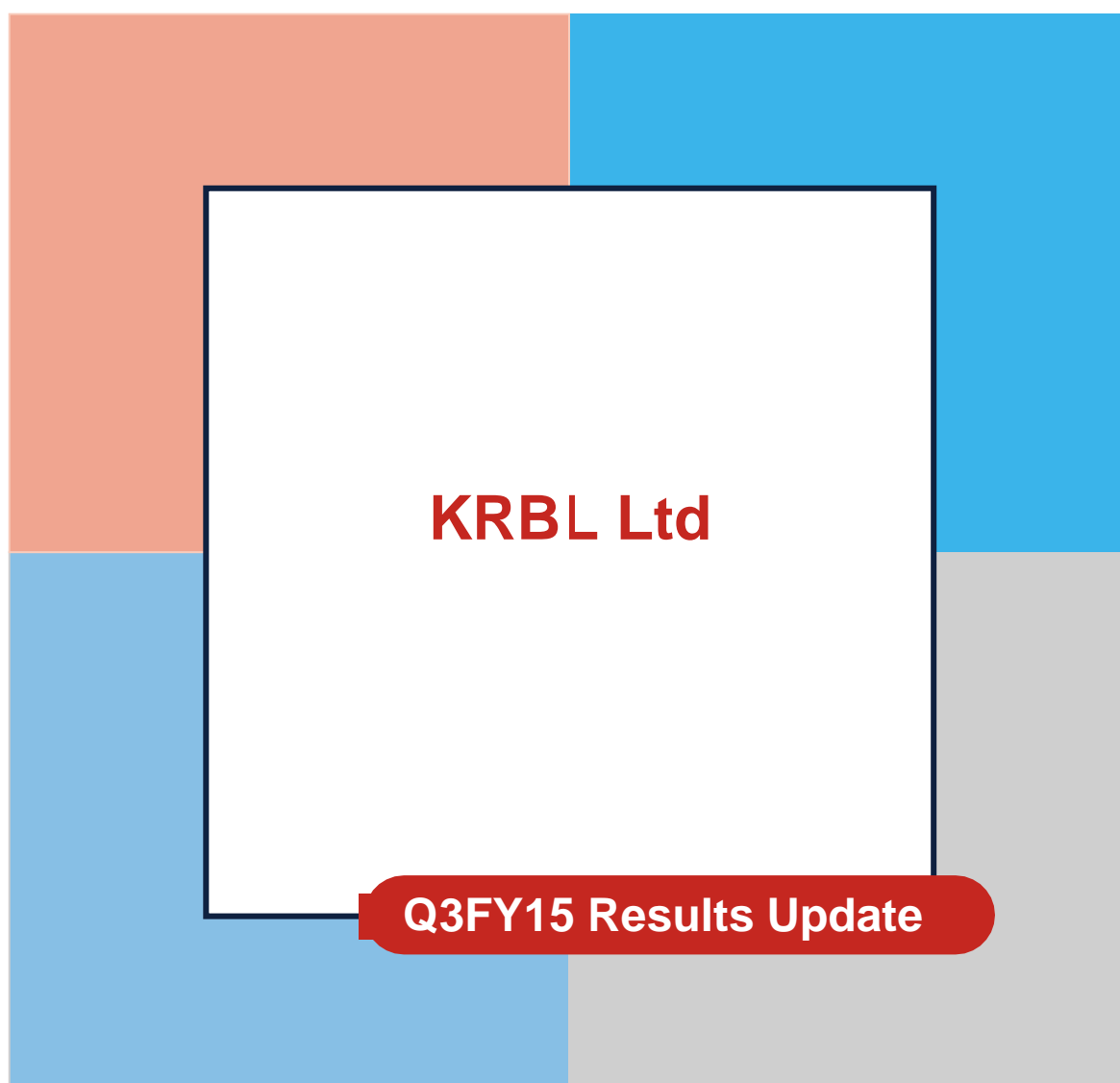




# WealthZap Financial Services



Enhancing investment decisions



Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	4/5 (CMP has upside)
Industry	Food Products

KRBL Ltd's Q3FY15 consolidated revenues were below but earnings exceeded CRISIL Research's expectations due to higher-than-expected margin and lower-than-expected tax outgo. Revenues grew 8.9% y-o-y and 9.4% q-o-q to ₹7.6 bn. Although EBITDA margin expanded by 199 bps y-o-y to 17.4%, it contracted 169 bps q-o-q due to higher promotion expenses and contribution from low-margin broken rice. Adjusted PAT increased 38% y-o-y (flat q-o-q) to ₹858 mn, above our expectations. Though, the current fall in paddy prices is expected to impact realisations in the near term, the company is expected to stock up inventory. We expect low-cost inventory to be ready to be sold as finished rice by H2FY16, which should aid operating margins. We maintain our fundamental grade of **3/5**.

