**Company: KRBL Ltd.**

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| **Business Slotting**  🞏 B2B 🗹 B2C 🞏 Asset Heavy 🗹 Asset Light 🞏 Intellectual Prop 🗹 Price Taker 🗹Price Setter 🞏Oligopoly  🗹 Monopoly/ Duopoly 🞏 Customer Capex Led |

**Company Background:**

* Established in 1889, KRBL is India’s first integrated Basmati rice company. It is present in the entire value chain from seed development, contact farming, paddy procurement, ageing, storage, processing, packaging, and marketing. KRBL is #1 – branded Basmati rice producer in India, Basmati rice exporter, and Rice miller.
* India Gate is KRBL’s flagship brand. It has fourteen rice brands sold under its banner across 6 continents and 82 countries. KRBL has strong presence in the Gulf Cooperation Council (GCC) countries where India Gate has 76% market share in the ‘premium’ category. Domestically, it has 484 dealers and distributors within its network generating 35% market share (value terms) in the branded Basmati rice segment.
* With the philosophy of maintaining quality ‘right from the seed to the consumer’s plate’, the Company has created a niche for its Basmati not just in India but worldwide. An apt testimony, “India Gate”, the Company’s flagship brand, accounts for almost 65% of the Company’s Basmati sales despite being the most expensive brand of rice across the globe. Besides India Gate, the Company has a wide portfolio of flourishing brands in the Basmati segment, such as Bemisal, Aarti, Doon, Noorjahan, Indian Farm and Lotus, which are sold in India and Asia, the Middle East, Europe, the US, Canada and Africa.
* As a conscious marketing strategy, KRBL caters to consumers across all price segments, with its product prices varying from Rs 50 per kg to Rs 249 per kg.
* It listed on BSE in the year 1995. Since then it has grown its revenues at 22.4% CAGR till FY2019.
* At 195 MT/hour, KRBL has the largest rice milling capacity in the world. It has four rice processing/grading plants which are based in Delhi, Punjab, Haryana and Uttar Pradesh. It has modern packaging and foodgrain warehousing facility at Alipur and Barota units.

**Business Intricacies:**

* Basmati, one of the most expensive varieties of rice in the world, is a premium long-grain fine-textured rice. A Geographical Indication (GI) product, this aromatic grain is grown only in certain parts of India and Pakistan due to conducive agro-climatic and soil conditions. It is estimated that 70% of global Basmati Rice is produced in India and the balance in Pakistan. India enjoys a structural advantage as it exports a variety of Basmati called PUSA 1121, which is superior and preferred to Pakistan’s ‘Super’ variety.
* Basmati paddy is grown only once a year. Paddy procurement limited to the period between October to December.
* Aged Basmati rice is a premium product because of its better taste, flavour, and aroma. Basmati rice is the only grain in the world which when cooked can elongate 3-4 times of its original length. Aging is essential for Basmati in a similar way like aging Wine or Scotch/Whiskey.
* Farmers behave in similar way to like real-estate construction and shipping manufacturing players, where they increase production when prices are going higher but by the time their supply comes in prices head lower due to excess supply.
* Parmal rice is the second best alternative for farmers after Basmati. Farmers just looks for higher “income per acre” between Basmati and Parmal before deciding which one to sow.
* It costs more to grow Parmal than Basmati because of higher water requirement of Parmal rice. Government announces Parmal minimum support price before the sowing season starts so farmer gets better idea on which one to select.

