

An Attempt to Better Understand KRBL Ltd.

VP Annual Goa Meet, June 20-23, 2019

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Disclaimer

- Personally invested in KRBL Ltd.
- Can exit in future without prior notification.
- This is NOT a stock recommendation. Kindly do your own due diligence and/or consult a registered investment advisor before making any investment decisions.

Mr. Market's Prejudices for the Business

- Cyclical Business
- High Debt
- High Inventory
- Low FCF
- Single Product Company
- Management Integrity

Business Intricacies

- **Basmati Grown Only Once a Year**
 - Paddy procurement limited to the period between Oct-Dec
- **Basmati Rice Aging**
 - Aged Basmati Rice is premium product because of its better taste, flavour, and aroma
 - Only grain in the world which when cooked can elongate 3-4 times of its original length
 - Aging is essential for Basmati as it is for Wine or Scotch/Whiskey
- **Farmers behavior similar to Real-Estate and Shipping industry players**
- **GI Indication tag for Indian Basmati Rice**
 - Recognition allows Basmati Rice to grow in the Indo-Gangetic plains

Farmer's Thought Process Before Selecting Crop

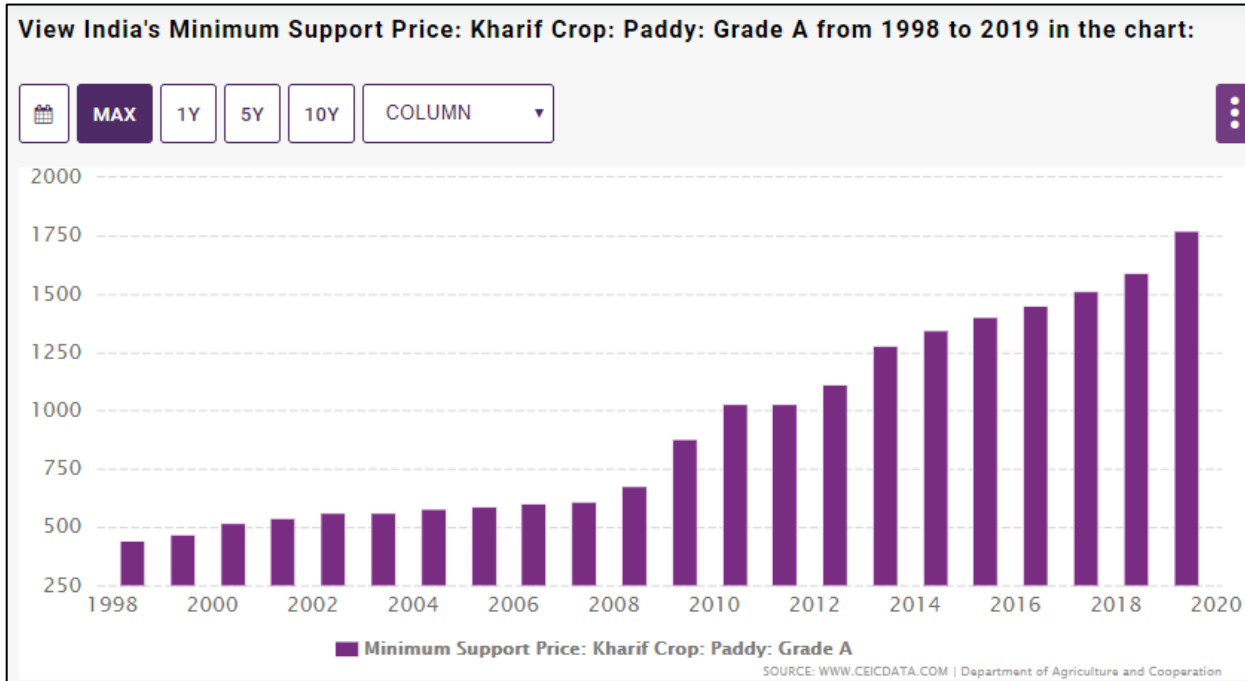
- Parmal Rice is the second best alternative for farmers after Basmati
- Farmer just looks for higher “income per acre”

