal Setia and his sons, Mr Vijay Setia and Mr Rajeev Setia, in Amritsar (Punjab) in 1983. It was reconstituted as a public limited company in 1994, and listed on the BSE in 1995. CLSE mills, processes, and trades in basmati rice in the domestic and export markets. It has one milling unit in Haryana with a capacity of 360 MT per week manufacturing raw, steamed and parboiled rice. Its products are sold under the brand 'Maharani'.

### Investment Rationale (other than industry triggers)

- Innovative products gaining strength
- Focus on promoting the brand Maharani
- Healthy CPS with low debt-equity
- Rewarding shareholders by consistent record of dividend payment, split, Bonus.
- Strong margins/return despite having a large rice trading portfolio

### Concerns (other than industry concerns)

- Huge cash holding without any utilization plan
- Not included in list of companies approved by China

### Financial Summary

(Rs Cr)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	FY15	FY16	FY17E	FY18E
Net Sales	121.1	115.9	4.5	115.4	4.9	508.4	482.8	497.4	544.7
EBITDA	16.0	16.2	-1.0	14.2	12.9	36.8	58.6	63.6	71.8
PAT	10.4	9.7	7.0	9.0	16.0	19.5	37.3	41.2	47.0
EPS (Rs)	2.2	2.1		1.9		4.1	7.9	8.0	9.1
P/E (x)						23.8	12.4	12.3	10.8
EV / EBITDA (x)						13.1	8.3	7.6	6.7
RoE (%)						7.2	12.1	12.8	13.2

(Source: Company, HDFC sec)

### View and Valuation

CLSE is one of the oldest rice millers in the country. Although it has a very small milling capacity the company procures rice from domestic market and exports it under its brand Maharani. CLSE has very low working capital requirement due to its large trading portfolio and is debt-free on a net basis. It has a strong dividend payment record and high return ratios. The focus on promoting its brand Maharani should lead to better recall value in the future.

We feel investors could buy the stock at the CMP and add on declines to Rs 88-92 band (8.0x FY18E core EPS of Rs.8.6 + FY18 cash per share of Rs.21.5) for sequential targets of Rs 112 (10.5x FY18E core EPS of Rs.8.6 + FY18 cash per share of Rs.21.5) and Rs 128 (12.0x FY18E core EPS of Rs.8.6 + FY18 cash per share of Rs.21.5) in 2-3 quarters.

### Company Overview

Chaman Lal Setia Exports Ltd (CLSE) was set up as a partnership firm by Mr Chamanlal Setia and his sons, Mr Vijay Setia and Mr Rajeev Setia, in Amritsar (Punjab) in 1983. It was reconstituted as a public limited company in 1994, and listed on the BSE in 1995. CLSE mills, processes, and trades in basmati rice in the domestic and export markets. It has one milling unit in Haryana with a capacity of 360 MT per week manufacturing raw, steamed and parboiled rice. Its products are sold under the brand 'Maharani'

CLSE is one of the oldest and hi-Tech Rice Millers cum Exporters of Basmati rice of all varieties from India having a process capacity of 14 MT/hour. It is also one of the biggest trader wherein it procure rice from the domestic market and sells it at a premium under its brand Maharani.

### Investment Rationale

#### Innovative products gaining strength

CLSE has launched several novel and innovative products like Bhatti Sella, Pesticide Residue free rice and quick cooking rice and Rice for Diabetic People having moderate G.I. The sale of Maharani Rice suitable for Diabetic people has seen significant growth in all its markets. This rice has added qualities like taste, aroma, easy cooking and longer preservation period. This is a niche area in which the company has specialized. With the increasing number of people diagnosed with diabetes all over the world due to various reasons, CLSE can exploit this opportunity and grow in this market.

#### Focus on promoting the brand Maharani

The promotion of flagship brand Maharani is on the top agenda of the company in the coming years. Company has introduced very attractive and novel packaging of Maharani Brand. It plans to go for aggressive advertising in print and electronic media and brand equity is likely to be future strength and business stimulators of the company. CLSE has some good differentiated products i.e. basmati rice for diabetic people, pesticide free basmati rice, etc which the company plans to highlight which should augur well in the coming years.