### Realisations drove export revenues while volumes drove domestic rice revenues

The rice business' revenues grew 21.3% y-o-y driven by ~10% y-o-y increase each in volumes and realisations. Export revenues increased 23.5% y-o-y driven by 30% growth in realisations; exports' contribution to revenues increased marginally y-o-y to 41%. Domestic revenues increased 20% y-o-y driven primarily by volume growth of 17%; realisation growth was low at 3%. Since paddy prices have been down in the current season (₹25-30/kg) and KRBL sells most of its rice after one year of ageing, we expect realisations to stay muted and drop further beginning H2FY16. However, historically, a dip in prices has increased demand. Hence, any revenue loss due to lower prices is likely to be partially offset by an increase in volumes.

### EBITDA margin impacted by higher promotional expenses sequentially

EBITDA margin contracted by 169 bps q-o-q (up 199 bps y-o-y) to 17.4% owing to higher promotional expenses (higher discounts to dealers) and higher contribution from broken rice. Raw material cost to sales ratio increased by 168 bps q-o-q (down 314 bps y-o-y). While realisation growth may remain tepid in the near term, the company plans to stock up inventory for ~18 months - an all-time high. After ageing, low-cost inventory is likely to be ready to be sold as finished rice by H2FY16, which should boost operating margins; it is a monitorable.

### FY15-16 estimates revised; fair value increased to ₹165 per share

Factoring in higher-than-expected margin and lower-than-expected tax outgo, we have raised our FY15 EPS estimate to ₹13.5 from ₹12.3. We have reduced our FY16 EPS estimate from ₹14.7 to ₹14.5 to factor in the impact of expected subdued realisation on revenue growth. We continue to value KRBL based on a P/E multiple of 10x and increase our fair value to ₹165 per share on account of roll forward. At the current market price, our valuation grade is **4/5**.

### KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Operating income	20,741	29,053	31,452	36,085	40,738
EBITDA	2,943	4,415	5,395	5,773	6,740
Adj net income	1,300	2,505	3,190	3,416	3,896
Adj EPS (₹)	5.3	10.6	13.5	14.5	16.5
EPS growth (%)	28.9	92.8	27.3	7.1	14.0
Dividend yield (%)	0.6	0.9	1.0	1.0	1.2
RoCE (%)	14.5	18.6	20.1	20.2	20.6
RoE (%)	16.8	26.7	26.9	23.1	21.6
PE (x)	25.9	13.0	10.2	9.5	8.4
P/BV (x)	4.0	3.1	2.5	2.0	1.7
EV/EBITDA (x)	14.3	10.3	7.7	7.4	6.3

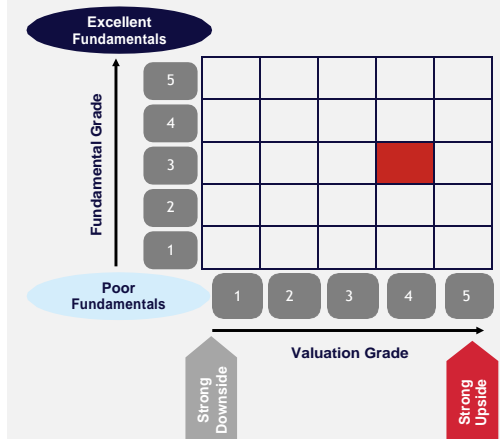
NM: Not meaningful; CMP: Current market price

Source: Company, WealthZap Research estimates

February 20, 2015

Fair Value ₹165  
CMP ₹138

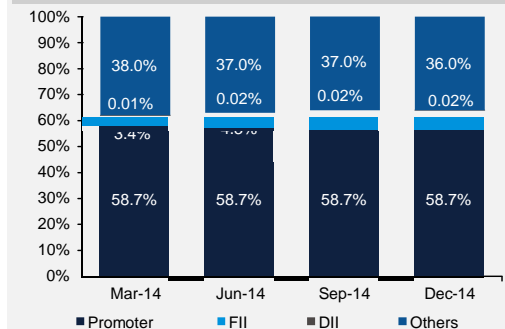
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY/SENSEX	8,833/29,231
NSE/BSE ticker	KRBL
Face value (₹ per share)	1
Shares outstanding (mn)	236
Market cap (₹ mn)/(US\$ mn)	32,568/524
Enterprise value (₹ mn)/(US\$ mn)	45,692/734
52-week range (₹)/(H/L)	140/42
Beta	0.5
Free float (%)	41.4%
Avg daily volumes (30-days)	333,143
Avg daily value (30-days) (₹ mn)	41

