

# KRBL Ltd

Bloomberg Code: KRB IN

India Research - Stock Broking

**BUY**

## Geographical Expansion to Drive Top-line Growth, with Top Basmati Rice Brands such as "India Gate"

**Robust demand for branded basmati rice:** KRBL is the largest basmati rice processor and exporter with great brand recall and enjoys 25% market share in export and 30% in domestic markets. It has experienced top line growth at CAGR of 17.3% while bottom-line at CAGR of 22.8% during FY11-16' on the back of rise in rice consumption demand in general and basmati rice in particular at global and domestic levels. Growth trend is likely to remain up on the back of constant rise in demand, about 29.5% likely fall in sowing of basmati seeds which may result into fall in production and corresponding rise in price, growing Basmati rice consumption demand in Middle East, Persian Gulf, Africa, US and Europe.

KRBL, with the help of its subsidiaries and with the highest rice milling capacities, is well placed to capitalize on growing demand.

**Integrated business model:** The company follows backward integration through partnership with farmers wherein the company encourages contract farming, makes available with high yielding seeds and provides intensive training on crop cultivation. Thus, the company is fully integrated across supply chain which enables it to focus on quality of produce and which ultimately helps improve realization which is around Rs. 72/kg, much above average industry realization of Rs. 53/kg. Basmati rice contributes to 97.5% of total agri business revenue.

**Diversified sources of earnings:** The potential of business in renewable energy drove management to venture into energy segments with Solar Power, Wind Power and Bio-Mass which have been showing signs of great traction.

## Valuation and Outlook

KRBL enjoys great brand recall, on the back of quality basmati rice and years of experience at industry place which result into its products attracting premium price. 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. We value the stock at 12.5x FY18E EV/EBITDA which gives the target price of Rs.347 representing 16% upside. We initiate the coverage with "BUY" recommendation on the stock with the target price of Rs.347 for a perspective of 9-12 months.

## Key Risks

1) Economic slowdown. 2) Foreign exchange risk. 3) Competition risk.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	29105	31597	34281	40580	47921
EBITDA	4405	4882	5331	6081	7221
EBITDA Margin (%)	15.1	15.5	15.6	15.0	15.1
Adj. Net Profit	2551	3217	3371	3708	4078
EPS (Rs.)	10.8	13.7	14.3	15.8	17.3
RoE (%)	24.4	24.3	20.8	18.0	15.1
PE (x)	4.6	12.2	15.5	19.0	17.3

Source: Company, Karvy Research; \*Represents multiples for FY14, FY15 & FY16 are based on historic market price

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### Recommendation (Rs.)

CMP (as on Jun 17, 2016)	299
Target Price	347
Upside (%)	16

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	70476 / 1050
52-wk High/Low (Rs.)	301 / 139
3M Avg. daily volume (mn)	0.3
Beta (x)	0.8
Sensex/Nifty	26626 / 8170
O/S Shares(mn)	235.4
Face Value (Rs.)	1.0

### Shareholding Pattern (%)

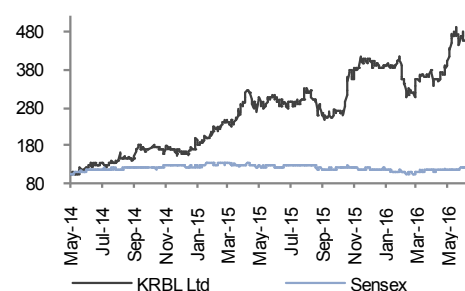
Promoters	58.8
FII	1.9
DII	4.6
Others	34.6

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	4	40	29	71
Relative to Sensex	(1)	31	24	75

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analyst Contact

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**Company Financial Snapshot (Y/E Mar)**
**Profit & Loss (Rs. Mn)**

	FY16	FY17E	FY18E
Net sales	34281	40580	47921
Optg. Exp (Adj for OI)	28950	34499	40700
EBITDA	5331	6081	7221
Depreciation	501	781	700
Interest	634	810	678
Other Income	75	155	168
PBT	4297	4645	6011
Tax	926	1393	1803
Adj. PAT	3371	3708	4078
<b>Profit &amp; Loss Ratios</b>			
EBITDA margin (%)	15.6	15.0	15.1
Net margin (%)	9.8	9.1	8.5
P/E (x)	15.5	19.0	17.3
EV/EBITDA (x)	11.8	13.0	10.6
Dividend yield (%)	0.9	0.6	0.6