#### Consistent record of dividend payment, Bonus in FY17.

Except for FY02 CLSE has been consistently paying dividend to its shareholders. Although the payout ratios have been in single digits with yields falling in recent times, the company has not missed paying dividends. The company split the face value of its shares from Rs 10 to Rs 2 in Dec-15. It has further issued bonus shares in Oct-16 in the ration of 1:10 to increase the liquidity.

**Healthy Cash Per share with low debt-equity**

CLSE has been net debt positive with its cash balance amounting to Rs 50 cr at the end of FY16 and total debt of Rs 24 cr. Its cash earnings per share has also been healthy at Rs 8.5 in FY16. The company might look at growing through inorganic route or return cash to the shareholders through higher dividends going forward. The company has cash of ~Rs 11 per share on its books and with no capex planned in the coming years we expects cash holdings to double to ~Rs 21.5 per share by FY18.

**Strong margins/return despite having a large rice trading portfolio**

CLSE has a very low rice milling capacity of 14 MT/hour. The company procures rice in the domestic market and sells them at a premium in the international market. Purchase of stocks accounts for ~50% of its sales. Despite having a large trading portfolio the company had EBITDA margins of 12.1% in FY16 which is comparable to some of its larger peers like KRBL and LT Foods who have a much bigger manufacturing capacities. Due to the lower capex the return ratios (RoCE of 45% and RoNW of 39% in FY16) of the company are among the best the industry. This indicates the strength of 'Maharani' brand and the ability of the company to attract customers.

**Concerns****Huge cash holding without any utilization plan**

CLSE had cash balance of ~Rs 50 cr and current investments of Rs 1 cr at the end of FY16. With no significant capex plans in the near future it remains to be seen how this cash balance is utilized by the company. It might bring down the return ratios unless utilized efficiently.

**Not included in list of companies approved by China**

China has also opened its markets for imports of rice from Indian companies. However CLSE is not one of the vendors in the first list of 14 companies approved recently.

**View and Valuation**

CLSE is one of the oldest rice millers in the country. Although it has a very small milling capacity the company procures rices from domestic market and exports it under its brand Maharani. CLSE has very low working capital requirement due to its large trading portfolio and is debt-free on a net basis. It has a strong dividend payment record and high return ratios. The focus on promoting its brand Maharani should lead to better recall value in the future.

We feel investors could buy the stock at the CMP and add on declines to Rs 88-92 band (8.0x FY18E core EPS of Rs.8.6 + FY18 cash per share of Rs.21.5) for sequential targets of Rs 112 (10.5x FY18E core EPS of Rs.8.6 + FY18 cash per share of Rs.21.5) and Rs 128 (12.0x FY18E core EPS of Rs.8.6 + FY18 cash per share of Rs.21.5) in 2-3 quarters.

## Financial Statements

### Income Statement

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>Income from operations</b>	<b>416.2</b>	<b>508.4</b>	<b>482.8</b>	<b>497.4</b>	<b>544.7</b>
Cost of materials consumed	354.8	401.1	341.0	350.3	382.0
Employee Cost	6.5	5.4	6.1	6.5	7.1
Other expenses	22.7	65.0	77.1	77.0	83.8
Total expenses	384.0	471.5	424.2	433.8	472.9
<b>EBITDA</b>	<b>32.2</b>	<b>36.8</b>	<b>58.6</b>	<b>63.6</b>	<b>71.8</b>
Depreciation	3.0	3.0	2.9	2.9	3.0
EBIT	31.5	35.9	60.7	63.7	72.7
Other Income	2.2	2.0	5.0	3.0	3.8
Finance expenses	4.4	6.3	3.5	1.2	1.5
Profit Before Tax	27.1	29.5	57.1	62.5	71.2
Tax Expenses	8.9	10.0	19.9	21.2	24.2
<b>Profit After Tax</b>	<b>18.2</b>	<b>19.5</b>	<b>37.3</b>	<b>41.2</b>	<b>47.0</b>
EPS	3.9	4.1	7.9	8.0	9.1

