

An Attempt to Better Understand KRBL Ltd.

VP Annual Goa Meet, June 20-23, 2019

Amit Rupani, CFA

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

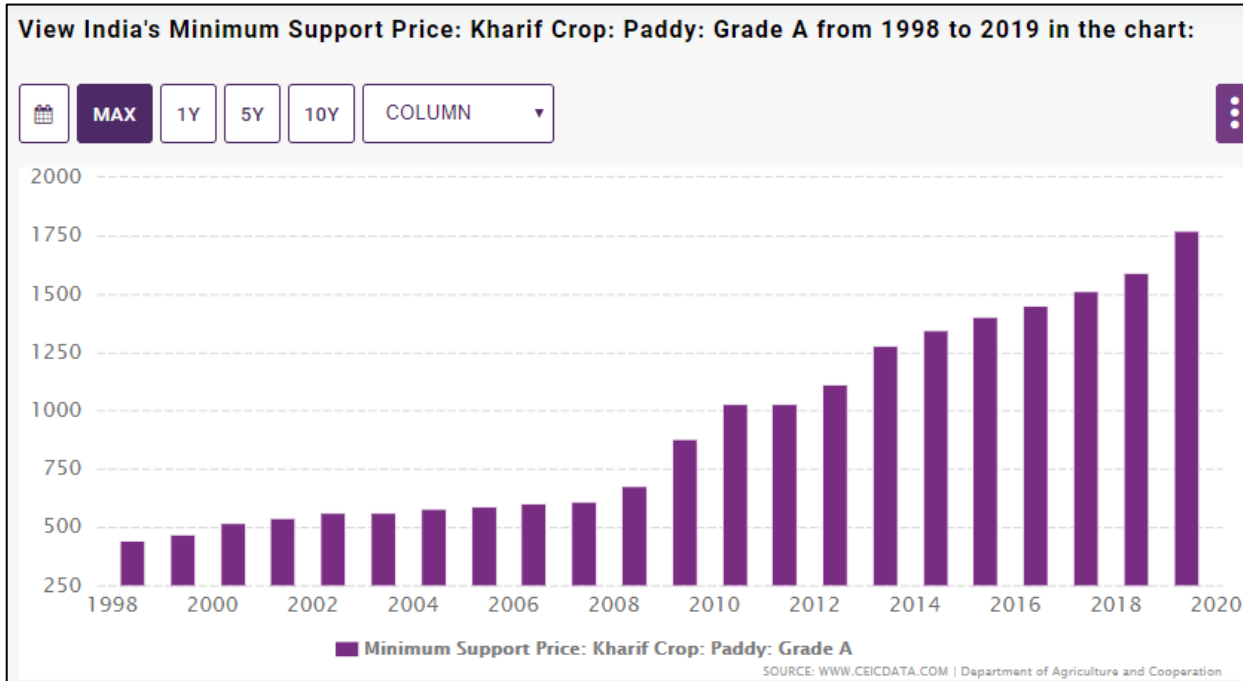
- Parmal Rice is the second best alternative for farmers after Basmati
- Farmer just looks for higher “income per acre”

| 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

Paddy price down 42%

Realization down only 14%

| | 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

Annotations: Volatile Paddy Prices (Average Paddy Cost Per Kg.), Stable Realization (Realization Per Kg.), Realization down only 14% (FY14 to FY16), Paddy price down 42% (FY14 to FY16), 24% (FY18 EBITDA % circled)

- 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 | |
| Realization | -- | 64 | 64 | 53 | 50 | 62 | 66 | |
| Realization/Paddy Cost | -- | -- | 2.72 | 1.39 | 2.02 | 2.78 | 2.61 | |
| EBITDA % | -- | 15 | 17 | 13 | 20 | 24 | 21 | 19 |

