7 POINTERS

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KRBL Ltd

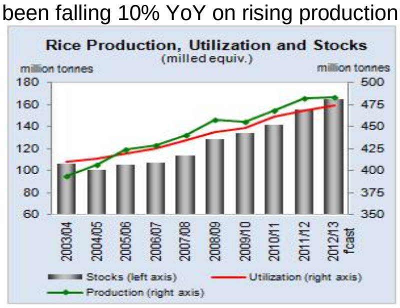
Date : 22 Aug 2012

Improved Business Outlook

CMP : 23. *(Potential upside 30%)*

KRBL is one of the leading Indian rice exporters having presence in both basmati and Non-basmati segment. The Company has intergrated operations starting from grain production (contract farming) to finished rice production along with full product chains involving productive usage of by-products like husk and rice-brans to generate power and healthy edible oil. Products aside, the Company has made investments in wind-power in earlier years to derive fiscal incentives. It has wide marketing network with presence at 5,75,000 retail outlets spread over all towns and cities of the country apart from tie-up with organized retail chains. It has 1MT paddy storage capacity. Its rice commands ~25% premium to average export price.

- **Largest player in the listed space:** KRBL is the largest listed player in terms of installed capacity (195MT per hr). It claims more than 30% share in local and export market.
- **Robust demand:** The global demand for Basmati rice has risen steadily over the years, with consumption growing at a CAGR of around 22% over a four years period (FY08-11). Middle-east, UK, US, Netherlands, Canada and Italy are chief export destinations of Basmati variety. Domestic basmati consumption expected to grow at a healthy rate of 15% over the next three to four years.
- **Global slowdown has no impact on staple demand:** Global slowdown has no cascading effect on the demand for basic staples. To compound the demand, this year US too is witnessing severe drought, which would affect the other main staple wheat. Hence, we anticipate significant demand shift happening in the rice segment.
- **Realization going forward would be stable with upward bias:** Thanks to Rupee depreciation, shortage of staples across geographies and preservation strategy adopted by few chief rice producing countries, we anticipate the realization which has been ~20% more than the domestic turf is going to harden further.
- **Conducive policy to yield volume growth**: India witnessed a robust Kharif crop last season, and rice millers had made good procurement during that period. Even, in the current season, in spite of bad monsoon, the 1 August Govt data suggests that rice production would be still robust and a 14% growth in rice production is estimated. Sensing surplus situation, the Govt has recently clarified that; there would be no curb in export of rice and wheat, which gives lot of comfort to us. Further, the minimum export price of rice has been reduced 22% to $700/t in Feb 12, taking the currency depreciation into account, making Indian rice competitive in exports markets. With all the benign policy measures rice exports has been quite smooth and healthy and we expect the volume growth momentum to continue through FY13.
- **FAO estimates of lower rice output would support prices:** As per UN body FAO's April estimates Global paddy production is expected to decline marginally 1.07% to 724.5 MT mainly due to lower-than-average monsoon rainfall in India through mid-July. Production forecasts were also reduced for Cambodia, the Chinese Province of Taiwan, the Democratic People's Republic of Korea, the Republic of Korea and Nepal, all of which may see a production drop in 2012. But FAO's estimates are based on 22% below normal rainfall, which since has improved. Hence we believe, the outlook on price front in export market would remain stable with marginally upward bias. The prices fall would be arrested this year which has been falling 10% YoY on rising production.



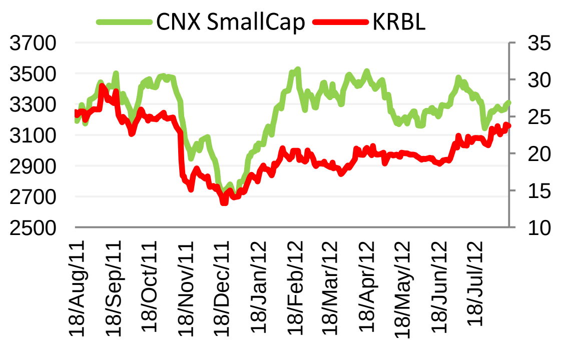
- **Outlook and Valuation:** KRBL has logged 13% CAGR in revenues in last four years. Average ROCE has been ~13%. KRBL has ambitious target to nearly double its revenue in next three years with freeze on Capex and to become debt free. Current gearing stands at 1.22x down from 2.14 in FY08. 1Q13 revenue grew 65%, and EBIDTA by 70%. Profit rose 39% despite Fx loss of Rs170mn. The stock trades at 3.8x its FY13e EPS of Rs5.5. We set 1 year price target of Rs30, implying 30% upside from ruling level.

Basic stock data	
Days High/ Low (Rs)	24.00/21.50
Weekly Avg Volume (NSE+BSE)	338,865
Mkt. Cap. Full / Free Float (Rs Mn.)	5610/1179
Monthly H/L (Rs)	25.00/20.75
Yearly H/L (Rs)	29.70/12.65
Outstanding No of Shares (mn)	243.11
Free Float Shares (mn)	51.08
Face Value (Re)	1
Share Holding Pattern (%)	
Promoters	56.78
Institutional investors	10.95
Bodies Corporate	11.26
Public	21.01
Pledged share	**NIL**

Financial Summary

Rs mn	1Q13	4Q12	1Q12	FY12	FY11
Revenue	5165	4728	3133	16314	15446
OPEX	4197	4110	2565	14050	13191
EBIDTA	969	618	568	2264	2255
Depn	127	115	104	445	360
EBIT	842	503	464	1819	1896
Financial Cost	225	225	183	700	476
Other Income	20	22	18	91	76
Fx loss/gain	-170	338	5	-256	84
PBT	468	638	304	953	1581
Taxation	128	165	59	223	377
PAT	340	473	245	730	1203
Equity	244				
Margin					
EBIDTA	18.8%	13.1%	18.1%	13.9%	14.6%
EBIT	16.3%	10.6%	14.8%	11.1%	12.3%
Net Profit	6.6%	10.0%	7.8%	4.5%	7.8%
EPS	1.40	1.94	1.00	3.00	4.94

Price Performance



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Key to NETWORTH Investment Rankings

Buy: Upside by>15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by>15

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