

# PICK OF THE WEEK

## Kohinoor Foods Ltd.

Rs.70 | Buy

### Analyst

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**Nifty: 3698; Sensex: 12706**

### Key Stock Data

Sector	Agro – Food Processing
Bloomberg/Reuters	KFL@IN/KOFO.BO
Shares o/s (m)	19.6
Market cap (Rs m)	1,372
Market cap (US\$ m)	31
3-m daily average vol.	44,345

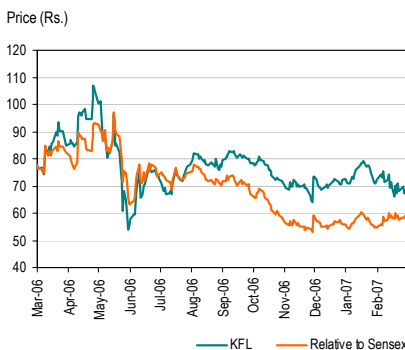
### Price Performance

52-week high/low	Rs112/52		
	-1m	-3m	-12m
Absolute (%)	(3.3)	(4.7)	(9.5)
Rel to Sensex (%)	9.3	3.2	(24.8)

### Shareholding Pattern (%)

Promoters	44.13
FII/NRI/OCBs/GDR	9.38
MFs/Banks/FIs	8.83
Non Promoter Corporate	8.21
Public & Others	29.45

### Stock vs Relative to Sensex



## Summary

**Kohinoor Foods Ltd. (KFL), a global food player with marked presence in branded rice market, is all set to strengthen its foothold into Ready To Eat (RTE) segment. KFL is doubling its capacity in ambient segment of RTE to 100,000 pouches/day. In frozen food segment it has capacity of 20 MTPD (Metric Tons Per Day), the market of which is around 3x larger than the ambient food. RTE segment, being the key growth driver, is expected to grow at 100% YoY for next 3 years.**

**With topline boosting at 14% CAGR over the next 3 years coupled with surging EBIDTA margins, the company is expected to post robust bottom line performance. PAT is expected to showcase CAGR of 59% in the next 3 years. The current market price is 5.8x fully diluted FY08E EPS of Rs.12.2 and 3.0x fully diluted FY09EPS of Rs.23. We recommend 'Buy' with target price of Rs.161, which is 7x the fully diluted FY09E earnings.**

## Investment highlights

### ■ RTE – Growth driver

KFL's packaged food holds lots of promise for the years to come. The company entered the packaged food business with a mere 10,000 pouches-a-day capacities in FY04, with just Rs.39m of modest turnover. Tasting the initial success, KFL determined to foray into the RTE market in a major way by ramping up its capacity to 100,000 pouches a day by FY08. The segment along with its frozen food division is expected to grow at 100% YoY over next 3 years.

### ■ Surging EBIDTA margins

RTE being a high-margin business the EBIDTA margin of the company is expected to grow significantly as the RTE volume grows. Going forward the EBIDTA margins is expected to grow from 8.1% in FY06 to around 15% in FY09.

### ■ Increasing milling capacity

KFL is planning to expand its rice milling capacity from 40 MTPH in FY06 to 45 MTPH in FY08. This is expected to lead to a segmental growth of 7% CAGR over the next 3 years.

### ■ Strong global presence

The company has strong presence in domestic as well as in international branded basmati rice market. It also intends to strengthen its foothold in branded RTE segment in international markets. In the US, KFL has established its 5 distributions cum marketing centers besides strategic tie-ups with major retailers like *Walmart*, *BJ's Whole Foods* and *Kroger*. In the UK, its tie-up with *TESCO* have been a major success with Kohinoor capturing 48% of *TESCO*'s ethnic shelves.

**Table 1: Financial snapshot**

Year-end: March	FY05	FY06	FY07E	FY08E	FY09E
Sales	5,253	5,556	6,004	6,852	8,154
PAT	157	174	205	367	695
OPM (%)	6.2	8.1	9.1	11.3	15.2
NPM (%)	3.0	3.1	3.4	5.4	8.5
EPS (Rs.)	8.0	8.9	6.8	12.2	23.0
PE (x)	8.7	7.9	10.3	5.8	3.0
RoE (%)	15.8	15.3	15.9	22.8	30.8
RoCE (%)	5.0	5.7	6.9	10.6	16.9

Source: Company reports; IDBI Capital Market Services

## Investment positives

### ■ Increasing milling capacity

KFL is planning to expand its rice milling capacity from 40 MTPH in FY06 to 45 MTPH in FY08. This is expected to boost the topline with rice revenues growing at 7% CAGR over the next 3 years. KFL has strong subsistence in the branded rice market in India alongwith international markets.