Type of Paddy Sown	Production Per Acre	Realization/KG	Total Income Per Acre
Parmal	~3000 kg	Rs. 18 (Current MSP)	Rs. 54,000
Basmati	~2000 kg	Rs. 33 (Current Price)	Rs. 66,000

Source: FY19Q3 KRBL Earnings Call

- It costs more to grow Parmal than Basmati
- Government announces Parmal MSP before sowing season

Historical Grade A Paddy MSP Price



Source: <https://www.ceicdata.com/en/india/minimum-support-price/minimum-support-price-kharif-crop-paddy-grade-a>

Flat Top-line But Improved Margins

Profit & Loss Consolidated Figures in Rs. Crores / [View Standalone](#)

	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	TTM
Sales +	2,051	2,882	3,143	3,360	3,145	3,240	4,120
Expenses +	1,758	2,436	2,617	2,913	2,502	2,465	3,270
Operating Profit	293	446	526	447	644	774	850
OPM %	14%	15%	17%	13%	20%	24%	21%
Other Income	19	15	2	61	10	18	15
Interest	78	76	81	67	55	69	68
Depreciation	51	58	53	50	61	68	64
Profit before tax	184	326	394	391	538	655	733
Tax %	30%	22%	18%	25%	26%	34%	
Net Profit	130	255	322	293	399	434	503
EPS in Rs	5.36	9.63	13.67	12.45	16.97	18.46	
Dividend Payout %	15%	11%	12%	15%	12%	12%	

Margins Driven by ~2 year Aged Rice Inventory

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Average
Average Paddy Cost Per Kg.	24	38	25	22	25	32	33	
Realization Per Kg.	--	64	64	53	50	62	66	
Realization/Paddy Cost	--	--	2.72	1.39	2.02	2.78	2.61	
EBITDA %	--	15%	17%	16%	20%	24%	21%	19%

Source: KRBL historical Annual Reports & Quarterly Earnings con-calls

Low paddy prices & Large Iran Bulk Tender Order Suppressed Realization and Margins.

Shift in Focus Since FY17 Resulting in Improved Margins:

- No private label
- Very Less non-basmati exports
- 100% focus on IG Brand and Premium Realization.

Premium Price for Aged Basmati

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Average
Average Paddy Cost Per Kg.	24	38	25	22	25	32	33	
Realization Per Kg.	--	64	64	53	50	62	66	
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Source: KRBL historical Annual Reports & Quarterly Earnings con-calls

- Management Claims

- Aged inventory always has premium pricing which supports realization when prices are down
- Falling paddy price works to their benefit

Why Falling Paddy Prices Works to KRBL's Benefit?

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Average
Average Paddy Cost Price	24	38	25	22	25	32	33	
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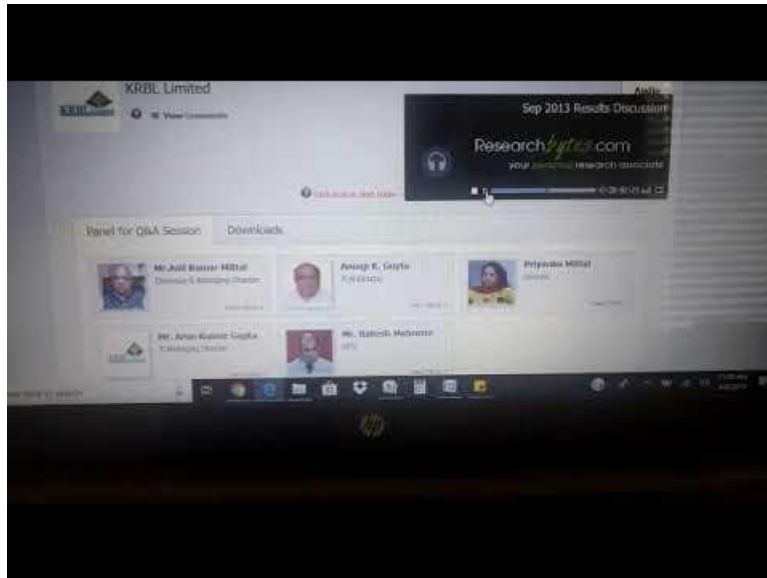
Source: KRBL historical Annual Reports & Quarterly Earnings con-calls