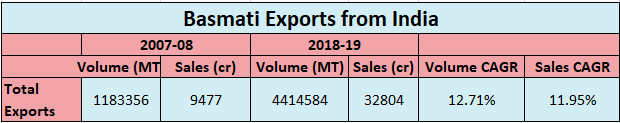
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| **Customer Industry Trend/Outlook ->** 🗹 Tailwinds  Headwinds 🗹 Secular |

**Domestic:**

* Current consumption in India is 3% Basmati and 97% Non-Basmati rice. Unbranded Basmati rice market in India would be around 40%-45% of the total Basmati rice market. Nearly 40%-45% Basmati volume in India is still being sold in loose form.
* The changing lifestyle and consumer patterns coupled with rising disposable income and middle class population is boosting branded Basmati Rice demand in the country.
* The proliferation of modern retailing has helped fuel the consumption of a higher quantum of branded products, as Indian consumers are fast embracing the mall culture and organized retail, triggering a shift from unbranded to branded rice and from economy to premium brands. This offers an attractive channel for the Company to augment its branded Basmati sales in the domestic market, where branded rice sales are expected to growth at 15% p.a. for next 4-5 years.
* Currently India consumes about 2million MT of Basmati rice out of which 800k MT is branded and 1.2mn MT is unbranded. Out of 800k MT, KRBL’s market share is about 35%. Management is expecting branded share to grow from 800k MT to 1.2mn MT in next 3-4 years.
* Consumers are slowly shifting from Mogra 🡪 Dubar 🡪 Tibar 🡪 Super/Head Rice. Size and value of rice increases in the given order.
* India loves its biryani. Biryani topped the list of the most ordered dish on Swiggy for third year in a row. According to Swiggy’s StatEATistics 2019, Indian’s ordered an average of 95 biryanis per minute or 1.6 biryanis every second. Similar results were found from other food delivery services like Zomato. Biryanis are made especially with Basmati rice. Increasing demand for Biryanis augurs well for Basmati Rice companies.

**Exports:**

* The Middle Eastern countries, particularly Saudi Arabia, UAE and Iran, constitute the biggest markets for Indian Basmati Rice. Export of Basmati from India has increased significantly in recent years due to bumper local harvests, strong demand from the Gulf and Middle East countries and a nascent demand from markets in the US, Europe and Australia.
* The Middle East region accounts for nearly 74% of the Company’s total exports sales.
* Basmati Rice accounts for a small proportion of the total rice produced in India. Despite this, India is a global leader in Basmati Rice production accounting for 70% of the total global production. In FY 2015-16, Basmati Rice accounted for only 9.46% of the total rice production, whereas in export value terms its share was higher at 60%.
* Below table gives insights into how Basmati exports have grown from India in last 12 years:

Source: agriexchange.apeda.gov.in/product\_profile/exp\_f\_india.aspx?categorycode=0601

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| **Elevator Pitch –** “KRBL is engaged in Basmati rice business over multiple generations and naturally hold a long-term view on developing vibrant market for Basmati worldwide. The efforts of their R&D team aligned with farmer connect initiatives have resulted in them being a fully integrated business from seed to consumer’s plate. The consistent increase in turnover and earnings with good ROIC over last 10 years displays their India Gate brand has grown strength to strength in a commoditized industry. They have not only survived but thrived in an industry where giants like HLL, ITC, and PepsiCo Foods exited Basmati Rice business in India – this shows that KRBL is a unique business with tremendous longevity. Current consumption in India is 3% Basmati and 97% Non-Basmati. Basmati rice currently accounts for only 1% of the total global consumption of rice. No other country except India and Pakistan can grow Basmati rice and hence the surge in global demand for Basmati shall continue to outpace supply resulting in greater price premium for the commodity.” |

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| **BUSINESS ATTRACTIVNESS** |

1. **Strongly differentiated business model -> High**

* KRBL strives for Quality & Consistency as part of its corporate creed while in the business of commodity product like Basmati rice. It buys Basmati paddy as commodity and sells India Gate branded aged rice which happens to be the most expensive brand of rice across the globe.
* With the philosophy of maintaining quality ‘right from the seed to the consumer’s plate’, the Company has created a niche for its Basmati not just in India but worldwide.
* KRBL is able to deliver consistent quality of India Gate Basmati rice throughout the year because it has instituted practices at all levels to ensure top quality final product due to its aging process.
* Ageing being a critical component of good quality Basmati, world-class storage and warehousing capacities are important for ensuring adequate ageing of rice to enable it to command a premium. Cognizant of this need, the Company continuously strives to enhance its logistics, storage and warehouse capacities by investing in and upgrading them from time to time.
* The Company, through its contact farming initiative, reaches out to more than 90,000 farmers in Uttar Pradesh, Uttarakhand, Punjab and Haryana, giving them access to latest technology and know-how. This leads to significant reduction in risks and uncertainty of markets for the farmers, as well as enhanced earning potential due to improved crop quality and productivity.
* With sustained quality focus, it enables higher than industry realisation in both exports and domestic markets helping company to report excellent numbers to post impressive performance in terms of revenue and profitability.
* There is not a single fully integrated Basmati Rice player in India due to which its business model is strongly differentiated from competition.

