

## Transcript

## Conference Call of KRBL Limited

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*Presentation Session*

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- Moderator:** Good evening ladies and gentlemen. I am Leela, moderator for this conference. Welcome to the conference call of KRBL. We have with us today Mr. Anoop Gupta, Chairman and Mr. V. R. Gupta, CFO of KRBL. The call leader is Mr. Surender Singh of Anand Rathi Securities. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press \* and 1 on your telephone key pad. Please note that this conference is recorded. I would now like to hand over the conference to Mr. Surender Singh.
- Surender Singh:** Good evening everybody. Welcome to the Q4FY07 conference call of KRBL Limited, an eminent basmati and non-basmati rice milling company, which is making significant strides in the export market. Mr. V. R. Gupta, the CFO of the company will take us through the Q4 financial performance, post which we will begin the Q&A session. Over to you Mr. V. R. Gupta.
- V. R. Gupta:** Yeah, good evening to you. My name is V. R. Gupta. Hello?
- Surender Singh:** Go ahead Mr. Gupta.
- V. R. Gupta:** Yeah, during the year ended 31<sup>st</sup> March 2006, we have achieved turnover of around 913 crores as against (inaudible) this year. The profitability of the company as a whole has improved to 9.51 crores PAT at 32.03 and during this quarter ended 31<sup>st</sup> March 2007, there is a setback to the company, now the profitability has been down to 36 lakhs as compared to 922 lakhs. The major reason behind it is appreciation of rupees coupled with appreciation of the raw material costs, which we couldn't pass on to our customers. And this position will be rectified from second quarter of this year and everything will be on stream and we will achieve substantial growth in

our turnover as well as in bottom line of the company.  
Thank you.

*Question and Answer Session*

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**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Ms. Preethi of KR Choksi.

**Preethi:** Hello? Sir, this is Preethi Panchal calling from KR Choksi. Sir, I had one question, could you please explain us in detail why your profitability has gone down. You said that you couldn't pass on the increase in raw material prices and appreciation of rupee. So what was the extent of both these items?

**Anoop Gupta:** Hello? Yeah.

**Preethi:** Sir, could you listen to my question?

**Anoop Gupta:** Yeah, you are talking regarding the last quarter, why the profitability was down. You see, basmati rice is a seasonal crop. There are two reasons for this profitability. One is the rupee appreciation; another is the raw material cost. In the beginning of this season, the raw material was very high and generally we do aging and sell the rice after 7, 8 months.

**Preethi:** Sorry, can you please repeat?

**Anoop Gupta:** We age the rice and sell the rice after 7 to 8 months of aging. So whatever raw materials we have purchased, it has come in the costing, so average cost has become high and material we have sold was of previous year. So selling price was less, so in the balance sheet if you see, in the 3<sup>rd</sup> quarter, the raw material consumption is 77% in terms of the sale. So that means 3% to 4% we have lost due to raw material cost. And 3% to 4% is the dollar. Dollar has been appreciated by 10%, but we have hedged about 50% to 60% of our dollar requirement, so balance 40% we made a loss, effectively 5% to 6%. So in total if you take, this 50% of my sale is domestic, which has nothing to do with these two reasons, because in domestic immediately when the raw material prices hikes, the price can be passed on to the consumer. But in the international market, it takes minimum 3 to 4 months to pass the price to

the consumer. So accordingly my profitability has gone down by 5% in this quarter due to these two reasons.

**Preethi:** Okay, sir going forward how do you intend to cash this?

**Anoop Gupta:** You see the stock which I am holding for the crop, which I purchased in 2006 November, I will get the price in the second quarter, third quarter, and fourth quarter of the year. Definitely the profitability will increase not in comparison to 1<sup>st</sup> and 2<sup>nd</sup> on the last quarter, in comparison to last three quarters, which were excellent.