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

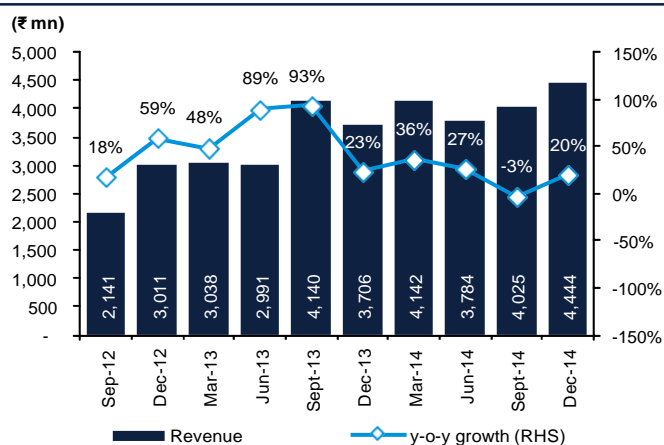
	Returns			
	1-m	3-m	6-m	12-m
KRBL	18%	39%	62%	214%
CNX 500	2%	6%	14%	53%

**Q3FY15 Results Summary (Consolidated)**

(₹ mn)	Q3FY15	Q2FY15	Q3FY14	q-o-q (%)	y-o-y (%)	9MFY15	9MFY14	y-o-y (%)
<b>Net sales</b>	<b>7,660</b>	<b>7,000</b>	<b>7,036</b>	<b>9.4</b>	<b>8.9</b>	<b>22,739</b>	<b>20,509</b>	<b>10.9</b>
Raw materials cost	5,679	5,072	5,437	12.0	4.4	16,870	15,792	6.8
Raw materials cost (% of net sales)	74%	72%	77%	168 bps	(314) bps	74%	77%	(281) bps
Other expenses	510	463	390	9.9	30.7	1,479	1,128	31.1
Employee cost	139	129	125	8.0	11.5	389	343	13.3
<b>EBITDA</b>	<b>1,332</b>	<b>1,336</b>	<b>1,084</b>	<b>(0.2)</b>	<b>22.9</b>	<b>4,002</b>	<b>3,246</b>	<b>23.3</b>
<b>EBITDA margin</b>	<b>17.4%</b>	<b>19.1%</b>	<b>15.4%</b>	<b>(169) bps</b>	<b>199 bps</b>	<b>17.6%</b>	<b>15.8%</b>	<b>177 bps</b>
Depreciation	123	128	153	(4.1)	(19.5)	414	424	(2.5)
<b>EBIT</b>	<b>1,209</b>	<b>1,207</b>	<b>931</b>	<b>0.2</b>	<b>29.9</b>	<b>3,589</b>	<b>2,822</b>	<b>27.2</b>
Interest and finance charges	157	159	193	(1.1)	(18.8)	606	438	38.4
<b>Operating PBT</b>	<b>1,052</b>	<b>1,049</b>	<b>738</b>	<b>0.4</b>	<b>42.6</b>	<b>2,982</b>	<b>2,383</b>	<b>25.1</b>
Other income	13	4	32	200.0	(58.6)	47	102	(53.9)
Extraordinary income/(expense)	(33)	(52)	89	NM	NM	(104)	(10)	NM
<b>PBT</b>	<b>1,033</b>	<b>1,001</b>	<b>859</b>	<b>3.1</b>	<b>20.2</b>	<b>2,925</b>	<b>2,475</b>	<b>18.2</b>
Tax	207	195	148	6.3	39.7	564	522	8.1
<b>PAT</b>	<b>825</b>	<b>806</b>	<b>711</b>	<b>2.3</b>	<b>16.1</b>	<b>2,360</b>	<b>1,953</b>	<b>20.9</b>
<b>Adj PAT</b>	<b>858</b>	<b>858</b>	<b>622</b>	<b>0.0</b>	<b>38.1</b>	<b>2,465</b>	<b>1,963</b>	<b>25.5</b>
<b>Adj PAT margin</b>	<b>11.2%</b>	<b>12.3%</b>	<b>8.8%</b>	<b>(105) bps</b>	<b>237 bps</b>	<b>10.8%</b>	<b>9.6%</b>	<b>127 bps</b>
No. of equity shares (mn)	236	236	236	-	-	236	236	-
<b>Adj EPS (₹)</b>	<b>3.6</b>	<b>3.6</b>	<b>2.6</b>	<b>0.0</b>	<b>38.2</b>	<b>10.5</b>	<b>8.3</b>	<b>25.6</b>

