

Fundamental Grade **3/5 (Good fundamentals)**
Valuation Grade **5/5 (CMP has strong upside)**

Industry **Food Products**

KRBL Ltd's (KRBL's) Q2FY12 results were below CRISIL Research's expectations. While weak demand cues continue to prevail in the export markets, foreign currency fluctuations added to the company's woes as it posted Rs 406 mn foreign exchange loss in Q2FY12. Overall, Q2FY12 has turned out to be disappointing for KRBL as it posted one of its lowest quarterly EBITDA margins. We are likely to lower our earnings estimates post detailed interaction with the management. We maintain fundamental grade of **3/5**.

Q2FY12 result analysis

- KRBL registered revenues of Rs 3,882 mn, a 4% decline over Q2FY11. We expect this to be on account of continuing weakness in export demand, especially from Iran, which has led to oversupply in other markets. Additionally, we believe, higher prices of food products in the home market may have led to lower consumer spending on the more expensive basmati rice.
- EBITDA margin declined by 418 bps y-o-y to 8.8%, which we expect to be on account of a dip in realisations. Other expenses also increased by ~38% to Rs 613 mn.
- Adjusted for one-time forex loss, KRBL's PAT margin was 4.3%, a 162 bps decline compared to Q2FY11. This is due to lower EBITDA margin as well as higher interest costs. Consequently, adjusted EPS also declined by ~31% y-o-y to Rs 0.7. The company posted foreign exchange losses of Rs 406 mn for the quarter as rupee depreciated by 9.4% against the dollar. Therefore, reported after-tax loss amounted to Rs 241 mn.
- Overall, H1FY12 revenues declined by 2.4% over H1FY11 to Rs 7,068 mn with a marginal decline in EBITDA margin.
- KRBL's consolidated revenues also included performance of the energy segment. Overall consolidated revenues in H1FY12 declined by 2.3% y-o-y. EBITDA margin at 13.9% was lower by 78 bps compared to H1FY11.

Valuation: Current market price has strong upside

We continue to use the price-to-earnings multiple approach to value KRBL. We maintain our fair value estimate at Rs 36 per share. At the current market price of Rs 23, the valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	13,212	15,929	15,586	16,535	19,097
EBITDA	2,044	2,184	2,413	2,599	3,139
Adj PAT	656	1,250	1,199	1,227	1,451
Adj EPS-Rs	2.7	5.1	4.9	5.0	6.0
EPS growth (%)	19.0	90.4	(3.4)	2.0	18.2
Dividend yield (%)	0.8	1.5	1.5	1.8	1.8
RoCE (%)	16.8	17.6	15.3	13.5	14.8
RoE (%)	16.7	26.1	20.3	17.5	17.6
PE (x)	10.3	4.5	4.6	4.5	3.8
P/BV (x)	1.6	1.0	0.9	0.7	0.6
EV/EBITDA (x)	6.1	5.1	6.0	5.9	4.9

NM: Not meaningful; CMP: Current market price

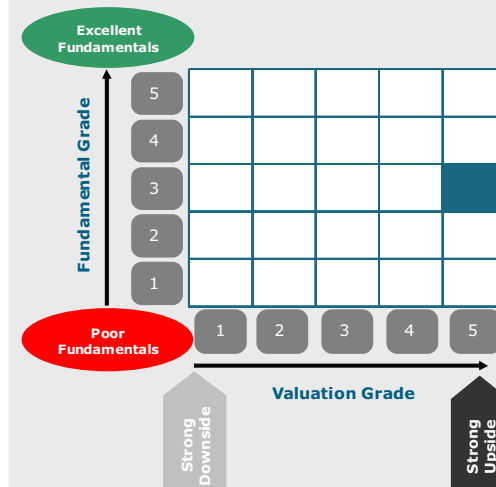
Source: Company, CRISIL Research estimate

November 15, 2011

Fair Value **Rs 36**

CMP **Rs 23**

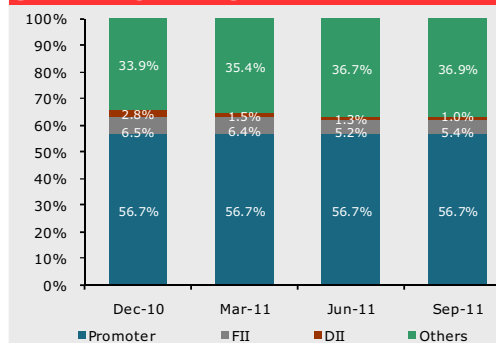
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5139/17085
NSE / BSE ticker	KRBL
Face value (Rs per share)	1
Shares outstanding (mn)	244
Market cap (Rs mn)/(US\$ mn)	5,565/114
Enterprise value (Rs mn)/(US\$ mn)	14,530/297
52-week range (Rs) (H/L)	53/21
Beta	1.06
Free float (%)	43.3%
Avg daily volumes (30-days)	740,368
Avg daily value (30-days) (Rs mn)	18.3

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KRBL	-8%	-13%	-18%	-54%
NIFTY	4%	1%	-7%	-17%

ANALYTICAL CONTACT

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