1. **Competitive Position getting stronger/weaker -> Stronger**

* History has shown that it is not at all easy to thrive in Basmati Rice business. Major MNCs like HLL, ITC, PepsiCo Foods have exited Basmati Rice business in India in the past.
* Existing competition in India is debt laden and generating very low return ratios.
* Recently REI Agro Limited was tagged as wilful defaulter by lenders in March 2017.
* In the midst of so much consolidation in the industry for last many years, it has now become only two branded players Basmati Rice market in India; KRBL and LT Foods.
* KRBL has grown strength to strength during consolidation period of the industry. It has increased its revenues from 997cr to 4633cr in last 12 years at 13.66% CAGR which shows that its competitive position is getting stronger with every year.

1. **Next Level of business -> Medium**

* Basmati businesses’ have structural tailwind behind them where consumption is growing at slow but stable pace. Historically volumes have grown in the range of 5%-6%. This slower range of growth in volumes should continue in future as well.
* Year 2017-18, marked a major milestone year for KRBL, with the management’s strategic and deliberate move to take the company to an all together different league by foraying into the ‘healthy food’ segment with the launch of three new nutritionally superior products – India Gate Sprouted Brown Rice, India Gate Chia Seed, and India Gate Flax Seed. It’s too early days for KRBL but there is good possibility of its ‘healthy food’ segment taking company to the next level of business.

1. **Value Migration Curve -> Medium**

* The proliferation of modern retailing has helped fuel the consumption of a higher quantum of branded products, as Indian consumers are fast embracing the mall culture and organized retail, triggering a shift from unbranded to branded rice and from economy to premium brands. This offers an attractive channel for the Company to augment its branded Basmati sales in the domestic market, where branded rice sales are expected to grow at a good pace in near future.

1. **Quality of earnings -> Strong**

* KRBL’s margins are driven by ~2 year aged Basmati rice inventory. Paddy procured in current year mostly gets sold after 1-1.5 years and hence margins are susceptible to Basmati prices in the future when it is being sold.
* Historically EBITDA margins have been in the range of 16% - 24%. Management has claimed that due to its shift in focus to not do private label business, its margins will sustain 18% range on the lower side.
* Since this business is Working Capital intensive (mainly inventory due to ageing of Basmati rice) in nature, most of the cash generated from business is ploughed back to increase its inventory for ageing purpose. Hence, its Free Cash Flows may look bleak if we ignore the increase in inventory every year.
* KRBL finances inventory through internal accruals and short-term debt. This is a cyclical phenomenon which results in near zero debt at the end of H1 every year. If the financial statements were made at end of H1, its cash flow statement and balance-sheet would look very different due to drastic change in inventory by H1 completion.

1. **Key growth drivers**

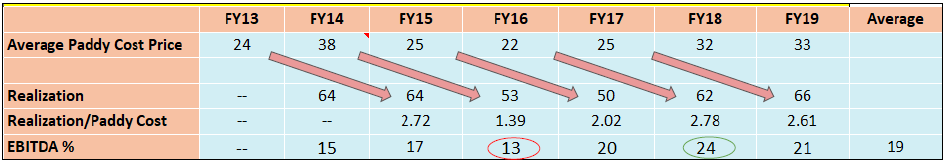
* Domestic market
  1. There is enough headroom for branded players to enhance market share in Basmati consumer pack since 60% of Basmati rice is still sold by unbranded players. **🡪Strong**
  2. Current consumption in India is 3% Basmati and 97% Non-Basmati. Increasing disposable income of growing Indian middle class should increase demand **-> Strong**
  3. Non-basmati is a very large market and KRBL has launched premium Non-Basmati rice varieties with better margins **🡪 Medium**
  4. Export Order -> Company has started focussing on export sales, however appears to be dependent on the existing clients who are expanding internationally; therefore -> Medium