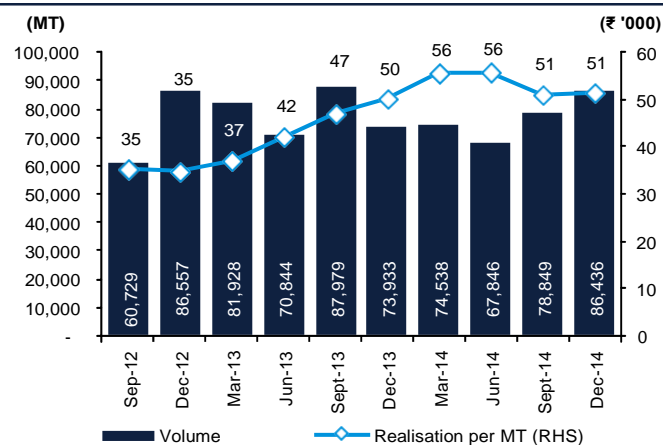
Source: Company, WealthZap Research

**Domestic revenues increased 20% y-o-y...**



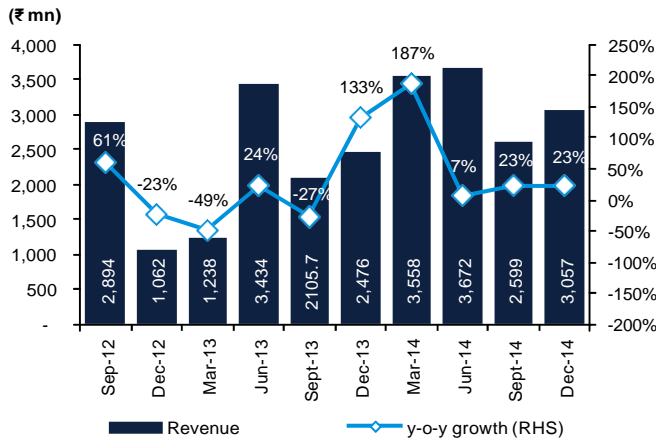
Source: Company, WealthZap Research

**...primarily driven by volumes**



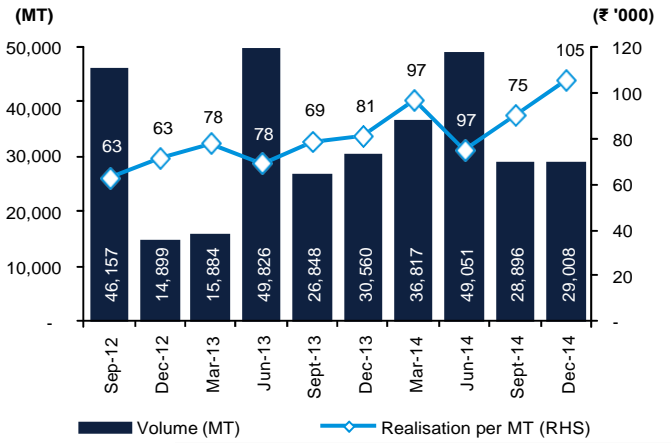
Source: Company, WealthZap Research

Export revenues grew 23% y-o-y...