**Preethi:** Okay, so overall how much margins do you expect for this year?

**Anoop Gupta:** You are talking FY08.

**Preethi:** Yes sir.

**Anoop Gupta:** FY08 we are looking at minimum 8, 8 ½%.

**Preethi:** Okay, sir and how do you expect to hedge your dollar exposure.

**Anoop Gupta:** You see, the company has a policy to cover up to 50%, 55%, but after having this beating, we think we should cover up to 75%, 80%.

**Preethi:** Okay, so going forward it will be 70% to 80%.

**Anoop Gupta:** Because the day we sell the cargo, the decision we have taken, we should cover according to our costing. We should not look at a profit in dollars; we should look at our profit in rice only. So that is the beating we have learnt from this last quarter.

**Preethi:** Okay and sir are there any CAPEX plans for next two years?

**Anoop Gupta:** There are no CAPEX plans. All CAPEX expenditure is being complete and that is also the one reason the interest cost is also high, and the CAPEX, our term loan has increased from 70 crores to 110 crores. So in the last quarter, the interest factor has also gone up.

**Preethi:** Okay, so there would be certain amount of maintenance CAPEX?

**Anoop Gupta:** No, maintenance is not that big an amount.

**Preethi:** How much would that be?

- Anoop Gupta:** Maintenance is negligible in our plants. In any food industry, the main problem is of raw material cost, plant and machinery maintenance is not a big cost, what I mean to say.
- Preethi:** Do you see any increase in the rice prices going forward in this year
- Anoop Gupta:** Hello?
- Moderator:** Sir, I think Ms. Preethi's line got disconnected sir. Can we take up the next question sir?
- Anoop Gupta:** Yeah.
- Moderator:** Next question comes from Ms. Lakshmi of Capital Market.
- Lakshmi:** Hello, I am Lakshmi from Capital Market. Sir, I would like to know what your exposure is towards export market.
- Anoop Gupta:** You see, generally my ratio is 50:50, this year also out of 913 crores, total exports is about 459 crores. So say about 53% is my export turnover. As a rice company, the exposure to export is quite high.
- Lakshmi:** And where do you generally export to, to which company, I mean, to which country?
- Anoop Gupta:** It is throughout the world, mainly India's basmati, 60% of the rice goes to Saudi Arabia, but ours 40%, 45% of my turnover goes to Saudi and we are largest in America. America is a big market, then Middle East is a very big market, and some parts of East Africa and otherwise small, small, is throughout the world.
- Lakshmi:** Okay, and would you see the rice price going high further?
- Anoop Gupta:** Yes, yesterday there was an article in Gulf News that Ministry of their Economic Affairs has agreed to increase the rice prices by 20%. This was the headlines in Gulf News yesterday. Because we were fighting very hard from last three months, that you have to increase the price, because of India and Pakistan, the dollar, and the raw material costs, so they have agreed, so I think by next 5 to 6 days, already the prices have gone up. Now we will be able to pass the price to the consumer.
- Lakshmi:** Okay, so how will it benefit your margin for the Q1?

- Anoop Gupta:** Q1 is also under pressure, frankly speaking. Margin will be 100% alright in Q2, Q3, and Q4.
- Lakshmi:** Okay, and what are your future plans generally?
- Anoop Gupta:** You see, all expansion is complete, there's nothing as of CAPEX or anything, and the only concentration is on branding and market.
- Lakshmi:** And who are your competitors sir?
- Anoop Gupta:** If you talk of rice, basmati rice, then in brands, Tilda is my competitor, but it is not a listed company, that is our main competitor we are doing with Tilda.
- Lakshmi:** Okay, in listed companies no competitors.
- Anoop Gupta:** Listed company in exports only, in domestic we have Kohinoor and Dawat. Kohinoor is Satnam Overseas, Dawat is L T overseas. Dawat, this has recently come with an IPO, Dawat.
- Lakshmi:** Yeah, thank you.
- Anoop Gupta:** Okay.
- Moderator:** We have a followup question from Ms. Preethi of KR Choksi.
- Preethi:** Hello?
- Anoop Gupta:** Yeah Ms. Preethi.
- Preethi:** Sir my line got disconnected. You were giving some guidance about the paddy appreciation expected, increase in paddy prices.
- Anoop Gupta:** Yeah, increase in paddy prices was already there in November 2006. That increase, that paddy has not been sold yet; I mean that is in stock.
- Preethi:** Okay, so how much was the increase in prices?
- Anoop Gupta:** At least by 15% to 20% there was an increase in price. So immediately we could not increase the price worldwide from the consumer. Yesterday there was a headline article in Gulf Times that Ministry of Economic Affairs has agreed to increase the rice prices by 20%. We were fighting from last 3, 4 months that price has to be increased, and there was a lot of problem from the government side in Middle East, because Middle East is the major buyer of basmati