Rice prices have risen in FY07 on account of low paddy production in India. The paddy procurement price has increased by 25-30% in the current season i.e. November-December, 2006. This has lead to all the major rice players including Kohinoor to hike up their prices. Assuming steady rice prices and capacity expansion, we expect the rice segment to achieve a turnover of Rs.6,195m in FY09.

**Table 2: Rice revenue model**

Year-end: March		FY05	FY06	FY07E	FY08E	FY09E
<b>Total capacity</b>	<b>MT/Hour</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>45</b>	<b>45</b>
Total rice available	MT	281,706	267,162	255,666	272,446	291,907
Stock change	MT	7,922	27,110	0	0	0
Finished stock	MT	64,575	91,684	91,684	91,684	91,684
Turnover	MT	273,784	240,053	255,666	272,446	291,907
<b>Unit realisation</b>	<b>Rs/MT</b>	<b>17,332</b>	<b>21,222</b>	<b>21,222</b>	<b>21,222</b>	<b>21,222</b>
<b>Rice revenue</b>	<b>Rs m</b>	<b>4,745</b>	<b>5,095</b>	<b>5,426</b>	<b>5,782</b>	<b>6,195</b>

Source: Company reports; IDBI Capital Market Services

### ■ Growing Ready To Eat (RTE)

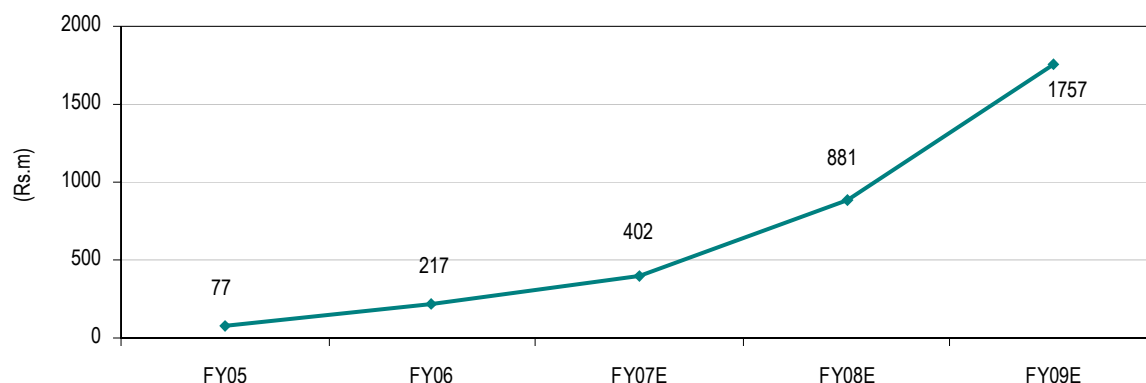
KFL's packaged food holds lots of promise for the years to come. The company entered the packaged food business with a mere 10,000 pouches-a-day capacities in FY04, with just Rs.39m of modest turnover. Tasting the initial success, KFL determined to foray into the RTE market in a major way by ramping up its capacity. In FY05, capacity was increased to 50,000 pouches a day producing around 100 variants, which is to be increased to 100,000 pouches a day by FY08.

Frozen Foods market is expected to be around 3x larger than ambient food. KFL has capacity of 20 MTPD in frozen foods segment. The company is also planning to enter the chilled food segment. Chilled foods market is expected to be 1.5x larger than frozen foods markets. Going forward, these initiatives are expected to pave a decent growth path for the company.

KFL has tied up with one of the largest distributors in Saudi Arabia, which is a Rs.30bn packaged food market. It has also tie-ups with major retailers in the US and UK besides having established marketing and distribution centers.

We estimate the segment to produce revenue of Rs.1,757m in FY09 against Rs.217m in FY06.