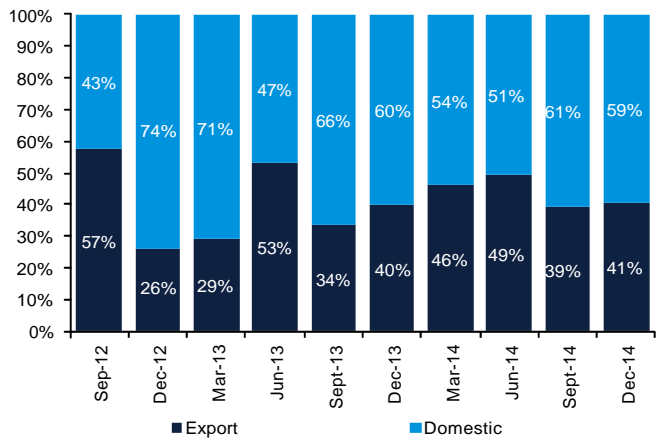
Source: Company, WealthZap Research

... driven by higher realisations



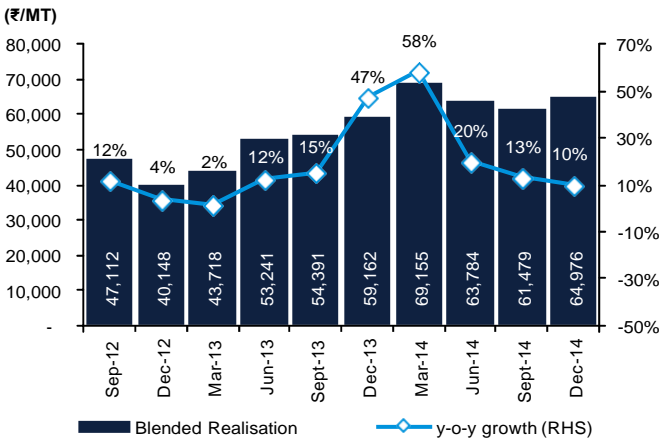
Source: Company, WealthZap Research

Share of exports remained flat y-o-y



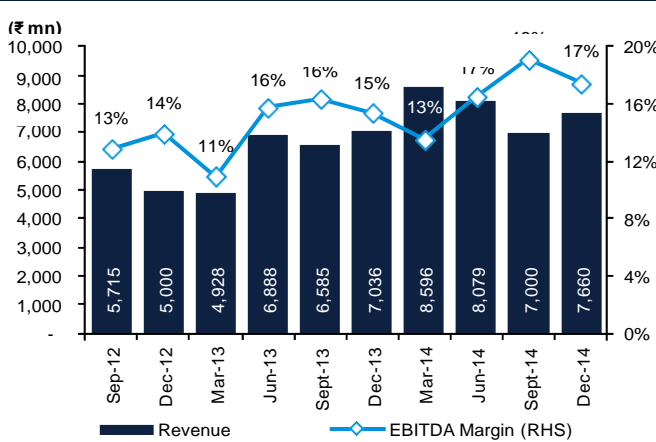
Source: Company, WealthZap Research

Blended realisation grew 10% y-o-y



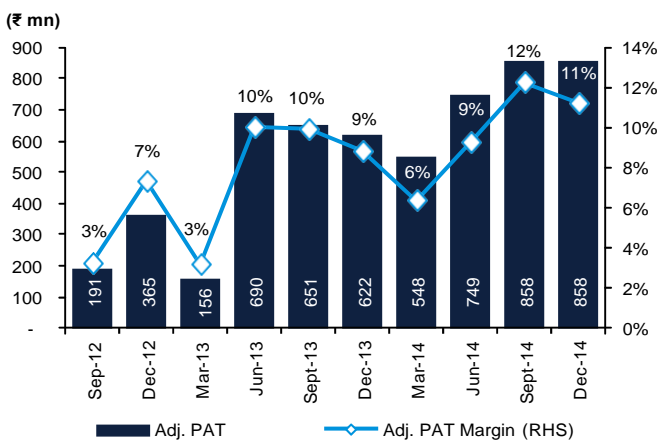
Source: Company, WealthZap Research

EBITDA margin declined sequentially...



Source: NSE, WealthZap Research

...so did adjusted PAT margin



Source: NSE, BSE, WealthZap Research

### Share price movement



-Indexed to 100

Source: Company, WealthZap Research

### Fair value movement since initiation



Source: Company, WealthZap Research

## Earnings Estimates Revised

Particulars	Unit	FY15E			FY16E			FY17E
		Old	New	% change	Old	New	% change	
Revenues	(₹ mn)	33,266	31,452	-5.5%	39,291	36,085	-8.2%	40,738
EBITDA	(₹ mn)	5,307	5,395	1.7%	5,897	5,773	-2.1%	6,740
EBITDA margin	%	16.0%	17.2%	115 bps	15.0%	16.0%	100 bps	16.5%
PAT	(₹ mn)	2,911	3,190	9.6%	3,472	3,416	-1.6%	3,896
PAT margin	%	8.7%	10.1%	144 bps	8.8%	9.5%	63 bps	9.6%
EPS	₹	12.3	13.5	10.0%	14.7	14.5	-1.4%	16.5

Source: WealthZap Research estimates

### Reasons for changes in estimates

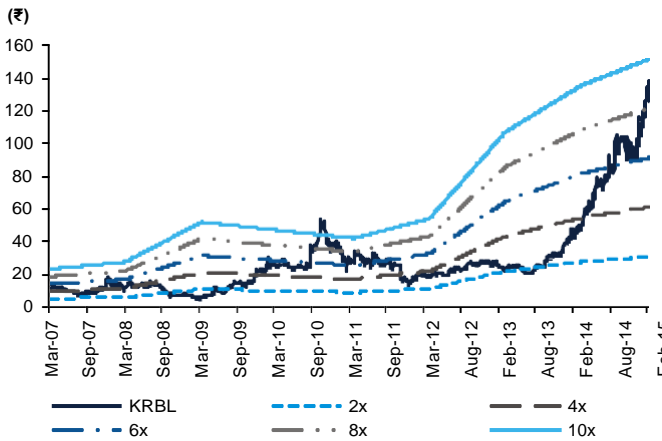
Line item	FY15E	FY16E
Revenues	Lowered as we expect realisation growth to be muted owing to sharp decline in paddy prices	
EBITDA margins	Raised to factor in a) higher-than-expected margins in 9MFY15 and b) lower-than-expected contribution from is the low-margin trading business	We expect the low-cost paddy (prices have declined ~25% in recent months) procured in FY15 to be ready as finished rice by H2FY16. This likely to aid operating margin expansion
PAT margins	Raised in line with revision in margin estimate and been lower-than-expected tax outgo	Reduced due to lowered top line, although its impact has partially offset by upward revision in operating margins