### Balance Sheet

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>EQUITY AND LIABILITIES</b>					
Share Capital	9.4	9.5	9.4	10.3	10.3
Reserves and Surplus	57.5	70.2	100.8	138.0	181.3
<b>Shareholders' Funds</b>	<b>66.9</b>	<b>79.6</b>	<b>110.2</b>	<b>148.4</b>	<b>191.6</b>
Long Term borrowings	17.2	16.8	17.0	17.0	17.0
Deferred Tax Liabilities (Net)	1.3	1.3	1.4	1.4	1.4
Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	0.0	0.0	0.0	0.0	0.0
<b>Non-current Liabilities</b>	<b>18.6</b>	<b>18.0</b>	<b>18.4</b>	<b>18.4</b>	<b>18.4</b>
Short Term Borrowings	43.8	33.2	7.4	7.4	7.4
Trade Payables	5.4	3.5	3.9	4.6	4.4
Other Current Liabilities	1.3	3.8	2.8	2.7	3.4
Short Term Provisions	20.5	28.8	40.4	40.8	44.7
<b>Current. Liabilities</b>	<b>71.1</b>	<b>69.3</b>	<b>54.4</b>	<b>55.5</b>	<b>59.9</b>
<b>TOTAL</b>	<b>156.5</b>	<b>167.0</b>	<b>183.0</b>	<b>222.3</b>	<b>269.9</b>

### Cash Flow statement

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Profit Before Tax	27.2	29.5	57.1	62.5	71.2
Depreciation	3.0	2.8	2.9	2.9	3.0
Others	-2.7	-3.2	-4.9	1.3	1.3
Change in working capital	-38.2	6.1	32.2	-21.2	-0.1
Tax expenses	-10.4	-14.6	-24.0	-21.2	-24.2
<b>CF from Operating activities</b>	<b>-21.1</b>	<b>20.6</b>	<b>63.4</b>	<b>24.2</b>	<b>51.2</b>
Net Capex	3.7	0.0	0.0	-2.5	-3.0
Other investing activities	-1.1	-1.0	-2.4	-17.0	-37.0
<b>CF from Investing activities</b>	<b>2.7</b>	<b>3.5</b>	<b>0.7</b>	<b>-19.5</b>	<b>-40.0</b>
Proceeds from Eq Cap	0.0	0.1	0.1	0.0	0.0
Borrowings / (Repayments)	26.4	-11.1	-25.6	0.0	0.0
Dividends paid	0.0	0.0	0.0	-3.1	-3.7
Interest paid	0.0	0.0	0.0	-1.2	-1.5
<b>CF from Financing activities</b>	<b>26.4</b>	<b>-11.0</b>	<b>-25.5</b>	<b>-4.3</b>	<b>-5.2</b>
<b>Net Cash Flow</b>	<b>8.0</b>	<b>13.1</b>	<b>38.6</b>	<b>0.4</b>	<b>6.0</b>