- “Insider Information!”
 - KRBL sells ~35% of overall seeds for Basmati production
- Management prepares for Paddy Purchase Season based on the “Insider Information”
 - Greedy when prices are down to irrational levels
 - Fearful when prices are high to irrational levels

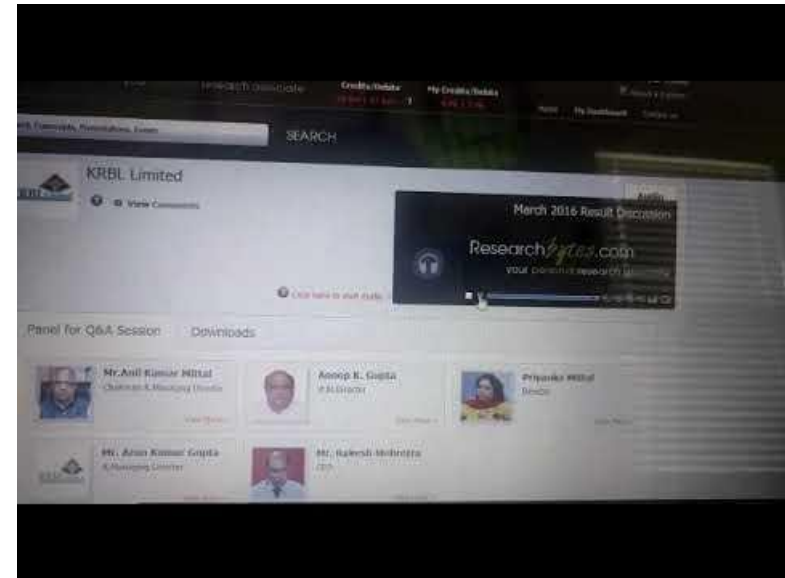
Rational Behaviour of Fearful & Greedy

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Fearful in FY14 per kg



Greedy in FY16



Efficient Working Capital Management Inv Inc

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Total
Inventory	835	788	781	1,209	1,238	1,260	1,690	1,860	1,796	2,020	2,463	3,129	~4x
Net Debt	726	567	560	888	915	851	1,307	1,320	1,126	1,071	1,168	1,402	~2x
Debt/Inventory	0.87	0.72	0.72	0.73	0.74	0.68	0.77	0.71	0.63	0.53	0.47	0.45	
Net Debt/Equity	2.01	1.34	1.05	1.37	1.28	1.03	1.25	1.00	0.75	0.56	0.51	0.51	
Working Capital	--	--	--	328.67	396.66	437.05	643.47	798.01	910.65	1045	1454.96	1851.13	
Incremental Inv Needed for WC	--	--	--	--	67.99	40.39	206.42	154.54	112.64	134.35	409.96	396.17	1522.46

“Moat” Widens with Increasing Inventory

Net Debt starts rising with the commencement of procurement of paddy in H2 every year and becomes insignificantly low by end of H1 of next fin year. This is a cyclical phenomenon which results in near zero debt at the end of H1 every year for the company. - Source: FY19Q4 Earnings Corporate Presentation

INR	Mar-11	Mar-19	Increase
WC (cr)	329	1851	1522
Net Debt (cr)	888	1402	514
WC funded through internal accrual in last 8 years (cr)			1008

