

KRBL Q2FY21

Financial Results & Highlights

Brief Company Introduction

KRBL is the world's leading basmati rice producer and has fully integrated operations in every aspect of basmati value chain, right from seed development, contact farming, procurement of paddy, storage, processing, packaging, branding and marketing. It is also the owner of the famous basmati rice brand INDIA GATE.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1136	896	26.79%	773	46.96%	1909	2116	-9.78%
PBT	203	146	39.04%	167	21.56%	369	346	6.65%
PAT	150	114	31.58%	126	19.05%	276	250	10.40%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1136	896	26.79%	773	46.96%	1909	2116	-9.78%
PBT	202	146	38.36%	166	21.69%	369	345	6.96%
PAT	150	113	32.74%	126	19.05%	276	250	10.40%

Detailed Results:

1. The company had a good quarter with a 27% growth in consolidated revenues and a 38% rise in PBT at a consolidated level.
2. PAT rose only 32% YoY.
3. Rice business saw 32% YoY growth while Health business saw 29% YoY growth.
4. EBITDA in Q2 grew 29% YoY. EBITDA margin was at 20% vs 19% last year.
5. H1 performance was modest with 10% YoY revenue decline and 10% PAT growth. This was mainly due to bad performance in Q1.
6. Net debt is now at negative Rs 227 Cr. Cash & Cash equivalent is at Rs 334 Cr. Interest Coverage ratio improved by 164%. Cash generated from operations stands at robust Rs. 750 Cr in H1.
7. Market share if KRBL was at 38.6%.
8. Bulk pack sales were down only 12% YoY in Q2 and have come back to pre-Covid levels in Sep.
9. Consumer pack sales grew 19% YoY. This growth is led by organized retail.
10. The company saw a 59% YoY growth in e-commerce sales. KRBL now has a 37% market share in the modern trade sales channels. Modern trade & e-commerce contributed to 20% of overall sales for the company.
11. Health Portfolio saw a 39% YoY growth in H1.
12. Inventory is at Rs 2021 Cr.

Investor Conference Call Details:

1. The company was able to ship the carryforward stocks of Q1 during the Q2 and resolve the backlog.
2. Rice exports were at Rs 670 Cr in Q2, a rise of 114% QoQ.
3. The management expects good exports to Iran going forward from the regime change in the USA and the Iranian Govt order to Iranian importers to clear all cargo.
4. The company has expanded its presence into 4 club stores which account for 65% of the total American market.
5. The company recently launched rice bran oil and Amaranth into international markets and the initial response has been very good.
6. The company expects Q3 to remain subdued for exports and demand to recover back in Q4.
7. The company anticipates savings on logistic costs to the tune of 50-100 bps of revenue.
8. The management has stated that going forward, the company will be looking to use the strong cash flows from H1 to bolster its inventory positions rather than deposit it to earn small yields.
9. Demand is expected to come back from Iran but it will take at least 3-4 months for things to normalize here. The management expects the full demand from Iran to come back from Q4 onwards.
10. The company has developed a whole consumer pack family for the brand Unity with products like Unity Biryani, Unity Premium, Unity Super, Unity Tibar, Unity Dubar, Unity Rozana, Unity Mogra, Unity Mini Mogra, etc. This brand is at rs 450 Cr today and the management expect it to grow to Rs 1000 Cr by FY23.
11. The management widely expects demand for bulk packs to surpass last year's levels in Q3.
12. The margins in e-commerce are more or less at the same level as traditional margins. Margin savings from the channel of 4-5% are used up for promotions and increasing online visibility. The management is targeting e-commerce to reach 10% of sales in the medium term.
13. The management has reassured that the cash generated will be utilized definitely on inventory only. This is because of the aging process which may be longer for regional rice where it can be up to 2 years. This extra-aged rice will also command a good premium subsequently.
14. The fall in domestic business in comparison to domestic peers is mainly due to the larger fall in bulk packs which is a higher % of total sales for KRBL as compared to LT foods.
15. The company is giving promotions to retailers to promote bulk packs with small offers of appliances, etc.
16. The prices for paddy in FY21 are about 25% lower as compared to FY20. The management expects export prices to shoot up as demand from Gulf countries normalizes and Iran demand comes back.
17. The current procurement price of 1121 paddy is at Rs 26-27. The same for 1509 paddy is at Rs 27-28.
18. 1121 is largely exported everywhere except the EU where the company is selling only brown rice.
19. The company is looking to buy as much pesticide-free MRL rice as possible. The difference between the normal paddy and MRL paddy is about INR 2 to INR 3 per kilo which is very high. The company is buying it up despite the high price due to the high demand from EU countries.
20. The company has will start buying new regional varieties from the last week of Nov onwards and these varieties will be sold from Nov 2021 onwards as it requires minimum aging of 1 year.
21. The anticipated rise in demand for bulk pack sales is mainly due to the current low prices for the segment. This is because these packs do not need aged rice and thus should lead to stocking.

22. The company has indeed seen a decline in sales volume in the past 5-6 years in Saudi Arabia. It is already in a search of a good distributor to replace Balsharaf but replacing it has not been possible till now.
23. Consumer price realization from small packs has remained the same as Q1.
24. The company has raised domestic consumer pack prices by 4-5% in the recent past and is passing out this 5% to the retailer for the 2 months of the festival.
25. The management is hopeful of growing 24% in H2 to match FY20 growth.
26. The target to reach Rs 8000 Cr in revenues in a year has gotten postponed by a year due to COVID-19.
27. The company is yet to receive the payment of Rs 130 Cr from the Income Tax Department.
28. The idli market in Karnataka is going good for KRBL with sales of 250-300 tons a month. Margins in the business are at >10%. The company is looking to set up its own processing and manufacturing unit in Karnataka where KRBL is already doing processing and packing for Sona Masoori regional rice.
29. The rise in other expenses is mainly due to expenses related to logistics and freight like fumigation, clearing, forwarding charges, etc.
30. The management expects EBITDA margins to remain at current levels of above 20-21% in the future.
31. In the case of the GI Tag, the company has appeals pending in IPAB and Supreme Court.

Analyst Views:

KRBL is one of the biggest sellers of basmati rice in the world. It has built up a long-standing legacy of more than 120 years and enhanced it using modern technology to make the process from grain to pack as efficiently as possible. The company has done well with consumer pack demand rising fast and bulk packs demand coming back to pre-Covid levels. The company is also expecting to see a demand resume from Iran which is good for exports. The company is doing well to reduce its dependence on working capital loans by investing its cash flows into building inventory. It has also seen good growth and rising demand in the health foods segment of >39% in H1. It remains to be seen how the company will evolve to the new packing and shipping norms due to COVID-19 and whether the company will be able to reach its previous heights in Saudi Arabia and get back from the Balsharaf issue. Nonetheless, given the company's long-standing brand image, its resilient operations and export structure, and its focus on maintaining its strengths and developing new avenues, KRBL may turn out to be a prime wealth creator in the next few years.

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