Source: Company, Karvy Research

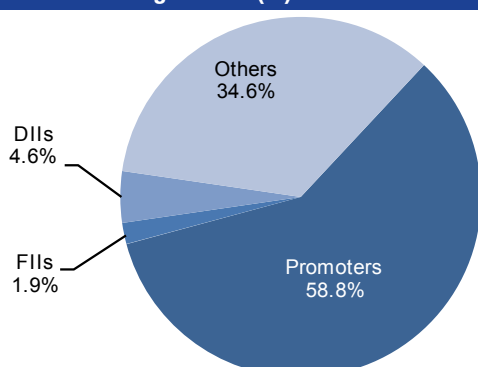
**Balance sheet (Rs. Mn)**

	FY16	FY17E	FY18E
<b>Total Assets</b>	<b>30271</b>	<b>35451</b>	<b>40383</b>
Net Fixed assets	9286	10793	11691
Current assets	20986	24658	28692
Other assets	179	79	95
<b>Total Liabilities</b>	<b>30271</b>	<b>35451</b>	<b>40383</b>
Networth	16237	20635	26929
Debt	10920	11125	9168
Current Liabilities	11789	10890	10126
Other liabilities	1328	1339	1647

**Balance Sheet Ratios**

RoE (%)	20.8	18.0	15.1
RoCE (%)	26.9	22.4	22.3
Debt/Equity (x)	0.7	0.5	0.3
Equity/Total Assets	53.6	58.2	66.7
P/BV (x)	3.2	3.3	2.5

Source: Company, Karvy Research

**Exhibit 2: Shareholding Pattern (%)**


Source: BSE, Karvy Research

**Company Background**

Founded in 1889 in Faisalabad, Pakistan and incorporated in 1993, KRBL is the world's largest Basmati rice exporting company with multi-brand presence both in domestic as well as overseas markets. 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. Being an integrated player, the company also deals in value added by-products like Bran Oil and De-oiled Cakes. It has got Energy business vertical as well, wherein it uses rice husks for captive power plant. Its energy portfolio comprises of Bio-Mass, Solar and Wind energy.

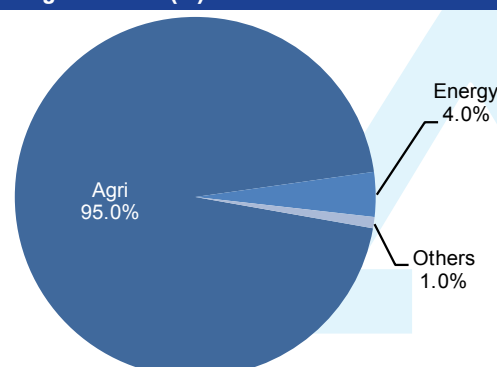
KRBL has strong presence in export markets with 51% market share of Basmati Rice market of USA, dominant presence in Middle East and expanding its export base to Africa and Europe.

The KRBL is ISO 9002, HACCP (Hazard Analysis and Critical Control Points), KOSHER (approved by Jewish Dietary Law) and FDA (Food and Drug Administration) certified.

**Cash Flow (Rs. Mn)**

	FY16	FY17E	FY18E
PBT	4297	4645	6011
Depreciation	501	781	700
Interest (net)	634	810	678
Tax	(926)	(1393)	(1803)
Changes in WC	305	(2880)	(3079)
Others	26	0	0
<b>CF from Operations</b>	<b>4835</b>	<b>1962</b>	<b>2506</b>
Capex	(1832)	(718)	(876)
Others	4	4	4
<b>CF from Investing</b>	<b>(1828)</b>	<b>(715)</b>	<b>(872)</b>
Change in Debt and Interest	(1894)	205	(1957)
Dividends	(539)	(539)	(539)
Others	(534)	(810)	(678)
<b>CF from Financing</b>	<b>(2967)</b>	<b>(1144)</b>	<b>(3174)</b>
Change in Cash	40	104	(1539)

Source: Company, Karvy Research

**Exhibit 3: Revenue Segmentation (%)**


Source: Company, Karvy Research

## Robust demand for Basmati Rice at home and overseas:

With the rice becoming staple diet for more and more people across the world and shift in preference for branded quality rice, the demand for Basmati Rice has been quite strong and will continue to remain so, on the back of rising income.