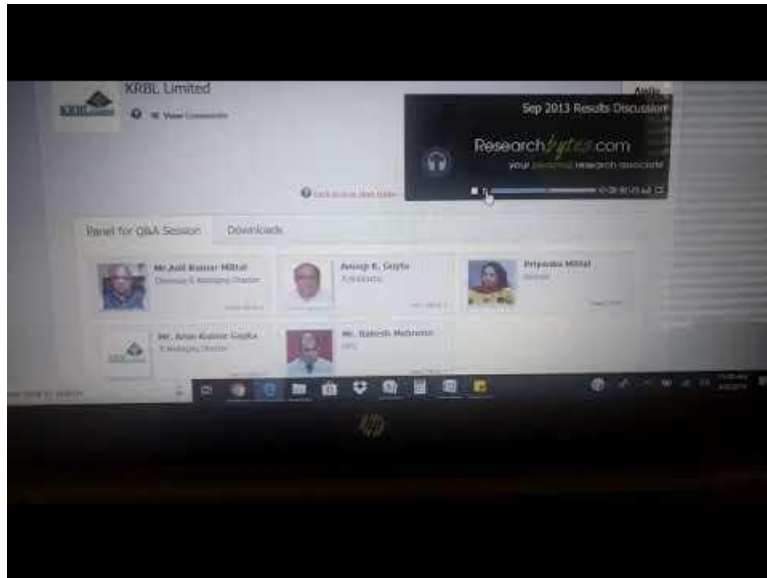
Source: KRBL historical Annual Reports & Quarterly Earnings con-calls

- “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

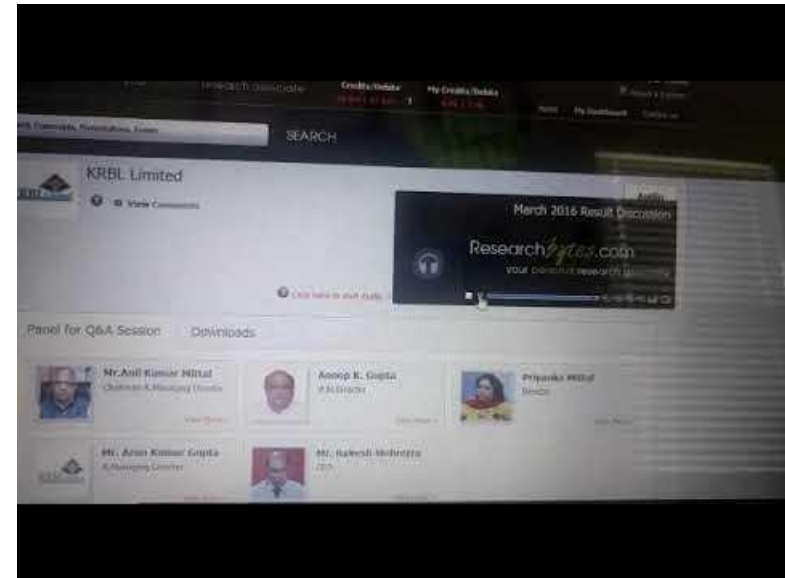
Rational Behaviour of Fearful & Greedy

| | 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 | |
| EBITDA % | -- | 15 | 17 | 13 | 20 | 24 | 21 | 19 |

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 | |
| EBITDA % | -- | 15 | 17 | 13 | 20 | 24 | 21 | 19 |