rice. So now the price will increase and the 1<sup>st</sup> quarter of '08 is also under depression, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> quarter will be 100% alright.

**Preethi:** Sir, going forward do you see an increase in paddy prices?

**Anoop Gupta:** You see paddy prices are seasonal crop, it comes for two months, and this year the sowing of paddy is very good. So I don't think paddy prices will go up.

**Preethi:** And sir, could you give a sense of your exports, how much export...

**Anoop Gupta:** Out of 913 crores, total export is 459.

**Preethi:** And which countries contribute to this?

**Anoop Gupta:** You see Saudi Arabia is 40% share, America is about 18%, and Middle East is about 30% and balance small, small all over the world.

**Preethi:** And you have a price power in all these countries?

**Anoop Gupta:** You see our total sale is in our own brands. So we command the price on the shelf. We don't have any bargaining with the buyer or supplier or distributor or C&F. We control the price on the shelf and on reverse calculation we see what price we are getting after deducting retailer margin, distributor margin, and all the expenses. This is how we do our pricing.

**Preethi:** And sir one more last question. How much was the debt on books and cash for FY07?

**Anoop Gupta:** Total debt you wanted working capital, including working capital?

**Preethi:** Both, if you can give.

**Anoop Gupta:** Yeah term loan is about 110 crores, and working capital is 375 crores.

**Preethi:** And how much is the cash on books.

**Anoop Gupta:** 36 crores. This is the cash in bank balance.

**Preethi:** Thank you very much sir. That is all from my side.

**Moderator:** Next question comes from Ms. Swapna Mehta of SKF Securities

- Swapna Mehta:** Hello?
- Anoop Gupta:** Hello?
- Swapna Mehta:** Good evening sir. I just wanted to understand, you just said that stock of November is going to be sold probably in the 2<sup>nd</sup> quarter of the coming year. So this cost of finance increase is for storage, right?
- Anoop Gupta:** Cost of finance, yeah, it is in the business of basmati, more you do the aging, the better realization. The cost of finance in the storing is given by the consumer.
- Swapna Mehta:** But typically you would have sold that stock by now, right?
- Anoop Gupta:** You have to?
- Swapna Mehta:** You will let the stock be for aging for about six to seven months...
- Anoop Gupta:** That is minimum, yeah.
- Swapna Mehta:** That is minimum. So you would have sold the stock in the 1<sup>st</sup> quarter.
- Anoop Gupta:** Yeah, I cannot sell new rice no? Every packing what I do, I write on the back of my bag, my rice is minimum one year old.
- Swapna Mehta:** Okay, correct. What I am saying is that apparently your interest cost has been rising because of the increased stock cost, right? Because you don't want to sell that stock till the price realization is better in the markets abroad. Are you holding stock, or are you doing your sales in the normal basis?
- Anoop Gupta:** No, what stock we are selling today is from the crop which has come in November 2005.
- Swapna Mehta:** Yeah, the cost for paddy for which was higher.
- Anoop Gupta:** Which was lower. November 2006, which was a higher price, is still lying in the stocks.
- Swapna Mehta:** Okay, which will be sold probably in the second quarter or the third quarter?
- Anoop Gupta:** It will start selling from second quarter.
- Swapna Mehta:** It will start being sold from quarter two?