### Financial Ratios

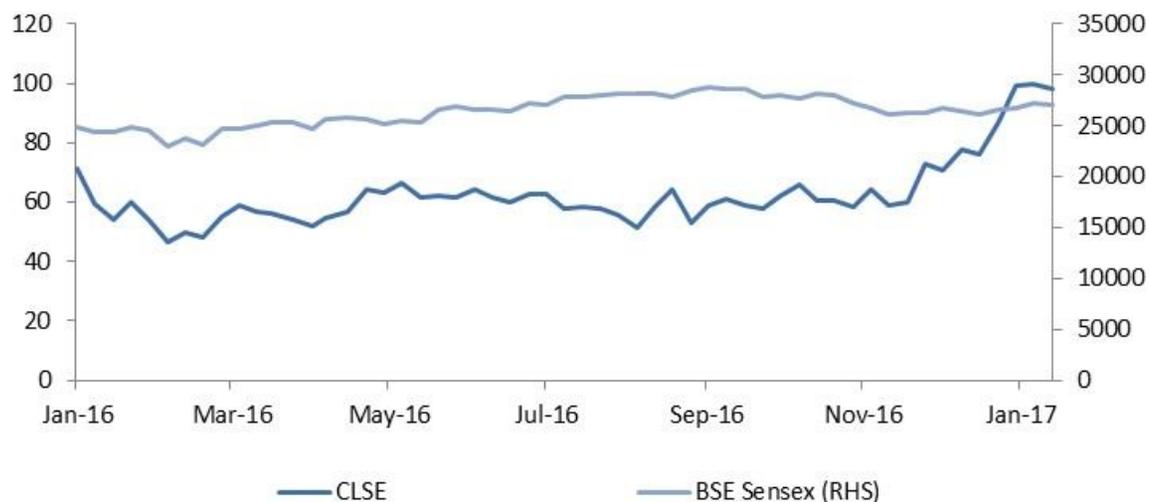
Particulars	FY14	FY15	FY16E	FY17E	FY18E
EPS (Rs)	3.9	4.1	7.9	8.0	9.1
Cash EPS (Rs)	4.5	4.8	8.5	8.5	9.7
BVPS (Rs)	14.2	16.9	23.4	28.7	37.0
PE (x)	25.5	23.8	12.4	12.3	10.8
P/BV (x)	6.9	5.8	4.2	3.4	2.7
Mcap/Sales (x)	1.2	1.0	1.1	1.0	0.9
EV/EBITDA	15.0	13.1	8.3	7.6	6.7
EBITDAM (%)	7.7	7.2	12.1	12.8	13.2
EBITM (%)	7.6	7.1	12.6	12.8	13.3
PATM (%)	4.4	3.8	7.7	8.3	8.6
ROCE (%)	29.4	27.8	45.9	41.5	37.4
RONW (%)	30.7	26.6	39.2	31.9	27.6

ASSETS					
<b>Fixed Assets</b>					
Gross Block	39.7	42.5	44.6	47.1	50.1
Less: Acc. Depreciation	18.7	20.3	22.3	25.2	28.2
<b>Net Block</b>	<b>21.0</b>	<b>22.2</b>	<b>22.3</b>	<b>21.9</b>	<b>21.9</b>
Capital work-in-progress	0.2	0.0	0.2	0.2	0.2
Non current Investments	0.1	0.1	0.1	0.1	0.1
Long-Term Loans and Advances	0.2	0.2	0.2	0.2	0.2
Other Non-current Assets	0.0	0.4	0.4	0.2	0.4
<b>Non-current Assets</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>
Current Investments	0.0	0.0	1.0	18.0	55.0
Inventories	67.6	68.1	49.4	66.1	67.0
Trade Receivables	47.4	47.6	32.4	45.5	45.8
Cash and Bank Balances	6.5	12.7	49.9	50.3	56.3
Short-Term Loans and Advances	0.5	0.5	0.6	0.6	0.6
Other Current Assets	13.1	15.1	26.7	19.3	22.4
<b>Current Assets</b>	<b>135.0</b>	<b>144.0</b>	<b>159.9</b>	<b>199.7</b>	<b>247.1</b>
<b>TOTAL</b>	<b>156.5</b>	<b>167.0</b>	<b>183.0</b>	<b>222.3</b>	<b>269.9</b>

Current Ratio (x)	1.9	2.1	2.9	3.6	4.1
Quick Ratio (x)	0.9	1.1	2.0	2.4	3.0
Debt-Equity (x)	0.9	0.6	0.2	0.2	0.1
Debtor Days	42	34	24	33	31
Inventory Days	64	53	43	56	52
Creditor Days	5	3	3	4	3

(Source: Company, HDFC sec)

### One year Price chart



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