

KRBL LTD

PACKAGED FOODS

Q3FY18: Flattish domestic performance due to GST, Iran resumes imports

KRBL in Q3FY18 posted consolidated revenues of Rs 784 Cr. (down 2% YoY, up 10% QoQ), on account of GST related impact. However, due to company's brand strength, higher price realizations in domestic market and other efficiencies, led to KRBL posting EBITDA margins of 23% vs. 22.4% Y-o-Y. PAT was Rs 123 Cr. (up 11% YoY, down 19% QoQ) due to lower finance costs. The average realizations stood at 59 Rs/kg vs. 48 Rs/kg YoY.

KRBL due to its financial strength and storage capability has an inventory worth Rs 2,606 Cr (paddy and rice) which provides revenue visibility.

As prices of paddy stabilize and with Iran having resumed Basmati rice imports, demand is expected to pick up and falling prices are likely to be arrested. Its volume and revenue impact will be seen in FY19E.

Valuations

We believe that with GST impact getting normalized and changes in consumer preference towards branded Basmati rice in domestic market, also with Iran resuming purchases and entry into premium health foods segment, augurs well for KRBL's earnings. Due to market leadership position and strong pricing power, we value KRBL at 19x FY20E EPS and we recommend BUY with a Target Price of Rs 530.

Key Highlights

- Domestic market affected due to GST impact:** Domestic market volumes in Q3FY18 stood at 84,058 mT (↓30% YoY) due to KRBL's products becoming liable for GST payments after clarity on GST on registered brands. However, domestic realizations increased from 39 Rs/kg in Q3FY17 to 55 Rs/kg in Q3FY18. Thus in value terms, it recorded Rs 460 Cr. (↓2.7% YoY). Also paddy prices have increased by ~20% QoQ to Rs 38 Rs/kg, thus KRBL as well as rice importers would adopt a wait and watch policy for restocking and imports respectively. KRBL's paddy average inventory price stood at Rs. 32 Rs/kg. We expect paddy prices to stabilize in the near term. 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.

FINANCIAL SUMMARY

Y/E	Sales	EBITDA	PAT	EPS	Change	P/E	RoE	RoCE	EV/E	DPS
March	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(%)	(x)	(%)	(%)	(x)	(Rs)
FY17	3149	644	399	17.0	-	-	29.3	37.2	-	2.1
FY18E	3401	788	468	19.9	17.1	22.1	26.4	37.5	12.5	2.1
FY19E	3809	898	546	23.2	16.8	18.9	24.5	34.7	10.6	2.1
FY20E	4323	1043	648	27.5	18.7	15.9	23.4	33.1	8.9	2.1

Source: Company and Axis Securities

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BUY

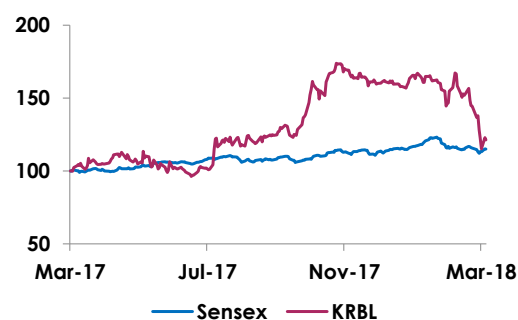
Target Price: Rs 530

CMP	: Rs 462
Potential Upside	: 15%
Relative to Sector	: Outperform

MARKET DATA

No. of Shares	: 23.54 Cr
FV (Rs)	: 1
Market Cap	: Rs 10334 Cr
52-week High / Low	: Rs 673 / Rs 370
Avg. Daily vol. (6mth)	: 127,102 shares
Bloomberg Code	: KRB. IN
Reuters Code	: KRBLNS
BSE Code	: 530813
NSE Code	: KRBL

PRICE PERFORMANCE



- Iran resumes imports, to contribute in coming quarters:** KRBL's basmati rice export volumes in Q3FY18 stood at 32,201 mT (↓3%YoY). In value terms, it recorded Rs 239 Cr. with realizations at 74 Rs/kg. Non-basmati rice which forms a small part of exports saw a huge jump in volumes as well as realizations thus recording Rs 11 Cr revenues (↑77%YoY). 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, Iran has resumed purchases in Q3FY18 and is expected to contribute in coming quarters for KRBL. As prices of paddy stabilize and with Iran resuming Basmati rice imports, demand is expected to pick up and falling prices are likely to be arrested. Its volume and revenue impact will be seen in FY19E.
- Revenue visibility:** KRBL's paddy stock at the end of Q3FY18 stood at 4,20,000 mT valued at Rs 1,344 Cr and rice inventory of 3,17,000 mT valued at Rs. 1262 Cr. This provides revenue visibility and overall we expect the revenues and profits for KRBL to grow at 11% and 17% CAGR respectively over FY17-20E with EBITDA margins maintained at 22-24%.
- 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. 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			
	Q3FY18	Q3FY17	% Change (YoY)	Q2FY18	% Change (QoQ)	FY17	FY18E	FY19E	FY20E
Sales	784	798	(2)	715	10	3149	3401	3809	4323
Other Op. Inc	0.0	0.0		0.0		0	0	0	0
Total Revenue	784	798	(2)	715	10	3,149	3,401	3,809	4323
Expenditure									
Net Raw Material	531	555	(4)	459	16	2212	2272	2537	2866
Employee expenses	20	18	15	18	15	72	80	90	101
Other Exp	52	46	11	52	0	204	241	263	292
Total Expenditure	603	619	(3)	529	14	2505	2613	2911	3281
EBIDTA	180	179	1	187	(3)	644	788	898	1043
NPM(%)	23.0%	22.4%		26.1%		20.4%	23.2%	23.6%	24.1%
Oth. Inc.	4.2	1.8		1.0		10.3	14.0	13.0	14.0
Interest	-4.0	14.9		13.9		55	57	60	57
Depreciation	16.8	15.8	6	16.9	(0)	61	67	71	74
PBT	172	150	15	157	10	538	678	780	926
Tax	48.9	39.1	25	53.6	(9)	138	210	234	278
PAT	123.0	110.9	11	103.3	19	399	468	546	648
EPS (Rs.)	5.2	4.7		4.4		17.0	19.9	23.2	27.5

Source: Company, Axis Direct Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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