- Anoop Gupta:** Yeah.
- Swapna Mehta:** Okay sir, thank you.
- Moderator:** Next question comes from Mr. Ashok Jain and team of Kotak Securities.
- Ashok Jain:** Hello, Sir this is Ashok Jain here from Kotak Securities, how are you doing?
- Anoop Gupta:** Yeah fine, thank you.
- Ashok Jain:** Sir, I wanted to know something about your investment that you made in KRBLDMCC, which is registered with Dubai Multi Commodities, can you throw some light on this particular investment that you made?
- Anoop Gupta:** Yeah, DMCC has come out with a proposal, that anybody buys the office area in that building, they will give a trading license, which can be 100% owned by the person, so we have opted for a 2000 square feet of office, wherein we have made KRBLDMCC and we will have an international trading in that office.
- Ashok Jain:** Okay, so you plan to internationally hedge your rice position or how do you....?
- Anoop Gupta:** Yeah, because there are lot of buyers in African continent and other, where somebody wants Thai Long Grain also, so we are thinking of becoming a rice hub sort of a thing, wherein we can fully satisfy the customer of his demands.
- Ashok Jain:** Okay, and sir, also to understand, if you could just give a ballpark figure in terms of what would be the current rice price and the rice price somewhere, let's say in November '06?
- Anoop Gupta:** You see, today average I am selling the product at about 650 dollars that is on the basis of November 2005 crop.
- Ashok Jain:** This is on the basis of November '05 crop.
- Anoop Gupta:** November '06 crop, the price of 650 has already gone by 850 dollars, 850 to 900 dollars, but it is not the question that because the market has to accept that price. That 650 dollar price was there from November, December, January and we are trying in the international market to increase the price. And they were not able to increase the price because the government had some restrictions. Yesterday only, there was headline news in Gulf Times that Ministry



of Economic Affairs has accepted to increase the rice prices by 20%, so now the price will definitely go up.

**Ashok Jain:** Okay and you have been able to get some price escalation in America or even there we are facing a price constraint?

**Anoop Gupta:** Yeah, there was a price constraint till April, in May we are able to do something, in June we are able to do something and July, we are doing full, 100% as per the November '06 pricing.

**Ashok Jain:** Okay sir, thank you. If I have anything I will come back.

**Moderator:** Next question comes from Ms. Neha Bhatt of ASK Investments.

**Neha Bhatt:** Hello.

**Anoop Gupta:** Yeah.

**Neha Bhatt:** Yeah, hi sir, I just wanted to understand what is your total capacity as of now, secondly I wanted to understand what is the by product, the husk, like total quantity of rice that you process and what is the quantity of husk that is produced and how it can be used for the renewable sources of energy?

**Anoop Gupta:** See, today we have a capacity of 195 metric tons per hour, 150 tonnes situated at Dhuri, which is District Sangrur in Punjab and 45 tons in Ghaziabad, where we are doing 100% Basmati business and Dhuri we are doing non-Basmati as well as Basmati. In Dhuri, what we are doing from the paddy husk, we are getting furfural and that spent paddy husk goes into the boiler where we are producing electricity, where the installed capacity is about 10.5 megawatt. This is how we use husk and in Dhuri we have a solvent plant as well, that outer polish of the rice goes into the solvent extraction section, where we produce rice bran oil.