In overseas markets, the only competition has been there from Pakistan as it is the only country other than India which grows basmati rice and exports the same. But, with superior quality and higher production, India continues to enjoy majority export market share.

The demand for branded Basmati Rice has grown at CAGR of 20% in past five years, driven by growth in domestic and exports market. India continues to be the largest exporter of basmati rice to the global markets with Saudi Arabia, UAE, Iran, Iraq and Kuwait being leading export destinations. Middle East remains leading export destination where premium basmati rice is widely consumed. As per report from US Department of Agriculture, global rice consumption has risen from 445mn MT in 2010-11 to 483mn MT in 2014-15 wherein export from India rose from 90mn MT to 97mn MT during the said period. During the same period, Indian basmati rice exports grew from 2.3mn MT to 3.8mn MT at CAGR of 13.4% while domestic consumption grew from 1.2mn MT to 2.0mn MT at CAGR of 13.6%.

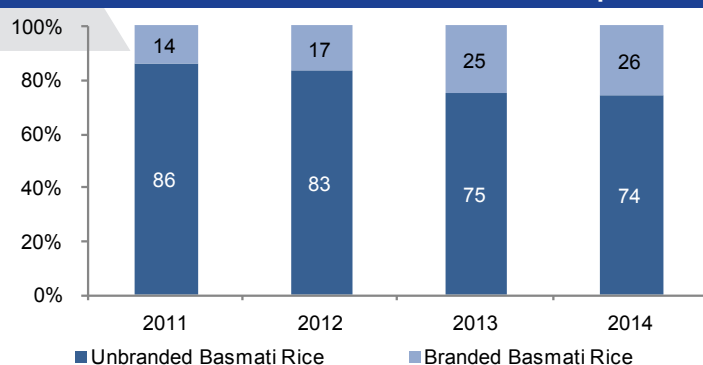
While Basmati Rice is consumed across the globe, West Asian countries account for 75 per cent of Indian Basmati rice exports in 2014-15. Within West Asia, Iran and Saudi Arabia are the two largest buyers accounting over 50 percent of basmati rice exports from India.

**Exhibit 4: Rice Shipments (Quantity in Mn Tonnes, Value in Rs. Bn)**

	Basmati		Non-Basmati		Total	
	Quantity	Value	Quantity	Value	Quantity	Value
2015-16 (Apr-Nov)	2.7	156	4.3	100	7.0	256
2014-15 (Apr-Nov)	2.2	179	5.3	134	7.5	313
2014-15 (Apr-Nov)	3.7	276	8.2	203	11.9	479
2013-15 (Apr-Mar)	3.8	293	7.1	178	10.9	471
2012-13 (Apr-Mar)	3.5	194	6.7	144	10.1	339

Source: Agricultural and Processed Food Products Export Development Authority (India) (APEDA) and Industry Statistics, Karvy Research

**Exhibit 5: Unbranded Vs. Branded Basmati Rice Consumptions**



Source: Ministry of Agriculture, Karvy Research

Over the aforesaid period, Indian basmati rice consumption pattern has also changed wherein there has been increased preference for branded basmati rice against unbranded. Data suggests that during 2011, unbranded basmati rice consumed was to 86% as against 14% branded rice; this has changed to non-branded rice at 74% against 26% branded rice during 2014. India accounts for 20% of global rice consumption and 80% of global basmati exports.

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. 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 average realization of Rs.72/kg higher than industry export realization of Rs.54/kg. KRBL's operating margin is likely to improve further as the company has procured low cost paddy and has strong inventory build-up.

Central government's initiatives such as the 'Rashtriya Krishi Vikas Yojana' which is aimed at bringing the green revolution in Eastern India and 'National Food Security Mission', higher investment in agriculture infrastructure such as irrigation facilities, warehousing, cold storage, better port gate management and fiscal incentives – are expected to boost positivity in the agriculture sector.

## Strategy of Contract Farming:

Unique to its style, KRBL came out with the strategy of contract farming in Punjab, Haryana and Uttar Pradesh wherein the company provides high yielding seeds including PUSA 1509 seeds and intensive training on crop cultivation which has been of great help in augmenting and procuring better quality paddy along with enhancing its market share for seed business. The strategy has worked in favour of farmers as well with acreage under cultivation has increased substantially from 60,000 acres in 2005 to 240,000 acres in FY13.