| 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

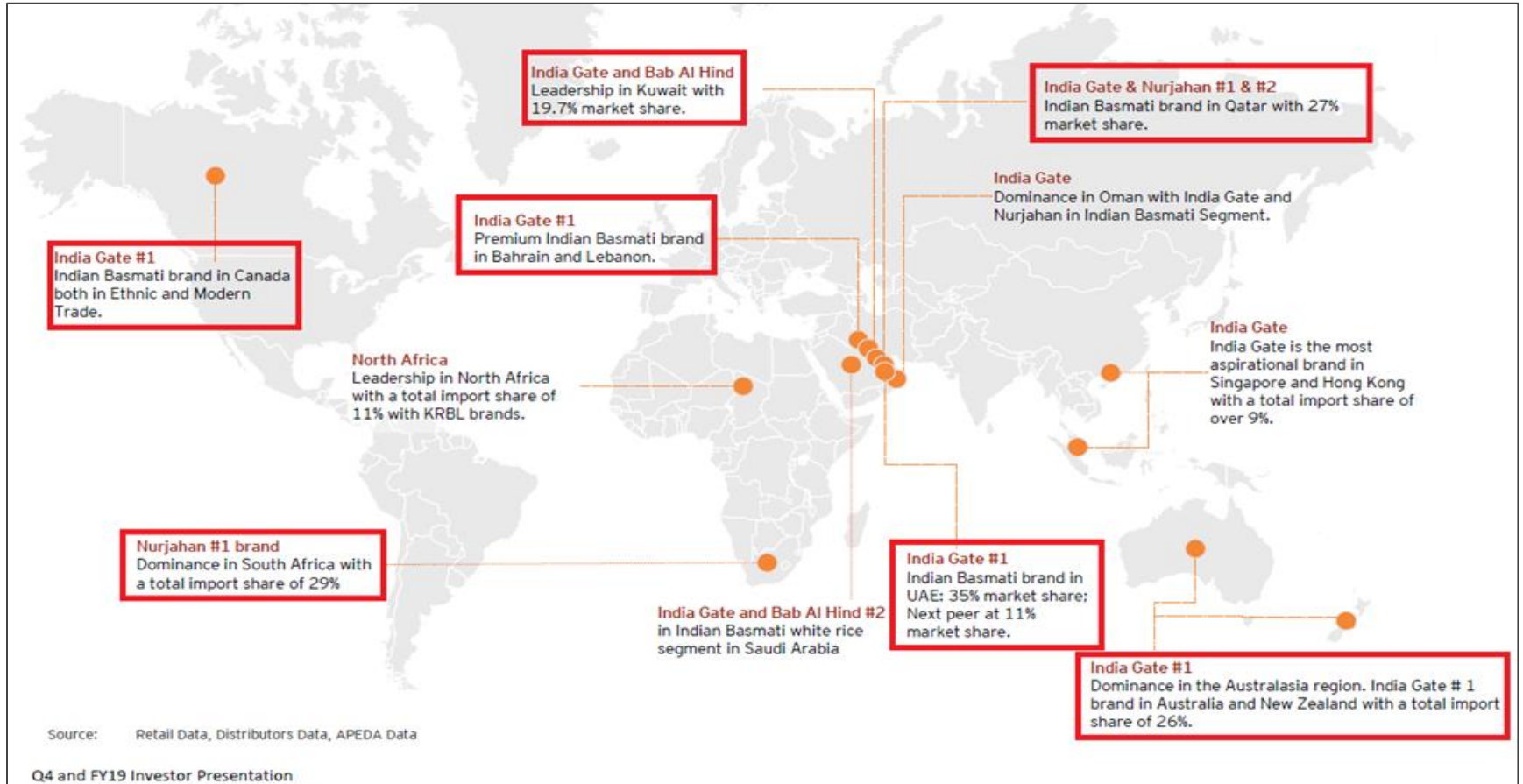
| Market Share- All India (Value Wise) % | | | | Market Share- India Metro Market (Value Wise) % | | | | Market Share- India Rural Areas (Value Wise) % | | |
|--|--------|--------|--------|---|--------|------|------|--|------|------|
| | FY16 | FY17 | FY18 | | FY16 | FY17 | FY18 | | FY17 | FY18 |
| India 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?

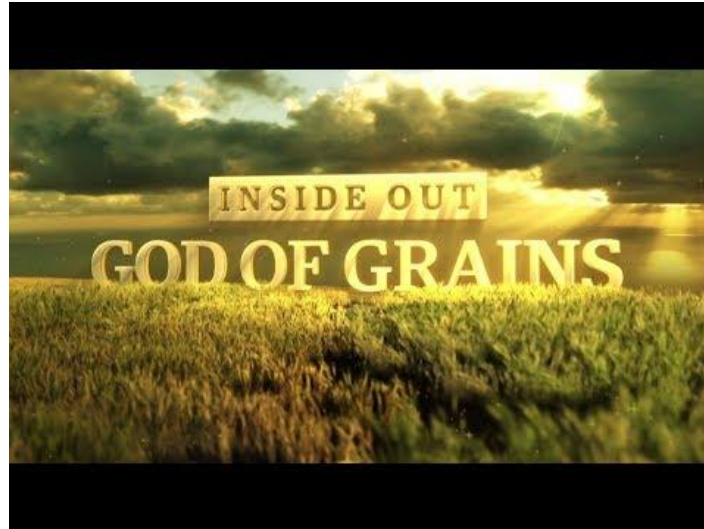
- Decades of Basmati Rice Business Experience is MUST
- Fully Integrated Operations with role in every aspect of Basmati value chain
 - Seed Development
 - Contract Farming
 - Procurement of Paddy
 - Processing & Aging
 - Branding & Marketing
- Milling Capacity
 - Build milling capacity that would have 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?