1. **Intellectual Property – Medium**

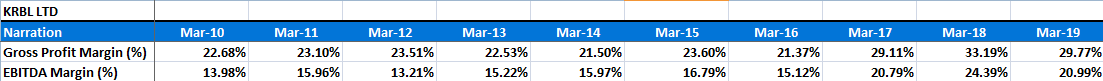
* KRBL has aggressively invested in R&D, setting up a seed farm and a product testing centre with a 4 MT per hour seed grading plant. Creating an environment of inclusiveness, the company continuously shares its key R&D insights with farmers in an effort to improve their cropping techniques, the variety of seeds, scientific know-how and pre and post harvesting techniques, thereby helping them improve yield.
* KRBL does grow seed quality. KRBL buys seed, grows seed quality (in-house expertise), and then distributes it through commission agents and distributors to contract farmers. These seeds are also sold in open market for other farmers. This helps KRBL maintaining product quality right from seed level.

1. **Operating Leverage led by** 🗹 **Gross Margin** 🞏 **Asset Turns** 🞏 **Product Mix** 🞏 **Employee Costs**

* **Gross Margin**



* As can be seen from above table, KRBL’s margins are driven by their realization pattern. There is almost two years of lag between paddy procurement and realization of that paddy in form of revenues.
* Basmati paddy price has a cyclical phenomenon of how the previous Basmati season went by. It generally follows a pattern; Bumper Basmati crop 🡪 lower Basmati prices 🡪 less farmers inclined to sow Basmati crop compared to previous season 🡪 less Basmati crop next season 🡪 higher Basmati prices due to lower Basmati output 🡪 more farmers inclined to sow Basmati crop compared to previous season 🡪 Bumper Basmati crop.



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| **KEY MONITORABLE** |

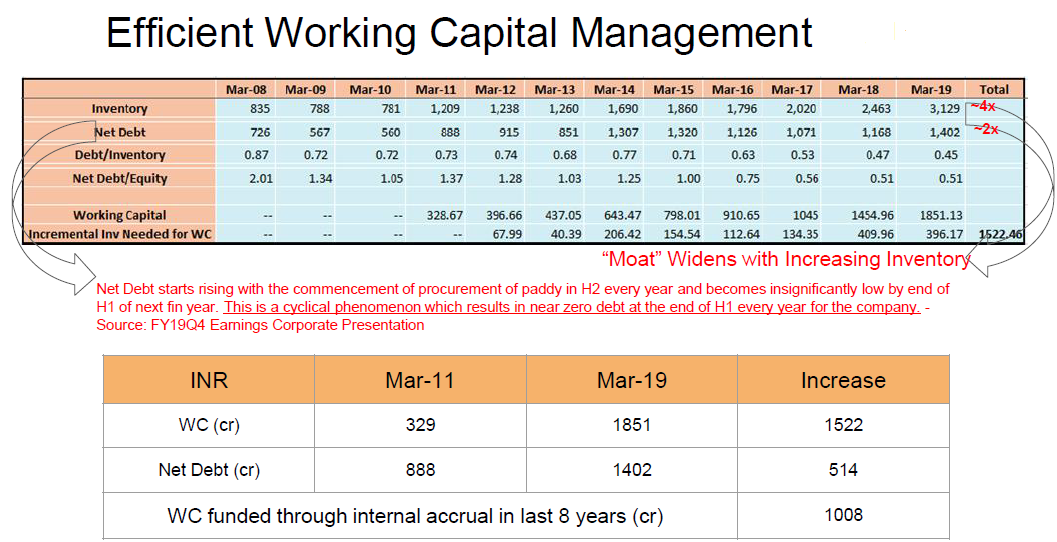
1. *Paddy Procurement Volume & Cost*
2. *Domestic & Exports Realization*
3. *Inventory & Debt levels*
4. *Basmati consumption trend*

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| **MANAGEMENT QUALITY** |

1. **DNA of business**

KRBL is a 130-year old legacy, led by a committed management. Its management identified the potential of PUSA 1121 grain in early 2000 and decided to invest heavily by redesigning the mills and other manufacturing processes. Its early investment in recognizing PUSA 1121 Basmati grain to be the future of Basmati industry played a big role in its success.