**Enhancing Export Horizon:** KRBL has been the leading Basmati Rice exporter to the global market with Saudi Arabia, Iran, UAE, Iraq and Kuwait being the leading destinations. It has further added China, South Africa, Mexico, Western countries and other new markets to augment Basmati Rice exports. Presently, it exports Basmati Rice to 75 countries and has been expanding its export base. Over the years, the company has developed several basmati rice brands catering to demands from different segments of consumers. Even its flagship brand, 'India Gate'-the most selling brand, has got two variants namely, India Gate Classic and Super.

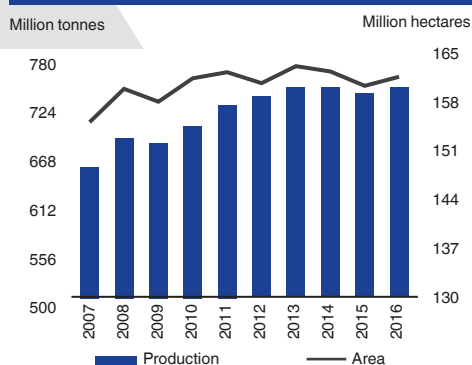
**Strong Distribution Network:** Backed by strategic marketing initiatives, the company has come up with 6,90,000 outlets spread across towns and cities in the country. It has strong tie-ups with several domestic retail chains including Food Bazaar, Spencers, D-Mart Reliance Retail, Vishal Mega Mart, More, Walmart, Easy Day, Reliance Cash & Carry, Metro Cash & Carry and in local E-commerce to steer growth for KRBL.

**Better Realization:** The partnership between the company and farmers are regularly boosted through innovative initiatives and technological support. In these mutually beneficial relation, the company gains through uninterrupted supply of high quality paddy which further ensures better realization for the company.

**Rise in demand for Renewable Energy:** In order to capitalize on opportunity in renewable energy, the company has set up Solar Power Plants and Wind Power Plants at different parts of the country. Solar Power plant of 15 MW is situated in Madhya Pradesh whereas Wind power plants of capacity 87.05 MW are situated in different parts of the country including Maharashtra (33.50MW), Rajasthan (11.85 MW), Tamilnadu (8.10MW), Karnataka (11.10MW), Andhra Pradesh (10.50MW) and Madhya Pradesh (12.00 MW). Wind Mills of 20.1 MW will be commissioned in Maharashtra shortly.

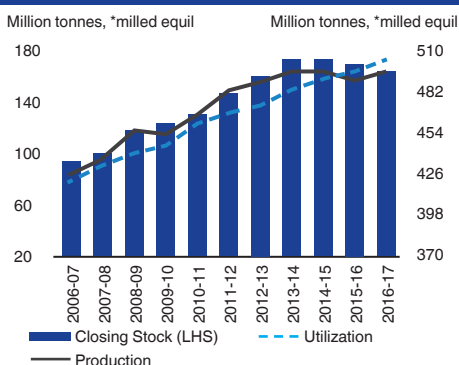
Thus, energy segment is showing signs of greater traction thereby ensuring diversified earnings for the company.

**Exhibit 6: Global paddy production & area**



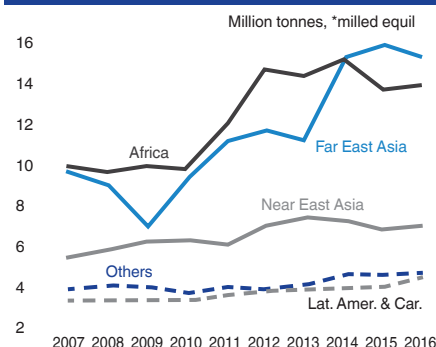
Source: Food Agricultural Organization of the United Nations, Karvy Research

**Exhibit 7: Rice production, utilization & stocks**



Source: Food Agricultural Organization of the United Nations, Karvy Research, \*milled equil: Converting Paddy into Rice