**Figure 1: RTE Revenue growth**



Source: Company reports; IDBI Capital Market Services

*Increase in milling capacity to lead to 7% CAGR over next 3 years*

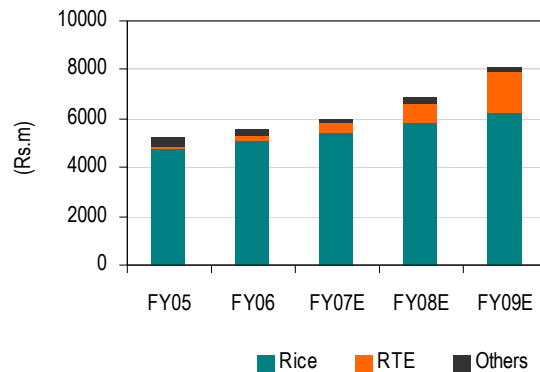
*Revenues from RTE expected to increase around 8x by FY09*

*Increase in RTE revenues to surge EBIDTA margins to around 15% in FY08*

**Surging EBIDTA margins**

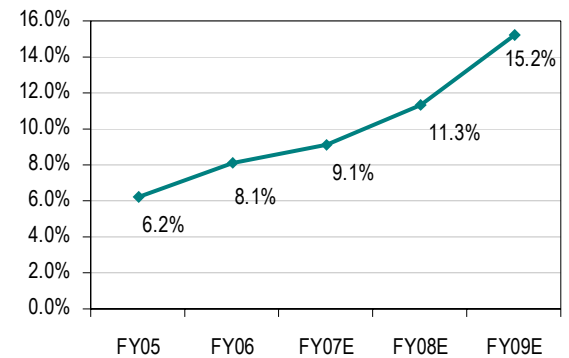
The move towards branded foods markets is not only expected to boost the topline but also the EBIDTA margins. The margin in unbranded basmati segment is around 4-5% whereas the same in the branded basmati segment is 13-14%. It escalates to 18-20% in case of branded foods. Thus increasing share of RTE revenue is expected to lead to sharp rise in the EBIDTA margin of KFL from 8% in FY06 to around 15% in FY08.

**Figure 2: Revenue mix**



Source: Company reports; IDBI Capital Market Services

**Figure 3: EBIDTA margins**



Source: Company reports; IDBI Capital Market Services

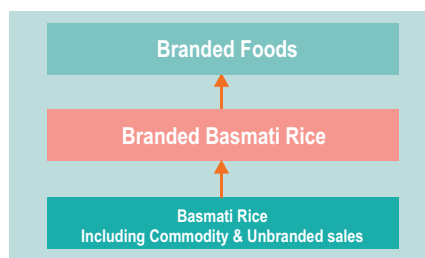
*KFL has market share of around 52% in branded rice market*

**Focus on brand**

The strategic vision of becoming global food player is achievable only through strong brand portfolio. KFL already has a strong presence in branded rice segment. The share of branded products in total revenues has risen to around 55% from 34% in FY04. According to the survey by TNS, KFL's flagship brand *Kohinoor*, constitutes around 38% of the total branded rice market.

According to latest AC Nielsen survey, KFL has market share of around 52% in branded rice market. On similar lines, the company expects to corner a major share of the branded foods market in international arena going forward. Thus moving upwards from a branded basmati player to a global branded food major.

**Diagram 1: Moving up the value chain**



Source: Company reports; IDBI Capital Market Services

*KFL has strong presence in 47 countries around the globe*

**Strong global presence**

KFL has been continually strengthening its presence in global arena. The company has setup a polishing facility in the UK with capacity of 8 MTPH. As semi-finished rice attracts zero duty in the UK, this polishing facility will result in huge savings in the customs duty paid on polished rice exports from India.

The company has established presence in international markets through strategic tie-ups with retail chains. It has presence in 47 countries across the globe. In the US, KFL has established 5 distributions cum marketing centers besides entering into strategic tie-ups with major retailers like *Walmart*, *BJ's Whole Foods*, *Kroger*. In the UK, its tie-up with *TESCO* has been a major success with *Kohinoor* capturing 48% of *TESCO*'s ethnic shelves.

KFL has achieved a path breaking success through tie up with 7 Eleven, Singapore for frozen foods category of RTE. The company plans to add seven more countries by FY08 and 30 by FY09.