Consistently Better Export Realization

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Average
Average Paddy Cost Price	24	38	25	22	25	32	33	
Realization	--	64	64	53	50	62	66	
Realization/Paddy Cost	--	--	2.72	1.39	2.02	2.78	2.61	
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Unit Export Value Realization (Rs. / Kg)									
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Industry	53.99	47.90	48.66	56.10	77.98	74.54	56.47	53.98	66.24
KRBL	65.10	59.37	55.78	64.27	90.66	97.91	73.09	70.63	76.99
Premium %	21%	24%	15%	15%	16%	31%	29%	31%	16%

- Domestic demand is price elastic.
- Middle East demand is price inelastic.

Respectable ROIC from Agri Business

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Total Net Fixed Assets	385	418	443	563	640	765	1009	977	932
Add WIP Assets	20	8	15	14	114	100	2	2	1
Minus Energy Assets	171	188	204	321	515	615	737	702	661
Total Agri Fixed Assets	234	238	253	256	239	250	274	277	272
Agri Working Capital	329	397	437	643	798	911	1045	1455	1851
Total Invested Capital Agri.	563	635	690	899	1037	1161	1319	1732	2123
PBT Agri		88	130	320	355	375	482	569	651
ROIC		14.70%	19.65%	40.31%	36.71%	34.13%	38.88%	37.31%	33.79%
EBITDA	15%	14%	14%	15%	17%	13%	20%	24%	21%

Asset light business. But intensive WC requirement to grow the business.

Branding & Pricing power helping to generate healthy return ratios from core Agri business.
 “We like companies which buy a commodity and sell a brand.” - Warren Buffett