**Exhibit 8: Rice imports by region**

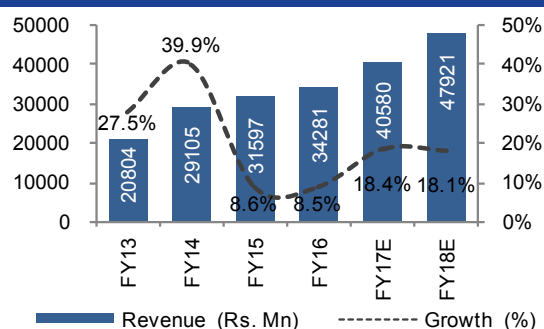


Source: Food Agricultural Organization of the United Nations, Karvy Research, \*milled equil: Converting Paddy into Rice

**Exhibit 9: Business Assumptions**

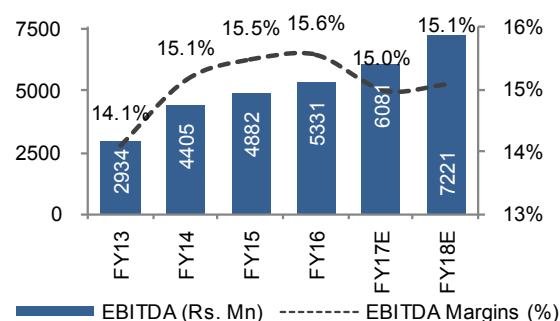
Y/E Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	Comments
Revenue	31597	34281	40580	47921	Basmati rice export is expected to grow over 20.5% in next two years on geographical expansion of export destinations, growing use of rice as staple food across the world, change in life style leading to rise in demand for branded basmati rice and fall in sowing of basmati seeds.
Revenue Growth (%)	8.6	8.5	18.4	18.1	
EBITDA	4882	5331	6081	7221	EBITDA for the company has grown at CAGR of 19.0% during the period and is expected to improve further as the company has procured low cost paddy and has strong inventory built-up and has got high realization over and above industry realization.
EBITDA Margins (%)	15.5	15.6	15.0	15.1	
PAT (normalized)	3217	3371	3708	4078	On the back of growing demand for branded basmati rice and low cost inventory that the company has been maintaining, profit growth momentum is likely to be maintained.
EPS (Rs.)	13.7	14.3	15.8	17.3	
EPS Growth (%)	26.3	4.8	10.0	10.0	
Net CFO	3365	4835	1962	2506	Net Cash Flow for the company is likely to remain positive on the back of the company's move to diversify its activities into related areas.
Capex	(2321)	(1832)	(718)	(876)	For FY17E, the company is expected to have capex of Rs.2000Mn to be used for wind power project in Gujarat.
Debt (Long Term+Short Tern)	12815	10920	11125	9168	The company is dealing into aging rice, need to maintain inventory which gives the need of short term borrowings.
Free Cash Flow	1045	3003	1244	1631	On the back of wide marketing and selling network, the company is expected to maintain and even pick up its free cash flow.

Source: Company, Karvy Research

**Exhibit 10: Revenue Growth**


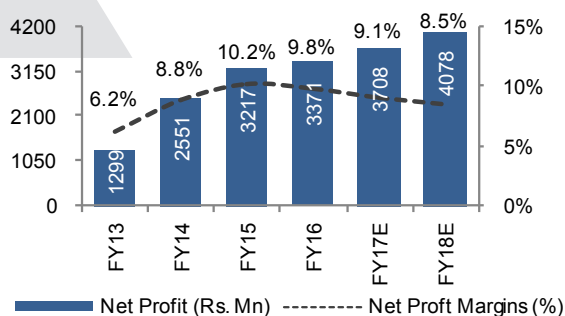
Source: Company, Karvy Research

KRBL has been posting revenue growth at CAGR of 17.5% over FY11-16. The momentum is likely to continue with the rise in consumption demand for basmati rice in domestic as well as global markets. We expect revenue to grow at CAGR of 20% at during FY16-18E.

**Exhibit 11: EBITDA and EBITDA Margin**


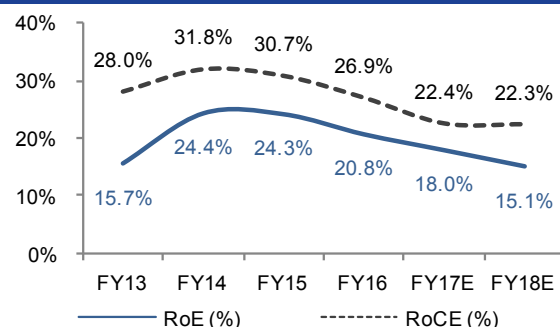
Source: Company, Karvy Research

The company has posted on an average EBITDA Margin of 15.6% over the period of FY11-16. With high inventory built-up at low price, the company's EBITDA margin is likely to further improve.