* 1. **Cost Efficiency Focus – High**
* Company is super focussed from cost efficiency standpoint. It utilizes the husk produced during processing of paddy into rice. On an average, approximately 22% of the grain results in husk, which forms a primary source of fuel for bio-power generation.
  1. **Production Efficiency – High**
* KRBL generates other value added by-products from paddy like bran oil, de-oiled cakes, and uses rice husks for captive power plants.
* It enhances margins by deriving higher realizations from by-products.
  1. **Capital Efficiency/Allocation –Medium**



* As can be seen from above screenshot, KRBL has funded Rs. 1008cr worth of working capital from internal accruals and Rs. 514cr from Debt in last 8 years from FY2011 to FY2019. This shows very efficient working capital management by the management.
* KRBL’s agri business is asset light business.
  1. **Innovation – Medium**
* KRBL’s R&D department works closely with Indian Agricultural Research Institute to identify and induce the new generation Basmati seeds generating better yields for the farmers and industry.
* KRBL partners with world-class engineering firms like Buhler and invests in new state-of-the-art rice milling and processing machineries yielding maximum higher realizable ‘head rice’.
  1. **New Revenue Stream/ Geography – Low**
* Given the growing health awareness among consumers, KRBL has launched ‘healthy food’ segment with new products but however the company feels its too early days for such new categories in the marketplace.
* KRBL is already exporting Basmati rice to 82 countries penetrating in larger population countries leaving very little unpenetrated market left for substantial growth coming from newer markets.
  1. **Value Chain Migration – Low**
* There is very low chance for KRBL to increase its revenues by moving within the existing Basmati value chain.
  1. **Strategic Thinking – High**
* **Fully integrated business model** from ‘seed to consumer’s plate’.
* **Focussed approach** – management fully focussed on Basmati grain as their main product. It kept distance from foraying into Atta, Dal, Pulses, etc. It doesn’t have any interest in low margin businesses where competition is very stiff.
* **Contract farming** – KRBL through its contact farming initiative, reaches out to more than 90,000 farmers in Uttar Pradesh, Uttarakhand, Punjab and Haryana, giving them access to latest technology and know-how. This leads to significant reduction in risks and uncertainty of markets for the farmers, as well as enhanced earning potential due to improved crop quality and productivity.
* **Built a global Basmati Brand** yielding excellent margins from flagship India Gate brand.
  1. **Ability to manage downturns – Untested**
* Company has been facing structural volume and top-line increase for last many years in both domestic and exports market. KRBL is yet to see a prolonged period with challenging demand situation.
  1. **Walking the Talk – High**
* **IT Issue:** KRBL received a demand notice in February 2019 under section 153A of the IT Act, 1961, with respect to assessment years 2010-11 to 2016-17, amounting to Rs. 75,744 lakhs and interest thereon (Rs. 51,176 lakhs). The management, based on legal assessment, was always confident that it has a favourable case and that the demand shall be deleted at the appellate stage. On 11th March 2020, CIT (Appeals), New Delhi had granted relief of Rs. 2,039.7 crores as against total addition of Rs. 2,220.79 cr. The company has filed appeals with reference to balance amount of Rs. 181.09cr and is of the view that these additions are unsustainable in law.
* **ED Issue:** The Enforcement Directorate (“ED”) had provisionally attached a portion of land parcels and building situated at Dhuri, Punjab, to the extent of value of Rs. 1,532 lakhs in connection with its money laundering investigation vide order dated 3rd July 2019. Vide order dated 17 January 2020, the Appellate Tribunal has restored the possession in favour of the company, however, such attachment will continue till the conclusion of the matter. Restoration of possession to the company is a big victory.
* Management always talked about it being innocent in both the above cases and was confident of not participating in any unethical activity. Both judgements prove that management walks the talk.