**Valuation**

**Grade: 4/5**

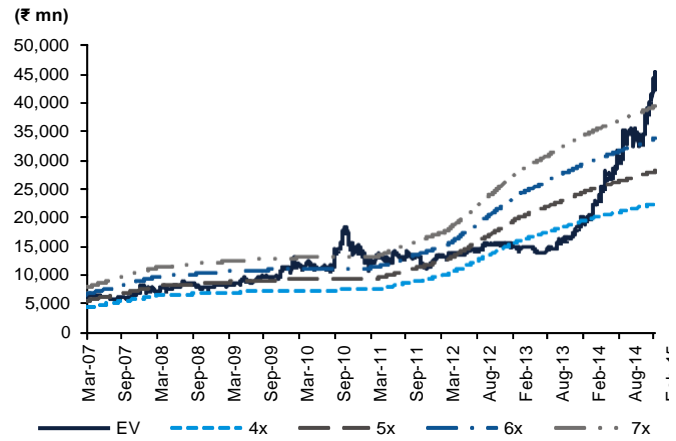
We have rolled forward our projections to FY17. Based on a P/E multiple of 10x applied to FY17 EPS estimate of ₹16.5, we have revised our fair value to ₹165 per share from ₹147. At the current market price of ₹138, the valuation grade is **4/5**.

**One-year forward P/E band**



Source: NSE, WealthZap Research

**One-year forward EV/EBITDA band**



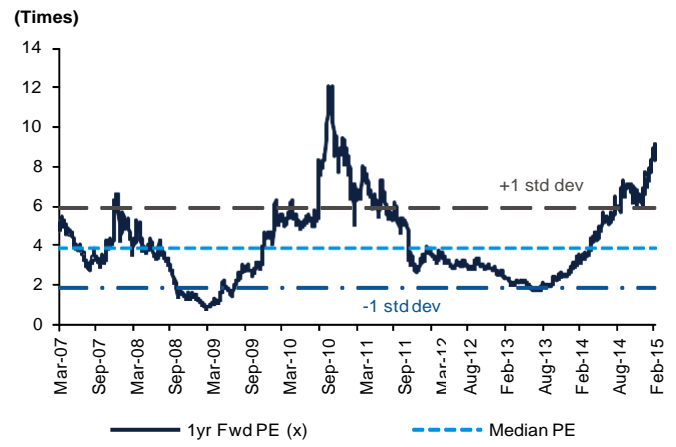
Source: NSE, WealthZap Research

**P/E – premium / discount to CNX 500**



Source: NSE, WealthZap Research

**P/E movement**



Source: NSE, WealthZap Research

**CRISIL IER reports released on KRBL Ltd**

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
11-Jan-10	Initiating coverage	3/5	₹34#	5/5	₹22#
01-Feb-10	Q3FY10 result update	3/5	₹34#	5/5	₹19#
02-Jun-10	Q4FY10 result update	3/5	₹34	5/5	₹24
19-Aug-10	Q1FY11 result update	3/5	₹32	5/5	₹24
22-Nov-10	Q2FY11 result update	3/5	₹45	4/5	₹38
24-Feb-11	Q3FY11 result update	3/5	₹39	5/5	₹24
20-Apr-11	Detailed Report	3/5	₹39	4/5	₹32
01-Jun-11	Q4FY11 result update	3/5	₹39	5/5	₹28
12-Aug-11	Q1FY12 result update	3/5	₹36	5/5	₹27
29-Nov-11	Q2FY12 result update	3/5	₹31	5/5	₹18
16-Feb-12	Q3FY12 result update	3/5	₹31	5/5	₹20
17-Apr-12	Detailed Report	3/5	₹31	5/5	₹20
12-Jun-12	Q4FY12 result update	3/5	₹31	5/5	₹19
21-Aug-12	Q1FY13 result update	3/5	₹31	5/5	₹22
12-Nov-12	Q2FY13 result update	3/5	₹33	5/5	₹26
11-Mar-13	Q3FY13 result update	3/5	₹35	5/5	₹24
11-June-13	Q4FY13 result update	3/5	₹35	5/5	₹24
17-Sep-13	Q1FY14 result update	3/5	₹35	5/5	₹24
03-Jan-14	Detailed Report	3/5	₹48	5/5	₹34
27-Jan-14	Q3FY14 result update	3/5	₹48	4/5	₹41
12-May-14	Q4FY14 result update	3/5	₹64	3/5	₹61
22-Sep-14	Detailed Report	3/5	₹147	5/5	₹100
28-Oct-14	Q2FY15 result update	3/5	₹147	5/5	₹98
20-Feb-15	Q3FY15 result update	3/5	₹165	4/5	₹138