**Neha Bhatt:** Okay, thank you sir.

**Anoop Gupta:** Okay.

**Moderator:** Next question comes from Arshad Syed of Karvy Stock Broking.

**Anoop Gupta:** Karvy Stock Broking.

**Arshad Syed:** Sir, my question is, can you throw some light on your captive power plant in Dhulia?

- Anoop Gupta:** Dhulia, we have got 10 towers of 1.25 megawatt, totaling to 12.5 megawatt and the total investment is about 65 crores and the plant was commissioned in September 2006 and now it is running, there is no problem.
- Arshad Syed:** Okay, thank you sir.
- Moderator:** Dear participants, please press \* and 1 for your questions. Next question comes from Mr. Alok of Standard Chartered.
- Alok:** Hello.
- Anoop Gupta:** Hello.
- Alok:** Good evening sir.
- Anoop Gupta:** Good evening.
- Alok:** Sir I just wanted to know about the global warming situation, I mean to say, can you just throw some light on, if suppose there is a one percentage degree change of environment, what is the yield which can come down in terms of rice production?
- Anoop Gupta:** You see, as far as KRBL is concerned, our main working, which is on Basmati rice and Basmati rice, the area of cultivation is only the northern region and Basmati rice, the water requirement was also less compared to non-Basmati rice and global warming does not affect much, I mean, yields can go, I am not sure how much percent the yields can go down, but in Basmati, since it is crop which is just a 90 day, 120 day crop, sown in July, this is the time when they sow it and it gets harvested in October, November.
- Alok:** Okay and sir, one more question, sir I just wanted to know, we have the non-Basmati rice production also at the same time, so do we have any sort of brand, do we have any branding done in this non-Basmati rice?
- Anoop Gupta:** Yeah, we are doing lot of non-Basmati branding, India Gate long grain rice; we are doing international as well as domestic market, both.
- Alok:** Sir that is the Basmati rice...
- Anoop Gupta:** No, brand also. Umbrella is India gate; in India Gate we have got 20 extensions. India Gate Basmati rice, India Gate Dubar, India Gate Tribar, India Gate Long Grain, we have got 25 extensions in the India Gate brand.

- Alok:** Okay and sir, what is the production, which is being sold off to Food Corporation of India in terms of percentage?
- Anoop Gupta:** In terms of percentage, 50% of my Dhuri, I am just talking of the Punjab plant. 50% of my Punjab plant goes to FCI.
- Alok:** FCI, okay and...
- Anoop Gupta:** But, that turnover is not coming in the top line. I am doing just the job work; I am not adding anything in the top line.
- Alok:** Okay, fine, that's not an issue, that will be answering my question, thanks.
- Moderator:** We have a followup question from Ms. Preethi of KR Choksey.
- Preethi:** Hello.
- Anoop Gupta:** Yeah.
- Preethi:** Sir, you just mentioned about your India Gate brand, how much do your branded revenues form the part of total sales?
- Anoop Gupta:** You see, we have got not only India Gate, we have got lot of brands, since rice is such a commodity and it is a country based, we have got in Saudi Arabia for parboiled (inaudible) brand, for Al Wissam brand. In America we have Royal Brand. The question is the total revenue of domestic and export market, more than 90% constitutes my own branded sale. Hello.
- Preethi:** Yes sir, 90% is branded sales?
- Anoop Gupta:** Branded sales.
- Preethi:** And sir, what is the capacity of your plants?
- Anoop Gupta:** District Sangrur, Dhuri, we have 150 tons per hour and in Ghaziabad we have 45 tons per hour.
- Preethi:** Thank you sir.
- Anoop Gupta:** Okay.
- Moderator:** We have a followup question from Mr. Arshad Syed of Karvy Stock Broking.
- Arshad Syed:** What is the growth rate expected by the company in terms of top and bottom line for '08 and '09?