**Exhibit 12: Net Profit and Net Profit Margin**


Source: Company, Karvy Research

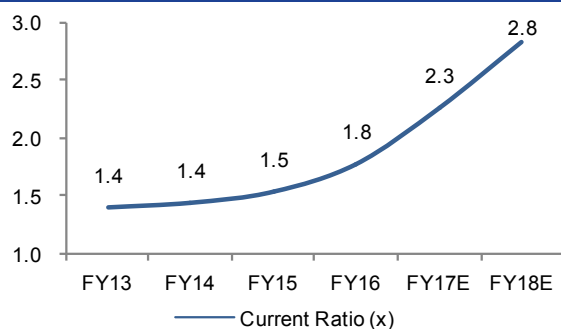
With huge global and domestic distribution network, low priced high inventory and rise in consumption demand, PAT for KRBL is expected to grow above 10.0% YoY.

**Exhibit 13: RoE and RoCE Trend**


Source: Company, Karvy Research

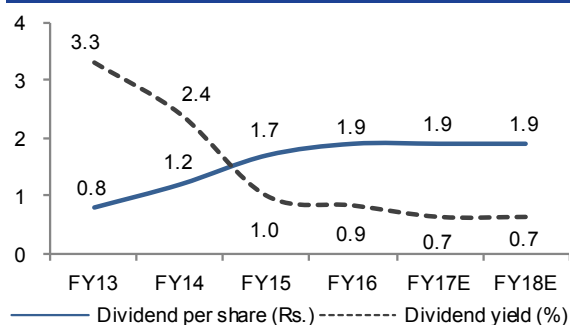
KRBL enjoys realization about Rs.72/kg as against industry realization of Rs.53/kg and management expects it to rise above Rs.90/kg by H2FY16E on the back of likely rise in price which will continue to provide impetus to RoE and RoCE.



**Exhibit 14: Current Ratio**


Source: Company, Karvy Research

Current ratio points to soundness of health of the company in terms of its ability to meet its short term financial obligation. KRBL, with established position in basmati rice industry and strategic business strategies of contract farming, seeds supply and diversifying into renewable energy which not only caters to its captive energy demand but also provides additional stream of revenue for the company, has been able to manage its finance well.

**Exhibit 15: Dividend Per Share and Dividend Yield**


Source: Company, Karvy Research

KRBL has good track record of paying dividends wherein it's dividend payout of about Rs.1.9 per share is likely to continue with the same pace, going forward.

**Exhibit 16: Company Snapshot (Ratings)**

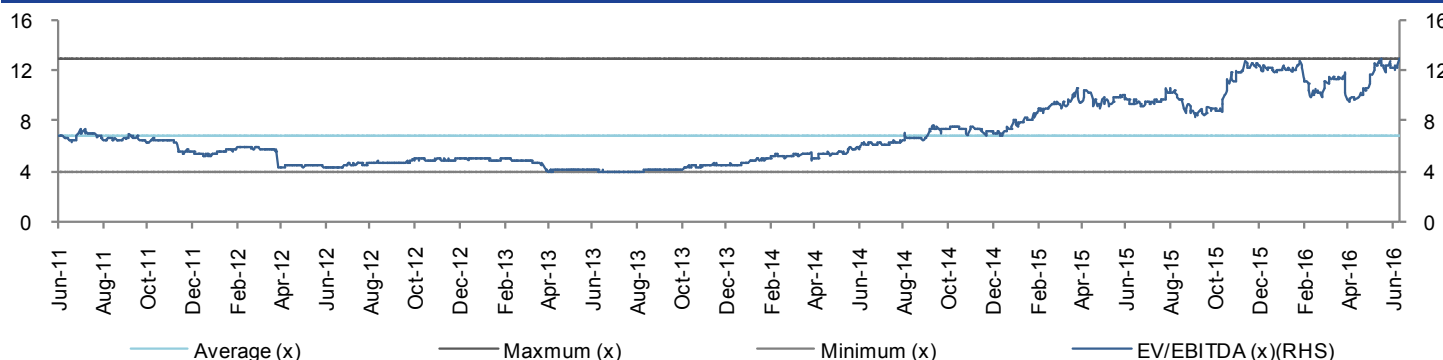
	Low				High
	1	2	3	4	5
Quality of Earnings			✓		
Domestic Sales				✓	
Exports			✓		
Debt/Equity			✓		
Working Capital Requirement			✓		
Quality of Management			✓		
Depth of Management				✓	
Promoter				✓	
Corporate Governance				✓	