#After adjusting for stock split of ₹10 to ₹1

## Annexure: Financials

### Income statement

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>Operating income</b>	<b>20,741</b>	<b>29,053</b>	<b>31,452</b>	<b>36,085</b>	<b>40,738</b>
<b>EBITDA</b>	<b>2,943</b>	<b>4,415</b>	<b>5,395</b>	<b>5,773</b>	<b>6,740</b>
<b>EBITDA margin</b>	<b>14.2%</b>	<b>15.2%</b>	<b>17.2%</b>	<b>16.0%</b>	<b>16.5%</b>
Depreciation	506	577	671	768	907
<b>EBIT</b>	<b>2,437</b>	<b>3,838</b>	<b>4,724</b>	<b>5,005</b>	<b>5,833</b>
Interest	694	760	878	748	772
<b>Operating PBT</b>	<b>1,743</b>	<b>3,078</b>	<b>3,846</b>	<b>4,256</b>	<b>5,061</b>
Other income	99	136	142	180	204
Exceptional inc/(exp)	(1)	46	-	-	-
<b>PBT</b>	<b>1,841</b>	<b>3,260</b>	<b>3,987</b>	<b>4,437</b>	<b>5,265</b>
Tax provision	542	709	797	1,020	1,369
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>1,299</b>	<b>2,551</b>	<b>3,190</b>	<b>3,416</b>	<b>3,896</b>
Less: Exceptionals	(1)	46	-	-	-
<b>Adjusted PAT</b>	<b>1,300</b>	<b>2,505</b>	<b>3,190</b>	<b>3,416</b>	<b>3,896</b>

### Ratios

	FY13	FY14	FY15E	FY16E	FY17E
<b>Grow th</b>					
Operating income (%)	27.8	40.1	8.3	14.7	12.9
EBITDA (%)	28.4	50.0	22.2	7.0	16.7
Adj PAT (%)	28.9	92.8	27.3	7.1	14.0
Adj EPS (%)	28.9	99.1	27.3	7.1	14.0
<b>Profitability</b>					
EBITDA margin (%)	14.2	15.2	17.2	16.0	16.5
Adj PAT Margin (%)	6.3	8.6	10.1	9.5	9.6
RoE (%)	16.8	26.7	26.9	23.1	21.6
RoCE (%)	14.5	18.6	20.1	20.2	20.6
RoIC (%)	12.6	16.9	18.3	17.7	17.4
<b>Valuations</b>					
Price-earnings (x)	25.9	13.0	10.2	9.5	8.4
Price-book (x)	4.0	3.1	2.5	2.0	1.7
EV/EBITDA (x)	14.3	10.3	7.7	7.4	6.3
EV/Sales (x)	2.1	1.6	1.3	1.2	1.1
Dividend payout ratio (%)	14.7	11.0	10.1	9.9	10.0
Dividend yield (%)	0.6	0.9	1.0	1.0	1.2
<b>B/S ratios</b>					
Inventory days	274	262	234	245	250
Creditors days	55	35	53	53	51
Debtor days	37	38	36	37	39
Working capital days	222	228	186	180	189
Gross asset turnover (x)	3.0	3.6	3.2	3.2	3.2
Net asset turnover (x)	4.7	5.7	5.1	5.2	5.5
Sales/operating assets (x)	4.7	5.5	4.9	5.1	5.5
Current ratio (x)	5.3	7.7	4.9	5.0	5.3
Debt-equity (x)	1.0	1.3	0.7	0.6	0.5
Net debt/equity (x)	1.0	1.3	0.7	0.6	0.5
Interest coverage (EBIT/Interest)	3.5	5.0	5.4	6.7	7.6
Interest coverage (EBITDA/Interest)	4.2	5.8	6.1	6.7	7.6

### Per share

	FY13	FY14	FY15E	FY16E	FY17E
Adj EPS (₹)	5.3	10.6	13.5	14.5	16.5
CEPS	7.4	13.1	16.4	17.7	20.4
Book value	34.1	44.3	56.2	69.0	83.6
Dividend (₹)	0.8	1.2	1.4	1.4	1.7
Actual o/s shares (mn)	244	236	236	236	236