- Anoop Gupta:** Yeah, pardon I am not clear, what you are telling, please repeat.
- Arshad Syed:** What is the growth rate expected by the company in terms of top and bottom line, sales and profit, for '08 and '09?
- Anoop Gupta:** '09? No, I cannot tell numbers about '08, '09, but we will be doing definitely better. Numbers, I can tell you top line in '09 will definitely be 1,200 plus.
- Arshad Syed:** Okay fine and profit, net profit?
- Anoop Gupta:** Bottom line I am talking about 8%.
- Arshad Syed:** Okay fine, thank you sir.
- Moderator:** There are no further questions, now I hand over the floor to Mr. Surender Singh for closing comments.
- Surender Singh:** Mr. Gupta, I have a few questions of my own, if I can continue.
- Anoop Gupta:** Yeah.
- Surender Singh:** See you talked about your company policy of hedging for the cost component of the export proceeds, I mean, don't you think it is a little more prudent to hedge the entire receivables?
- Anoop Gupta:** You see, when I talk 80%, where it can go otherwise also if a person has a van to play around things, we have seen times, because it is for the first time the dollar has behaved like this and I am in the business for last 25 years, we always gained by not hedging the dollar. We always gained, now it is the time we have taken, let's go up to 80 instead of 50.
- Surender Singh:** Okay, another thing sir, you talked about some government kind of restrictions in the Middle East for the price rise, could you briefly elaborate what kind of restrictions exist over there in terms of value?
- Anoop Gupta:** When we take a product, any product in the section, they always ask, this is the maximum price retailed, which is registered. They are co-operatives in society. Suppose my India Gate is registered at, I am just giving an example about 8 dollars for one packet, I can do on 8 dollars, I can market at 6 dollars, I can do promotions, lot of promotions, buy one get two, 20% free, buy one, this, that, that everything is there, but my sale price cannot increase by 8

dollars. So, generally what we are doing, we are increasing our price by 15%, 20% for that registration and we always do a promotion. Now, from last 7, 8 months, that all promotions have gone aside, even 8 dollars is not a workable price. So, we said to the government in general, all Middle East people that you have to increase the price, since the prices in India and Pakistan have really gone up and the government was not agreeing on this fact. Yesterday there was a news article in Gulf News that Ministry of Economic Affairs had approved the rice price hike by 20%, so that's what I was talking.

**Surender Singh:**

So, does it mean for every incremental price hike you have to seek government's permission?

**Anoop Gupta:**

No, not every, this is a very, very typical year, in last 20 years of my business; I have not seen rice sales like that which we passed. Because the prices of paddy had suddenly come up and the dollar in the reverse has gone down. I mean, both the things extreme, even the price of paddy was extreme, even the dollar to a rupee was extreme and both affected same direction, I mean to say both have a same effect of loss. If it would have been from 44 to 48, I mean both the directions were at, where the bottom line gets affected.

**Surender Singh:**

Okay sir, another thing sir, you talked about around 2.17 crore fund infusion that we have done in the Dubai based wholly owned subsidiary of ours, will that entity be used entirely for hedging purposes or some other kind of activity can be expected from this?

**Anoop Gupta:**

No, some hedging also is there and other activities, the people are demanded too much Thai Jasmine has become a good rice, now a days, in America, in Thai parboiled rice, so third country business can also be done. Buying Thai rice and selling in our marketing network.

**Surender Singh:**

Right, one final question sir, what was the inventory level in volume and value terms of processed rice as on March?

**Anoop Gupta:**

March '07?

**Surender Singh:**

Yeah, March '07.

**Anoop Gupta:**

You are talking only rice?

**Surender Singh:**

Also some paddy you are doing for the hard boiled?

**Anoop Gupta:**

You mean what was the total stock level at '07? 581 crores. If you want a breakup, the raw material is 360

crore, rice is 203 crores and packing material is 18 crores. 581 crores.

**Surender Singh:**

Okay, thank you sir that will be from my side. Leela, if there are no further questions we will call it a day?

**Moderator:**

There are no further questions sir.

**Surender Singh:**

Okay then we will call it a day.

**Moderator:**

Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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**Note:**

1.This document has been edited to improve readability.  
2. Blanks in this transcript represent inaudible or incomprehensible words.