Source: Company, Karvy Research

## Valuation & Outlook

KRBL enjoys great brand recall, on the back of quality basmati rice and years of experience at industry place which result into its products attracting premium price. 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. We value the stock at 12.5x FY18E EV/EBITDA which gives the target price of Rs.347 representing 16% upside. We initiate the coverage with **"BUY"** recommendation on the stock with the target price of Rs.347 for a perspective of 9-12 months.

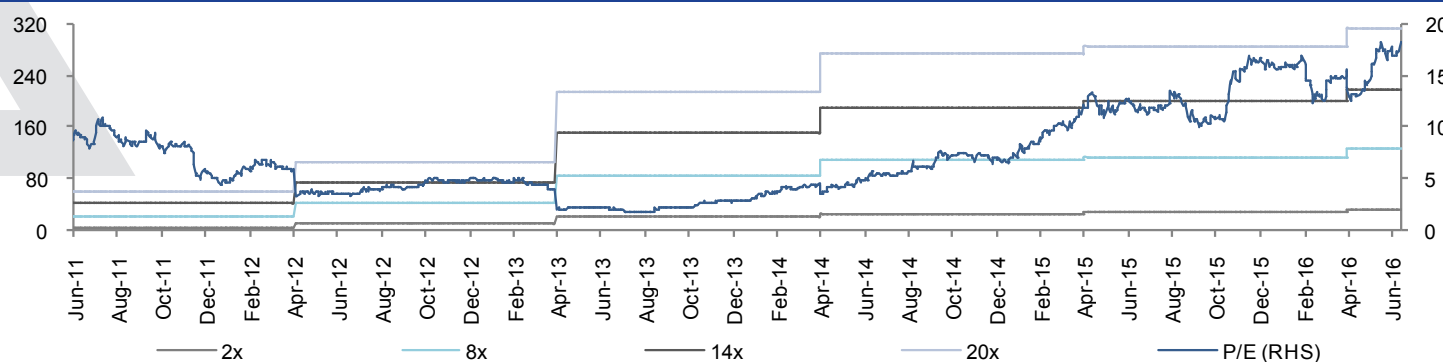
**Exhibit 17: EV/EBITDA**



Source: BSE, Karvy Research

Amidst growing demand of basmati rice as staple diet-domestically as well as globally, KRBL with the credibility of being the largest player in domestic and export markets and with highest milling capacities, is well placed to boost its revenue growth. Historically, the stock has traded within PEx band of 1.8x and 18.3x. At CMP of Rs.299, the stock is trading at 17.3x FY18E EPS and we initiate the coverage with **"BUY"** recommendation with a target price of Rs.347, representing 20x FY18E EPS, with an upside potential of 16%.

**Exhibit 18: PE Band**



Source: BSE, Karvy Research

## Key Risks

- **Economic slowdown:** There has been short fall in import demand of basmati rice from Middle East on account of economic slowdown in the region which adversely impacted consumption demand. Situation like this poses great threat to the performances of the companies like KRBL whose major export destination is Middle East.
- **Foreign exchange risk:** Since the company has large export segment, appreciation in INR could be detrimental to its revenue as appreciating INR makes its export goods costlier in the international markets which may weaken export competitiveness of the company, resulting into lower export demand for domestic products.
- **Competition risk:** The global and domestic rice markets are witnessing increasing competition from unbranded and unorganized players. Besides, Pakistan's increasing presence in basmati rice export market is posing competition to India's dominance in export market.