### Balance Sheet

(₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>Liabilities</b>					
Equity share capital	242	236	236	236	236
Reserves	8,052	10,204	13,016	16,035	19,474
Minorities	9	9	9	9	9
<b>Networth</b>	<b>8,304</b>	<b>10,449</b>	<b>13,260</b>	<b>16,279</b>	<b>19,718</b>
Convertible debt	-	-	-	-	-
Other debt	8,703	13,795	9,445	10,545	10,045
<b>Total debt</b>	<b>8,703</b>	<b>13,795</b>	<b>9,445</b>	<b>10,545</b>	<b>10,045</b>
Deferred tax liability (net)	160	159	159	159	159
<b>Total liabilities</b>	<b>17,167</b>	<b>24,402</b>	<b>22,864</b>	<b>26,983</b>	<b>29,922</b>
<b>Assets</b>					
Net fixed assets	4,412	5,613	6,442	7,174	7,401
Capital WIP	188	334	334	334	-
<b>Total fixed assets</b>	<b>4,599</b>	<b>5,947</b>	<b>6,776</b>	<b>7,508</b>	<b>7,401</b>
<b>Investments</b>	<b>66</b>	<b>67</b>	<b>67</b>	<b>67</b>	<b>67</b>
<b>Current assets</b>					
Inventory	12,603	16,900	15,967	19,397	22,034
Sundry debtors	2,044	2,970	3,027	3,559	4,241
Loans and advances	631	578	950	1,090	1,222
Cash & bank balance	141	671	217	191	206
Marketable securities	-	-	-	-	-
<b>Total current assets</b>	<b>15,420</b>	<b>21,120</b>	<b>20,162</b>	<b>24,237</b>	<b>27,704</b>
<b>Total current liabilities</b>	<b>2,934</b>	<b>2,745</b>	<b>4,154</b>	<b>4,842</b>	<b>5,263</b>
<b>Net current assets</b>	<b>12,486</b>	<b>18,375</b>	<b>16,007</b>	<b>19,395</b>	<b>22,441</b>
<b>Intangibles/Misc. expenditure</b>	<b>15</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
<b>Total assets</b>	<b>17,167</b>	<b>24,402</b>	<b>22,864</b>	<b>26,983</b>	<b>29,922</b>

### Cash flow

	FY13	FY14	FY15E	FY16E	FY17E
Pre-tax profit	1,842	3,214	3,987	4,437	5,265
Total tax paid	(545)	(710)	(797)	(1,020)	(1,369)
Depreciation	506	577	671	768	907
Working capital changes	(176)	(5,356)	1,913	(3,414)	(3,031)
<b>Net cash from operations</b>	<b>1,626</b>	<b>(2,275)</b>	<b>5,774</b>	<b>771</b>	<b>1,772</b>
<b>Cash from investments</b>					
Capital expenditure	(807)	(1,924)	(1,500)	(1,500)	(800)
Investments and others	5	(1)	-	-	-
<b>Net cash from investments</b>	<b>(801)</b>	<b>(1,926)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(800)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	15	(125)	-	-	(0)
Debt raised/(repaid)	(676)	5,092	(4,350)	1,100	(500)
Dividend (incl. tax)	(191)	(281)	(378)	(397)	(457)
Others (incl. extraordinary)	(1)	46	-	-	-
<b>Net cash from financing</b>	<b>(853)</b>	<b>4,731</b>	<b>(4,728)</b>	<b>703</b>	<b>(957)</b>
Change in cash position	(27)	530	(454)	(26)	15
Closing cash	141	671	217	191	206

### Quarterly Financials

	3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
<b>Operating income</b>	<b>7,036</b>	<b>8,596</b>	<b>8,079</b>	<b>7,000</b>	<b>7,660</b>
Change (q-o-q)	7%	22%	-6%	-13%	9%
<b>EBITDA</b>	<b>1,084</b>	<b>1,160</b>	<b>1,335</b>	<b>1,336</b>	<b>1,332</b>
Change (q-o-q)	0%	7%	15%	0%	0%
<b>EBITDA margin</b>	<b>15.4%</b>	<b>13.5%</b>	<b>16.5%</b>	<b>19.1%</b>	<b>17.4%</b>
<b>PAT</b>	<b>711</b>	<b>598</b>	<b>729</b>	<b>806</b>	<b>825</b>
<b>Adj PAT</b>	<b>622</b>	<b>548</b>	<b>749</b>	<b>858</b>	<b>858</b>
Change (q-o-q)	-5%	-12%	37%	15%	0%
<b>Adj PAT margin</b>	<b>8.8%</b>	<b>6.4%</b>	<b>9.3%</b>	<b>12.3%</b>	<b>11.2%</b>
<b>Adj EPS</b>	<b>2.6</b>	<b>2.3</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>

Source: WealthZap Research



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