1. **Execution Skills**
   1. **Workforce Handling – Medium**

* Employees strength has grown from around 1000 in 2010 to 2202 employees in 2019. Management believes that its employees are key to its success and the reason for their competitive advantage.
  1. **Customer Trust/Win – Can’t say**
* KRBL’s ‘India Gate’ brand is the most expensive brand of rice across the globe. Despite it being most expensive it contributes about 65% of the company’s top-line. This demonstrates that customers trust ‘India Gate’ brand and pay premium price for it.
  1. **Deeper/Broader customer penetration – Med**
* KRBL intends to double its domestic retail presence - in terms of value by 2021. To do so, it intends to double its current sales force team, focus on active retailing and reach out to more and more retail outlets. The reason being despite the recent growth of modern trade channels and e-commerce, local kirana stores are still a major contributor in the Indian rice market accounting for nearly 70% of the overall sales. Keeping this in mind, KRBL intends to grow its outreach into more and more kirana stores across India.
* Further, it plans to constantly upgrade its distribution and supply chain network and re-frame its go-to market strategies. A careful analysis of the geographies of their presence, product penetration, customer requirements, and purchase behaviour are expected to help in driving more through-put from the existing distribution network. Along with this, it plans to use the different new-age technologies like sales force automation, big data analytics and advanced supply chain tools in taking KRBL to a whole new level.
  1. **Successful Project – Medium**
* KRBL’s energy division, which is in the business of commercial sale of power, has grown quickly over the past few years and today, the Company’s energy portfolio consists of bio-mass and wind power projects, with a total capacity of 55.6 MW. Looking ahead, KRBL expects to expand its installed capacity by 4-5 MW every year for the next three to four years.
* KRBL’s energy division generated Rs. 129 cr of total revenue from sale of power in FY19 which flowed straight to PBT line.

1. Reputation
   1. **Family Business – High**

* KRBL’s senior management is grooming a second line of management which has been put in place for a seamless succession plan so that Generation Next is ready to support the current management in its quest for further growth.
  1. **Minority Shareholder Treatment - Medium**
* Regular dividend paying company, resolving investor complaints; No action to suggest any actions which are non-beneficiary for minority investors.
* Company has track record of ~15% payout ratio in the form of dividends.
  1. **Corp. Governance – Low**
* Gautam Khaitan, independent director of KRBL from 2007-2013 has been allegedly involved in the Augusta Westland scam. KRBL had no financial dealings with Gautam Khaitan. KRBL has not seen any adverse impact of the Augusta Westland scam.
* Nothing adverse found against the board or the corporate governance practices. High Salaries in such a small business is seen as an irritant.
* Promoter’s remuneration as management has been less than 0.5% of Profits for FY2019. Management has been very conservative in paying salaries to itself and ploughs back profits consistently to drive growth.

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| **GROWTH/SCALABILITY** |

1. **Linear Growth - Medium**

* **Industry** – industry volumes are growing at about 5% every year.
* **Market Share** – KRBL commands a 32% market share in India making it the largest player by wide margin in branded Basmati industry. KRBL hopes to increase its India market share to about 38% in couple of years by penetrating deeper and widening its distribution reach to each and every kirana store of the country.
* **Margin** – will swing depending on the cost of basmati inventory. EBITDA margins should range from 18% to 24% in a normal cycle.
* **Price Increase** – KRBL can hold its margins at around 18% on lower end in bad cycle because of pricing power for its high quality aged rice which gets premium pricing all the time. Its India Gate product price rises with the market, but falls lesser than the market price.