India Gate - Undisputed Brand Leader in India

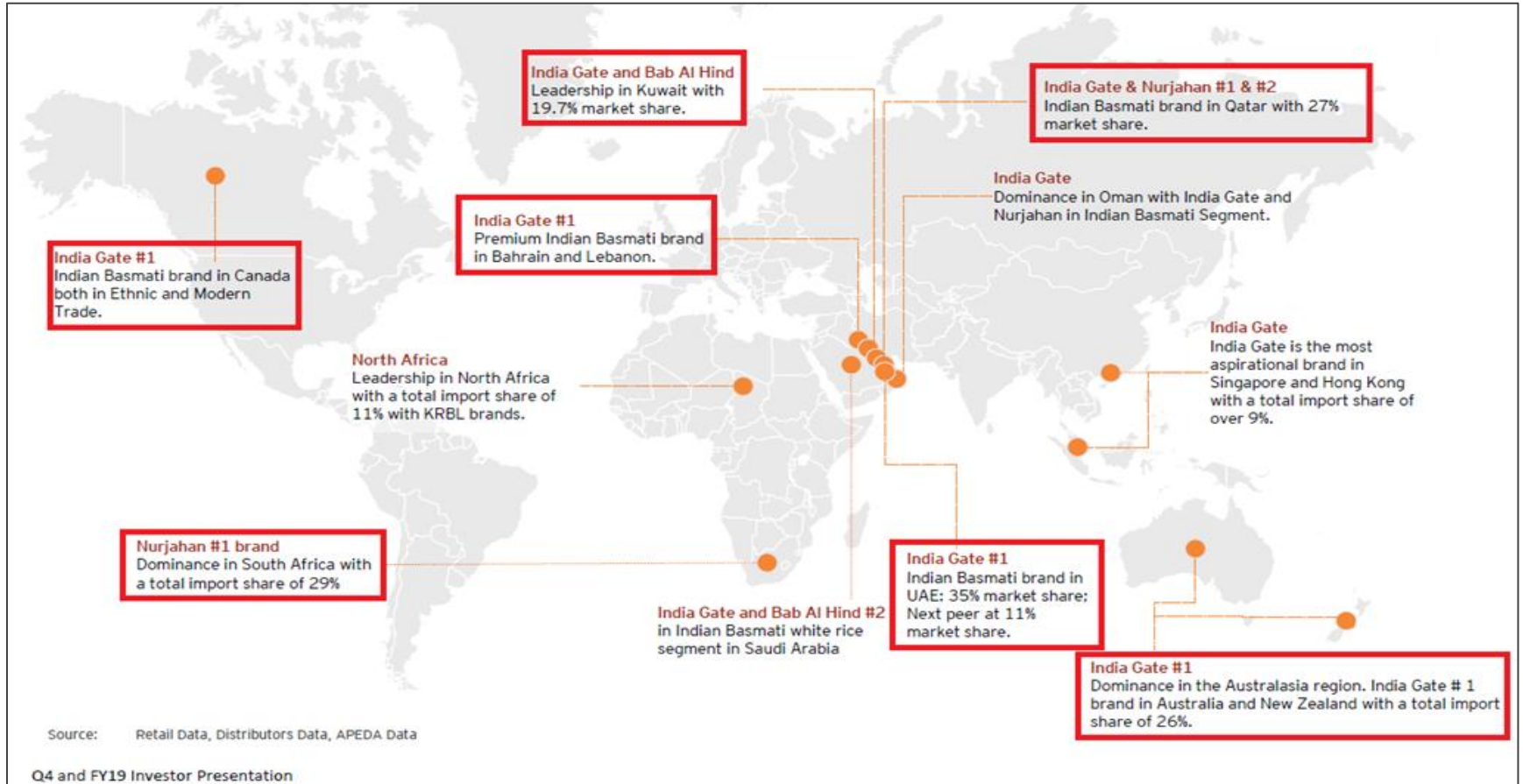
Market Share- All India (Value Wise) %				Market Share- India Metro Market (Value Wise) %				Market Share- India Rural Areas (Value Wise) %		
	FY16	FY17	FY18		FY16	FY17	FY18		FY17	FY18
India Gate Basmati Rice Brand	29.50%	32.00%	35.00%	India Gate Basmati Rice Brand	27.80%	32%	36%	India Gate Basmati Rice Brand	43%	45%
Peer 1	20.70%	26%	26%	Peer 1	18.30%	24%	24%	Peer 1	24%	20%
Peer 2	6.40%	8%	7%	Peer 2	7.90%	7%	7%	Peer 2	7%	7%
Peer 3	6.20%	3%	4%	Peer 3	7.40%	4%	6%	Peer 3	4%	3%
Private Labels	6.20%	3%	3%	Private Labels	5.90%	4%	4%	Private Labels	4%	3%

Market Share- India Traditional Trade (Value Wise) %				Market Share- India Modern Trade (Value Wise) %			
	FY16	FY17	FY18		FY16	FY17	FY18
India Gate Basmati Rice Brand	29.20%	28%	33%	India Gate Basmati Rice Brand	29.90%	37%	39%
Peer 1	23.00%	25%	25%	Peer 1	17.60%	26%	28%
Peer 2	6.60%	10%	9%	Peer 2	14.10%	6%	8%
Peer 3	5.90%	4%	4%	Peer 3	11.20%	5%	4%
Private Labels	2.40%	2%	2%	Private Labels	5.70%	8%	4%

Source: KRBL historical Annual Reports, AC Nielsen MAT March, 2018

KRBL's Domestic & Exports Market Share has been 30% and 25% every year from FY11 to FY15 according to their Annual Reports or Corporate Presentations.