## Business profile

*With strong presence in branded rice market, the company has forayed into branded foods market*

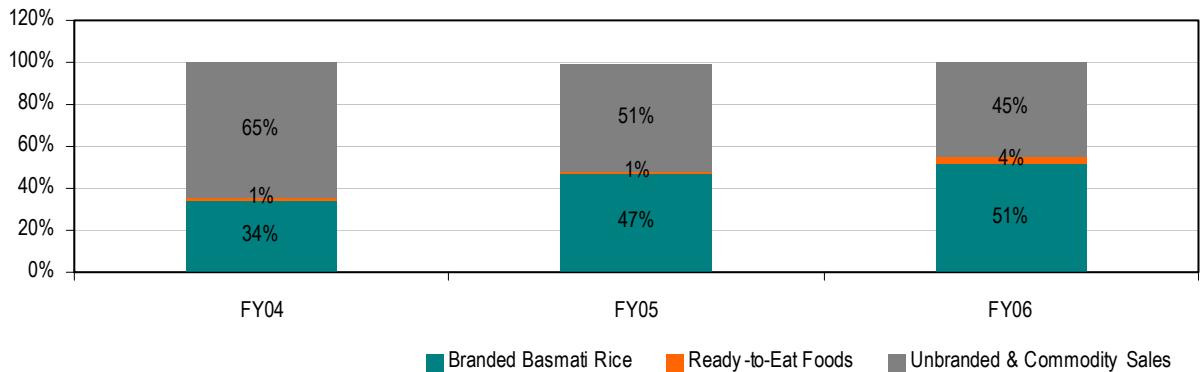
Kohinoor Foods Ltd. (KFL), made a modest beginning as a rice milling company to evolve as a branded food company with global presence. With three decades of rich experience, the company has scaled new heights in branded rice market.

KFL, formerly known as Satnam Overseas Ltd., was incorporated in July 1989 and went public in December 1992. KFL's state-of-art rice milling plant is located in Murthal, Haryana with capacity of 40 MTPH (Metric Tones Per Hour). The company has strong network of *Artiyas* to facilitate smooth paddy procurement.

KFL has forayed into Ready To Eat (RTE) market with its facility at Bahalgarh, Haryana. Its ambient food capacity stands at 50,000 pouches per day and frozen food capacity stands at 20 metric tons per day. Frozen foods capacity is recently commissioned in FY07.

KFL has emerged has a major player in the branded rice market in global arena. This is clearly evident from the fact that the branded basmati rice segment has grown from 34% to 51% of the total revenues in FY06.

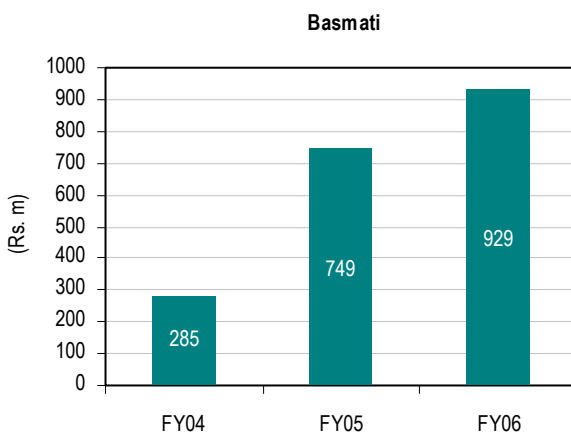
**Figure 4: Growth in branded revenues**



Source: Company reports; IDBI Capital Market Services

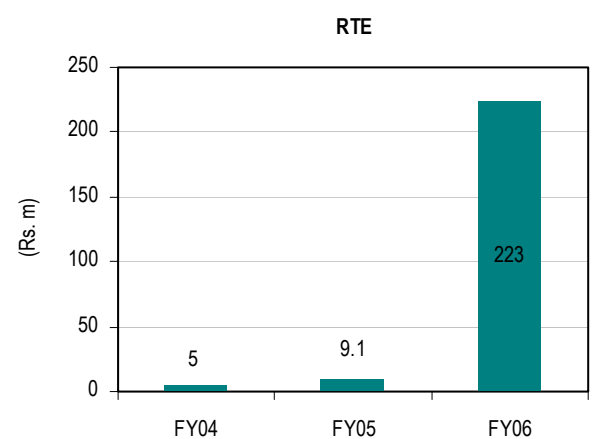
Exports of branded basmati has grown at rate of 81% CAGR in past two years to Rs.929m in FY06. RTE segment has also grown at stellar rate of 568% CAGR in past two years to Rs.223m in FY06.