1. **Expansionary Growth - Medium**

* **Value Migration** – Possible, current consumption in India is 3% Basmati and 97% Non-Basmati rice. Unbranded Basmati rice market in India would be around 40%-45% of the total Basmati rice market. Nearly 40%-45% Basmati volume in India is still being sold in loose form. So there is ample room for value to migrate from Non-Basmati to Basmati and then unbranded to branded.
* **New Geography** – Limited, the company already sells across 6 continents in 82 countries. Domestically also it has reached every nook and corner of the country.
* **New Revenue Stream** – Limited, company tried launching ‘healthy food’ segment but it’s too early days to pin hope on this segment to move the needle at company level.

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| **Business Vulnerability / Strength** |

1. **Vulnerability:**
2. Lower realization
3. Single product concentration
4. Climate dependency
5. Foreign currency fluctuations
6. International trade wars
7. Change in Basmati consumption patterns
8. Many other Unknowable Unknowns
9. **Strengths/opportunities:**
   1. Decades of Basmati rice business experience by promoter management
   2. Fully integrated Basmati rice operations
   3. World’s #1 state-of-the-art basmati rice milling capacity providing unmatchable economies of scale and operating leverage
   4. Financial muscle to buy Basmati inventory and age ~Rs. 3,000cr worth of inventorty
   5. Massive distribution network in 82 countries across the world and 484 distributors all over India
   6. ‘India Gate’ brand trusted by millions of happy and loyal customers

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| **VALUATION** |

**Undervaluation :** 🗹 **Screaming 🞏 High 🞏** **Fair**

At current price of Rs. 187.20 (24April2020), KRBL is available at a market cap of Rs. 4398cr. It has about 400cr worth of debt and 2900cr worth of rice inventory which can easily be realized at cost and hence can be considered as CASH. This gives us enterprise value of Rs. 1898cr (4398 + 400 – 2900).

In FY20, KRBL is expected to deliver pre-tax profit of about Rs. 750cr while the business is available at an enterprise value of Rs. 1898cr. Presently; AAA bonds in India are yielding around 7.5%. KRBL’s working capital amount of Rs. 1575 has been rated as AA- by ICRA, per 26Nov2019 report. In my view, it would be safe to assume that AA- rated debt would not cost more than 30% of AAA bond. But being conservative we can assume that KRBL’s AA- debt would cost them at 11.5%, which is 50% more than AAA bond rate.

If KRBL’s business were a AA- bond generating 750cr every year in perpetuity, then the value of it would be 6521cr, without even factoring for any future growth, against the enterprise value of 1898cr. Market is implying harsh de-growth in its future earnings which seems highly unlikely given that Basmati rice is a staple diet for many people. Moreover, KRBL have currently procured 670,000MT of paddy at 20% lower prices compared to last season. This shows that KRBL is in very strong position given that Basmati prices are expected to rise in coming 2 seasons which should expand KRBL’s margins and earnings from current levels. There is very limited opportunity for KRBL’s earnings to de-grow in near term due to its strong inventory position.

An investor at current prices is not only buying a branded agri business which is generating ROIC of more than 30%, but it’s a business with tremendous reinvestment opportunity. KRBL can plough back all cash to invest in increasing its inventory for future earnings gains.

**Valuations to be led by:**

1. **Earnings Trajectory - a**s mentioned above, KRBL is in a very strong inventory position. They procured this year’s inventory at 20% lower prices than last year. And with Basmati prices expected to go higher from current levels, their earnings should increase at decent pace from current levels.
2. **Value Migration –** value migration from Non-Basmati and unorganized markets should continue at ongoing rates.
3. **Re-rating –** Likely, as market realizes that its future earnings stream is more reliable and sustainable than what is currently being implied by the markets.

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| **Valuation Overhang**  🗷 PSU 🗹 Not Understood 🗷 Sector Apathy 🗷 Regulatory 🗷 Political 🗷 Corp. Governance 🗷 Succession Planning 🗷 High Salaries |

1. **Not Understood:** market has ignored KRBL solving both IT and ED issues. In fact, KRBL promoters have made creeping acquisitions of ~15.12lac shares at average price of Rs. 252.73 between 03/12/2019 to 12/03/2020. They have bought about 0.64% stake from open market at cost of Rs. 38.22 cr. This is BIG amount. They were acquiring shares even before they restored possession of property and even before IT tax issue was solved. This gives enough indication of management having enough confidence in future prospects of KRBL. And market is treating it as a mere Basmati commodity business.