India Gate - #1 Brand in Several Countries



Not Easy to Thrive in this Business



- HLL, ITC, PepsiCo Foods exited Basmati Rice business in India
- Existing competition is debt laden and generating very low return ratios



Focussed Approach



- Management fully focused on Basmati as their main product
- Kept distance from foraying into Atta, Dal, Pulses, etc.
- No interest in competitive low margin business

Structural Basmati Demand

KRBL Revenue Breakdown						
	2009-10		2018-19			
	Volume (MT)	Sales (cr)	Volume (MT)	Sales (cr)	Volume CAGR	Sales CAGR
Domestic	192727	598	352828	1959	6.95%	14.09%
Exports	140000	910	218320	1842	5.06%	8.15%

Source: KRBL historical Annual Reports & Quarterly Earnings con-calls

Basmati Exports from India						
	2007-08		2017-18			
	Volume (MT)	Sales (cr)	Volume (MT)	Sales (cr)	Volume CAGR	Sales CAGR
Total Exports	1183356	9477	4056759	26870	13.11%	10.98%

Source: http://agriexchange.apeda.gov.in/product_profile/exp_f_india.aspx?categorycode=0601

Domestic Opportunity with Longevity

- Enough headroom for branded players to enhance MS in Basmati consumer pack
 - Branded - 800k MT (*KRBL's MS is 35%*)
 - Unbranded - 1200k MT (*~75% sold in loose form*)
- Current consumption in India is 3% Basmati and 97% non-basmati
 - Increasing disposable income of growing Indian middle class should increase demand
- Launched premium non-basmati rice varieties with better margins
 - Jeera Rice
 - Kolam Rice
 - Idli Rava Rice

How Do You Compete with Leading Branded Basmati Producer in the World?

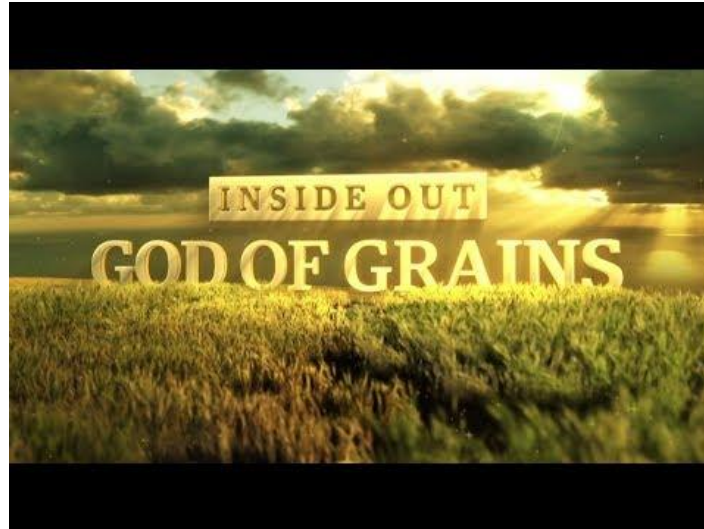
- Decades of Basmati Rice Business Experience is MUST
- Fully Integrated Operations with role in every aspect of Basmati value chain
 - Seed Development
 - Contract Farming
 - Procurement of Paddy
 - Processing & Aging
 - Branding & Marketing
- Milling Capacity
 - Build milling capacity that would have to be better than world's #1 capacity of KRBL to gain similar economies of scale and operating leverage

How Do You Compete with Leading Branded Basmati Producer in the World?

- Financial Muscle to Buy Basmati Inventory
 - Have capability to Age ~3000cr of basmati inventory
 - Ability to bear the pain if basmati prices fall
 - Ability to buy the falling knife if paddy prices collapse
- Massive International & Domestic Distribution Network
 - 82 countries across the world
 - 484 distributors all over India
- Build a Global Basmati Brand (*'India Gate' has 76% MS in the 'premium' category in GCC markets*)
- Lastly need a leader like Mr. Anil Kumar Mittal, Chairman & MD

Must Watch Video

KRBL - The God of Grains



Risks

- Lower Realization
- Single Product Concentration
- Climate Dependency
- Foreign Currency Fluctuations
- International Trade Wars
- Consumption Pattern Changes
- Tax claim of Rs. 1268cr + interest by IT (currently under protest by KRBL)
- Many Other Risks that are Unknown Today But can Hit from Blindside in Future

Thank you for listening!

Any Questions?