**Figure 5: Growth in Basmati revenues**



Source: Company reports; IDBI Capital Market Services

**Figure 6: Growth in RTE revenues**



Source: Company reports; IDBI Capital Market Services

*Basmati as well as RTE segment have put up brilliant performance in past years*

The company has three fully owned subsidiaries catering to various international markets. Indo European Foods Ltd. with its headquarters in United Kingdom monitors the UK and European market operations. Similarly, Satnam Overseas Inc., monitors US and Canadian market whereas joint venture company, Rich Rice Raisers Factory LLC monitors Middle East operations.

## Financial summary

### Profit and loss account

(Rs. m)

Year-end: March	FY04	FY05	FY06	FY07E	FY08E	FY09E
<b>Gross sales</b>	<b>5,412</b>	<b>5,253</b>	<b>5,556</b>	<b>6,004</b>	<b>6,852</b>	<b>8,154</b>
Less: Excise	-	1	-	1	1	1
<b>Net sales</b>	<b>5,412</b>	<b>5,253</b>	<b>5,556</b>	<b>6,004</b>	<b>6,851</b>	<b>8,153</b>
Expenditure						
Change in stocks	73	(532)	(349)	-	-	-
Raw material	4,119	4,487	4,423	4,388	4,852	5,457
Power and fuel cost	62	69	75	76	86	103
Other manufacturing expenses	300	335	315	340	389	462
Administrative expenses	92	130	131	134	152	181
Selling and distribution expenses	401	344	375	382	435	518
Employee expenditure	72	93	137	139	159	189
<b>Total expenditure</b>	<b>5,120</b>	<b>4,925</b>	<b>5,107</b>	<b>5,459</b>	<b>6,074</b>	<b>6,911</b>
<b>EBDITA</b>	<b>292</b>	<b>327</b>	<b>450</b>	<b>545</b>	<b>777</b>	<b>1,242</b>
Interest/Financial charges	147	127	154	176	176	176
<b>Gross profit</b>	<b>145</b>	<b>201</b>	<b>296</b>	<b>368</b>	<b>601</b>	<b>1,066</b>
Depreciation	10	7	92	100	105	111
<b>EBT</b>	<b>135</b>	<b>193</b>	<b>204</b>	<b>268</b>	<b>495</b>	<b>955</b>
Other income	6	11	19	20	22	23
Non recurring items	21	13	21	-	-	-
<b>PBT</b>	<b>162</b>	<b>218</b>	<b>243</b>	<b>289</b>	<b>517</b>	<b>978</b>
Tax	40	55	76	90	162	307
Deferred tax	5	6	(7)	(7)	(12)	(23)
Total tax	45	60	69	84	150	284
<b>PAT</b>	<b>118</b>	<b>157</b>	<b>174</b>	<b>205</b>	<b>367</b>	<b>695</b>

Source: Company reports; IDBI Capital Market Services

## Balance sheet

(Rs. m)