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| **Valuation Support**  🗹 Dividend 🗷 Low Float 🗹 Capital Allocation |

* **Dividend:** Company has been consistently paying dividends for last many years.
* **Capital Allocation**: Company ploughs back all cash generated from business investing back in Agri segment mostly by increasing its inventory. KRBL’s agri division generates ROIC of more than 30%.

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| **Risk and Mitigations** |

1. **Business Risks**
2. **Supply and/or demand disruption - High**

Any demand issues from Iran or other GCC countries due to geopolitical or trade war issues can spoil exports business.

1. **Single Point of Failure - High**

Any issue with the product can damage the brand value and impact future earnings.

1. **Environmental – High**

Basmati paddy growth is highly depended on climate conditions.

1. **Regulatory – Low**

Regulations are applicable on the FMCG players.

1. **Buyer Power - Low**

There is no single large buyer dominating KRBL’s dependency on them in both domestic and exports market.

1. **Competition - High**

There are few players in organized market but thousands of competitors in unorganized markets.

1. **Valuation Risks**

**Risk covered in the valuation multiples** 🗷 Everything 🗹 20% Downside 🗷 2-3X upside in 2-3 years

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| **Liquidity Stress Test: Can sit tight for 1-2 years despite:**  🗹 **Execution Delay** 🗹 **Business Temporary Issues** |

* Basmati rice business has tremendous longevity. This business offers opportunity to both participants; play next up move in the basmati cycle, and ongoing structural demand of Basmati rice. Someone who is invested for the long-term structural demand play may have to take 1-2 years of underperformance due to basmati down cycle.

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| **MEDIUM TERM VISIBILITY – HIGH** |

* + - 1. Earnings - 🗷 Capex Completion. 🗷 Order Book/Sales. 🗹 Mgmt. Guidance
* Management has guided to grow revenues to ~Rs. 8,000 cr in next 4-5 years. If management is able to achieve this top-line number, bottom-line will flow in line with historical rates.
  + - 1. Margins – 🗷 Pricing 🗹 Raw Material 🗷 Employee Costs
* **Raw Material:** KRBL have currently procured 670,000MT of paddy at 20% lower prices compared to last season. This shows that KRBL is in very strong position given that Basmati prices are expected to rise in coming 2 seasons which should expand KRBL’s margins and earnings from current levels.
* Watch below mentioned two videos to better understand KRBL’s paddy procurement strategy:
  + KRBL Management Fearful Stance on Purchasing Paddy - FY14Q2 Earnings Con-Call<https://www.youtube.com/watch?v=1bxKZzYxM1c>
  + KRBL Management Greedy Stance on Purchasing Paddy - FY16Q4 Earnings Con-Callhttps://www.youtube.com/watch?v=yLSZ2TaBxew
    - 1. Efficiency – 🗹 Asset Turns 🗷 Capital Turns 🗹 Inventory Turns
* The company will look to get best realization of current inventory that is worth Rs. 2,900 cr.

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| **INVESTMENT RATIONALE**  🗹 **Strategic** 🗹 **2-3x in 2-3 years** 🗷 **10x in 10 years** 🗹 **Opportunistic (50-100% pop)** |

* **2-3x in 2-3 years:** Current basmati prices are at the lower end of the cycle. With prices expected to move up as the cycle improves stock prices can move up with basmati prices.
* **Opportunistic (50-100% pop):** current market price is not implying any future growth but in fact de-growth in earnings. If market just implies some growth in future earnings, 50-100% pop from current levels should not be surprising.

**Sources referred:**

1. VP Thread
2. AR’s, Credit Rating reports, Earnings con-calls
3. Discussion with other investors who have tracked the company for the last 3-4 years