## Financials

### Exhibit 19: Income Statement

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Revenues	29105	31597	34281	40580	47921
Growth (%)	39.9	8.6	8.5	18.4	18.1
Operating Expenses	24699	26714	28950	34499	40700
EBITDA	4405	4882	5331	6081	7221
Growth (%)	50.2	10.8	9.2	14.1	18.7
Depreciation & Amortization	577	527	501	781	700
Other income	145	436	75	155	168
EBIT	3974	4792	4906	5455	6689
Interest Expenses	760	809	634	810	678
PBT	3264	3941	4297	4645	6011
Tax	713	724	926	1393	1803
Adjusted PAT	2551	3217	3371	3708	4078
Growth (%)	96.5	26.1	4.8	10.0	10.0

Source: Company, Karvy Research

### Exhibit 20: Balance Sheet

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Cash & Cash Equivalents	662	243	283	387	754
Trade receivables	2873	3400	2536	3561	3615
Inventory	16900	18597	17442	20020	23661
Loans & Advances	793	732	1005	860	838
Investments	63	66	73	73	73
Net Block	5626	6396	8753	9471	10347
Other assets	231	1227	179	1079	1095
<b>Total Assets</b>	<b>27147</b>	<b>30661</b>	<b>30271</b>	<b>35451</b>	<b>40383</b>
Current Liabilities	3369	4438	2875	3471	4063
Debt (Short term + Long term)	13155	12815	10920	11125	9168
Other Liabilities	182	160	239	220	221
<b>Total Liabilities</b>	<b>16707</b>	<b>17413</b>	<b>14034</b>	<b>14816</b>	<b>13453</b>
Shareholders Equity	236	235	235	235	235
Reserves & Surplus	10204	13012	16002	20400	26694
<b>Total Network</b>	<b>10440</b>	<b>13248</b>	<b>16237</b>	<b>20635</b>	<b>26929</b>
<b>Total Network &amp; Liabilities</b>	<b>27147</b>	<b>30661</b>	<b>30271</b>	<b>35451</b>	<b>40383</b>

Source: Company, Karvy Research

**Exhibit 21: Cash Flow Statement**

YE Mar (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
PBT	3264	3941	4297	4645	6011
Depreciation	577	527	501	781	700
Net Interest flow	633	765	634	810	678
Tax Paid	(693)	(771)	(926)	(1393)	(1803)
Inc/dec in Net WC	(5333)	(1142)	305	(2880)	(3079)
Others	(29)	46	26	0	0
<b>Cash flow from operating activities</b>	<b>(1582)</b>	<b>3365</b>	<b>4835</b>	<b>1962</b>	<b>2506</b>
Inc/dec in capital expenditure	(1772)	(2321)	(1832)	(718)	(876)
Others	9	6	4	4	4
<b>Cash flow from investing activities</b>	<b>(1762)</b>	<b>(2315)</b>	<b>(1828)</b>	<b>(715)</b>	<b>(872)</b>
Inc/dec in borrowings	4800	(380)	(1894)	205	(1957)
Dividend paid	(190)	(282)	(539)	(539)	(539)
Interest paid	(760)	(809)	(634)	(810)	(678)
Others	23	2	101	0	0
<b>Cash flow from financing activities</b>	<b>3873</b>	<b>(1469)</b>	<b>(2967)</b>	<b>(1144)</b>	<b>(3174)</b>
Net change in cash	529	(418)	40	104	(1539)

Source: Company, Karvy Research

**Exhibit 22: Key Ratios**

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin (%)	15.1	15.5	15.6	15.0	15.1
EBIT Margin (%)	13.7	15.2	14.3	13.4	14.0
Net Profit Margin (%)	8.8	10.2	9.8	9.1	8.5
Dividend Payout Ratio (%)	11.1	12.4	13.3	12.1	11.0
Debt/Equity (x)	1.3	1.0	0.7	0.5	0.3
RoE (%)	24.4	24.3	20.8	18.0	15.1
RoCE (%)	31.8	30.7	26.9	22.4	22.3

Source: Company, Karvy Research


**Exhibit 23: Valuation Parameters**

YE Mar	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs.)	10.8	13.7	14.3	15.8	17.3
DPS (Rs.)	1.2	1.7	1.9	1.9	1.9
BV (Rs.)	44.3	56.3	69.0	87.7	114.4
PE (x)	4.6	12.2	15.5	19.0	17.3
P/BV (x)	1.1	3.0	3.2	3.3	2.5
EV/EBITDA (x)	5.5	10.6	11.8	13.0	10.6
EV/Sales (x)	0.4	0.5	0.5	0.6	0.6

Source: Company, Karvy Research; \*Represents multiples for FY14, FY15 &amp; FY16 are based on historic market price

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	<5%

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