Year-end: March	FY04	FY05	FY06	FY07E	FY08E	FY09E
<b>Sources of funds</b>						
<b>Total Shareholders' fund</b>	<b>921</b>	<b>995</b>	<b>1,137</b>	<b>1,292</b>	<b>1,610</b>	<b>2,256</b>
Equity	196	196	196	196	196	196
Reserves and surplus	725	799	941	1,096	1,414	2,060
<b>Total debt</b>	<b>2,368</b>	<b>3,034</b>	<b>4,064</b>	<b>4,064</b>	<b>4,064</b>	<b>4,064</b>
Secured loans	2,320	2,811	3,130	3,130	3,130	3,130
<b>Total liabilities</b>	<b>3,289</b>	<b>4,029</b>	<b>5,201</b>	<b>5,357</b>	<b>5,675</b>	<b>6,320</b>
<b>Application of funds</b>						
<b>Gross block</b>	<b>677</b>	<b>1,023</b>	<b>1,265</b>	<b>1,372</b>	<b>1,522</b>	<b>1,522</b>
Accumulated depreciation	295	344	430	530	635	746
<b>Net block</b>	<b>382</b>	<b>679</b>	<b>835</b>	<b>842</b>	<b>887</b>	<b>776</b>
Capital work in progress	38	69	107	150	-	-
Investments	-	3	8	8	8	8
<b>Total current assets</b>	<b>3,104</b>	<b>3,752</b>	<b>4,581</b>	<b>4,793</b>	<b>5,280</b>	<b>6,125</b>
Finished goods	2,275	2,863	3,212	3,212	3,212	3,212
Others	53	92	134	134	134	134
Total inventories	2,328	2,955	3,346	3,346	3,346	3,346
Sundry debtors	372	493	574	620	708	842
Cash and bank	67	53	336	476	827	1,463
Loans and advances	331	237	319	344	393	467
Other current assets	6	14	7	7	7	7
<b>Less: Current liabilities and provisions</b>	<b>241</b>	<b>478</b>	<b>491</b>	<b>604</b>	<b>680</b>	<b>792</b>
Current liabilities	111	281	210	300	334	380
Provisions	131	197	281	303	346	412
<b>Net current assets</b>	<b>2,863</b>	<b>3,274</b>	<b>4,090</b>	<b>4,189</b>	<b>4,600</b>	<b>5,333</b>
Miscellaneous exp. not W/O	38	42	191	191	191	191
Net deferred tax	(31)	(37)	(30)	(23)	(11)	12
<b>Total assets</b>	<b>3,289</b>	<b>4,029</b>	<b>5,201</b>	<b>5,357</b>	<b>5,675</b>	<b>6,320</b>

Source: Company reports; IDBI Capital Market Services

## ■ Ratios

(Rs. m)

Year-end: March	FY04	FY05	FY06	FY07E	FY08E	FY09E
<b>Per share values (Rs.)</b>						
Basic EPS (Rs.)	6.0	8.0	8.9	10.5	18.7	35.4
Diluted EPS (Rs.)	6.0	8.0	8.9	6.8	12.2	23.0
Cash EPS (Rs.)	6.7	8.7	13.2	15.2	23.5	39.9
DPS (Rs.)	1.5	2.0	2.2	2.2	2.2	2.2
Book value (Rs.)	47.0	50.8	58.0	65.9	82.2	115.1
Sales per share (Rs.)	276.1	268.0	283.5	306.3	349.6	416.0
<b>Valuations</b>						
P/E (x)	11.6	8.7	7.9	10.3	5.8	3.0
Cash P/E (x)	10.4	8.0	5.3	4.6	3.0	1.8
P/B (x)	1.5	1.4	1.2	1.1	0.9	0.6
P/S (x)	0.3	0.3	0.2	0.2	0.2	0.2
Current market price (Rs.)	70.0	70.0	70.0	70.0	70.0	70.0
<b>Profitability/returns/liquidity</b>						
EBIDTA (%)	5.4	6.2	8.1	9.1	11.3	15.2
NPM (%)	2.2	3.0	3.1	3.4	5.4	8.5
ROCE (%)	4.4	5.0	5.7	6.9	10.6	16.9
ROE (%)	12.8	15.8	15.3	15.9	22.8	30.8
Debt/Equity (x)	2.6	3.0	3.6	3.1	2.5	1.8
Interest coverage (x)	2.0	2.6	2.9	3.1	4.4	7.0
Current ratio (x)	12.9	7.8	9.3	7.9	7.8	7.7
<b>Other ratios</b>						
EV (Rs. m)	3,672.8	4,352.7	5,100.7	4,960.7	4,609.0	3,973.0
EBITDA (Rs. m)	292.1	327.4	449.5	544.6	776.9	1,242.2
EV/EBITDA (x)	12.6	13.3	11.3	9.1	5.9	3.2
EV/Turnover (x)	0.7	0.8	0.9	0.8	0.7	0.5

Source: Company reports; IDBI Capital Market Services

**IDBI Capital Market Services Ltd.** (A wholly owned subsidiary of IDBI Ltd.)

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