

## KRBL LTD

### PACKAGED FOODS

#### Q1FY18: Export market outperforms, Growth story continues...

KRBL in Q1FY18 posted revenues of Rs 872 Cr. (up21% YoY, down 4% QoQ), on account of 60% volume growth in the export markets. This combined with company's brand strength, lower cost of material consumed, higher price realizations in domestic and export market and other efficiencies, led to KRBL posting record high EBITDA margins of 24% vs. 19.5% Y-o-Y and PAT of Rs 113 Cr. (up 40% YoY, up 3% QoQ). The average blended realizations stood at 64.5 Rs/kg (↑31% YoY).

KRBL due to its financial strength and storage capability has an inventory worth Rs 1544 Cr (paddy and rice) which provides revenue visibility.

We believe that with GST impact getting normalized and changes in consumer preference towards branded Basmati rice in domestic market, Iran resuming purchases in Nov'17 and entry into premium health foods segment augurs well for KRBL's earnings. We value KRBL at 21x FY19E EPS and we recommend HOLD with a Target Price of Rs 481.

17 AUG 2017 /

Quarterly Update

# HOLD

Target Price: Rs 481

CMP	: Rs 473
Potential Upside	: 1.7%
Relative to Sector	: Outperform

#### MARKET DATA

No. of Shares	: 23.54 Cr
FV (Rs)	: 1
Market Cap	: 11134
52-week High / Low	: Rs 480.3 / Rs 218
Avg. Daily vol. (6mth)	: 185487 shares
Bloomberg Code	: KRB. IN
Reuters Code	: KRBLNS
BSE Code	: 530813
NSE Code	: KRBL

#### Key Highlights

- Domestic market affected due to GST transition:** Domestic market volumes in Q1FY18 stood at 68,170 mT (↓26.5% YoY) due to uncertainty caused by GST however domestic realizations increased from 39.4 Rs/kg in Q1FY17 to 51.6 Rs/kg in Q1FY18. Thus in value terms, it recorded Rs 352 Cr. (↓3.7% YoY). KRBL's market share had increased from 27% in FY16 to 32% in FY17 due to brand acceptability in the market and strong distribution network. We believe domestic market provides abundant opportunities as unbranded Basmati sales are 60% of total market size. With change in consumer's preference tilting towards branded Basmati rice, we expect branded Basmati rice share to increase over a period of time.
- Basmati exports increase 60%, outlook positive:** KRBL's basmati rice export volumes in Q1FY18 stood at 52,912 mT (↑60% YoY). In value terms, it recorded Rs 432 Cr. with realizations flat Y-o-Y at 81.6 Rs/kg. Non basmati rice which forms a small part of exports saw a decline in volume terms but its realizations improved. Around 50% of India's total rice exports go to Iran and Saudi Arabia. While Saudi Arabia has been a consistent buyer, purchases from Iran have been unpredictable due to its government's restrictions. However, with Iran resuming Basmati rice imports in Nov'17, demand is expected to pick up and falling prices are likely to be arrested. Its volume and revenue impact will be seen in FY18E.
- Revenue visibility:** KRBL's paddy stock at the end of Q1FY18 stood at 1,22,945 mT valued at Rs 312 Cr and rice inventory of 3,45,507 mT valued at Rs. 1232 Cr. This provides revenue visibility and overall we expect the revenues and profits for KRBL to grow at 13% and 16% CAGR respectively over FY17-19E with EBITDA margins maintained at 20-21%.

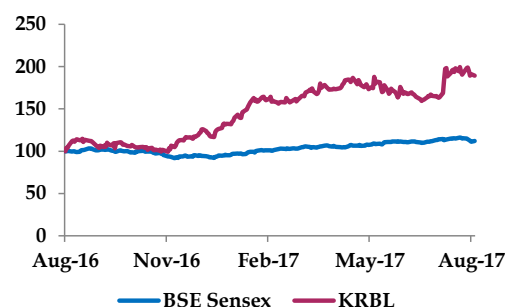
#### FINANCIAL SUMMARY

Y/E	Sales	PAT	EPS	Change	P/E	RoE	RoCE	EV/E	DPS
March	(Rs Cr)	(Rs Cr)	(Rs)	(%)	(x)	(%)	(%)	(x)	(Rs)
FY15	3363	293	12.5	-	-	28.7	36.0	-	1.9
FY16	3149	399	17.0	36.2	-	29.3	37.2	-	2.1
FY17E	3543	453	19.2	13.4	24.6	27.0	35.2	15.1	2.1
FY18E	4021	538	22.9	18.9	20.7	26.8	35.0	12.9	2.1

Source: Company and Axis Securities

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#### PRICE PERFORMANCE



- Diversification into premium health foods:** KRBL is diversifying by including health foods in their product portfolio. KRBL has launched new product 'India Gate Quinoa'. It would cater both domestic and international market under Wholesome Grain (FMCG) segment. KRBL looks to promote health foods like brown rice and Quinoa through digital advertising where the target market would be the upper society consumers. Export market for Quinoa is a big market and shipment has been given to distributors. Indian market size is around 1000 tonnes annually and management expects to garner 25-30% market share in FY18E. This segment requires minimum cap-ex, however high R&D and marketing expenses and has higher margins.

## Results Update

(Rs. cr)	Quarter ended					12 months ended			
	Q1FY18	Q1FY17	% Change (YoY)	Q4FY17	% Change (QoQ)	FY17	FY18E	FY19E	2 yr CAGR
<b>Sales</b>	<b>872</b>	<b>722</b>	21	<b>913</b>	(4)	<b>3149</b>	<b>3543</b>	<b>4021</b>	13%
Other Op. Inc	7.1	4.4		1.6		0	0	0	
<b>Total Revenue</b>	<b>879</b>	<b>727</b>	21	<b>914</b>	(4)	<b>3,149</b>	<b>3,543</b>	<b>4,021</b>	
<b>Expenditure</b>									
Net Raw Material	589	521	13	653	(10)	2212	2476	2799	
Employee expenses	18	17	8	19	(4)	72	79	88	
Other Exp	62	48	30	65	(4)	204	236	265	
<b>Total Expenditure</b>	<b>669</b>	<b>586</b>	14	<b>736</b>	(9)	<b>2505</b>	<b>2811</b>	<b>3175</b>	13%
<b>EBIDTA</b>	<b>210</b>	<b>141</b>	49	<b>178</b>	18	<b>644</b>	<b>732</b>	<b>846</b>	15%
Oth. Inc.	0.0	0.0		0.0		10.3	0.7	9.7	
Interest	27.8	23.6	18	1.4	1957	55	57	60	
Depreciation	17.6	13.7	28	17.3	2	61	66	71	
<b>PBT</b>	<b>165</b>	<b>103</b>	59	<b>160</b>	3	<b>538</b>	<b>610</b>	<b>725</b>	16%
Tax	51.9	23.0	126	49.7	4	138	157	186	
<b>PAT</b>	<b>112.9</b>	<b>80.4</b>	40	<b>109.8</b>	3	<b>399</b>	<b>453</b>	<b>538</b>	16%
EPS (Rs.)	4.8	3.4		4.7		17.0	19.2	22.9	

Source: Company, Axis Direct Research

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Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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