KRBL Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1072	1199	-10.65%	1334	-19.64%	4521	4134	9.35%
PBT	201	196	2.93%	212	-4.81%	759	733	3.47%
PAT	150	137	9.71%	159	-5.72%	559	503	11.16%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1072	1200	-10.65%	1334	-19.62%	4522	4136	9.33%
PBT	201	197	1.82%	211	-4.92%	758	733	3.35%
PAT	150	139	8.05%	159	-5.86%	558	503	10.97%

Detailed Results:

1. The company had a modest quarter with an 11% decline in consolidated revenues and a 2% rise in PBT at a consolidated level.
2. PAT rose 8% YoY mainly on account of the new reduced tax regime.
3. FY20 numbers were good for the company with a 9% rise in revenue and an 11% rise in profits for the year.
4. The borrowings for the company went down drastically from Rs 1428 Cr in Q4FY19 to Rs 496 Cr in Q4FY20.
5. The revenue distribution in Q4 & FY20 are as follows:
    1. India: (Q4 51.82% vs 47.56% last year) (FY20 51.05% vs 51.25% last year)
    2. Export: (Q4 46.23% vs 50.6% last year) (FY20 46.32% vs 45.63% last year)
    3. Energy: (Q4 1.95% vs 1.84% last year) (FY20 2.62% vs 3.12% last year)
6. ROCE for the company improved to 22.72% in FY20 vs 19.32% last year.
7. Book value per share increased to Rs 132 in FY20 vs Rs 115 in FY19.
8. Net debt to equity was reduced to 0.14 in FY20 from 0.52 in FY19.
9. The debt for the company keeps changing and follows a wave pattern with the bottom at H1 each year.
10. Most of the debt for the company is in the form of working capital, which starts rising with the commencement of procurement of paddy in H2 every year. But the company is working to lower the highs of each new wave by financing the working capital through internal cash generation.

Investor Conference Call Details:

1. The inventory level for the company stood at Rs 2852 Cr.
2. The company had to shut down operations for only 3-4 days during the lockdown as it gained permission from the government as a food industry participant.
3. The company associated with Swiggy and Zomato for doorstep delivery of its products.
4. The management remains optimistic about reaching revenues of Rs 8000 Cr in the next 4-5 years.
5. The challenge that the company is facing currently is the fall in breakbulk cargo per day from 5000 tons to 800-900 tons per day. Thus the loading and shipping times are getting stretched.
6. Export orders are going well and the company has been able to overcome all issues regarding logistics and packing that they faced at the start of the lockdown.
7. The company expects to make shipments for the equivalent of 5 months in the next 2-3 months which should bring in strong momentum.
8. In the domestic sales for the company around 30% is from institutional buyers in the catering industry. The customers from this segment are expected to start buying in the next 30-60 days.
9. The management is expecting a volume growth of 5-10% in FY21.
10. The management is aiming to make the company debt-free for at least 6-7 months of each year. Currently, it is debt-free for only 2 months.
11. The management expects the company to make investments in regional rice and investments in inventory in the next 2-3 years.
12. The company is looking at the premium market only at the current moment. The potential market size is expected to be around 40000-50000 tons.
13. In terms of e-commerce players, Big Basket and Grofers contribute the most to the company sales.
14. The management has assured that there should not be any shortage in the export destinations of the company in the Middle East since most of the distributors there keep stock of up to a year which is sufficient to cover till exports normalize. So these sellers are expected to be selling old stock all the way till October at least.
15. The main area where the company has lost sales is in the domestic catering industry which is expected to be around 30% of domestic sales in Q1.
16. The company is indeed moving forward with demerging the power generating segment and will not be selling it outright to bidders.
17. The average realization per kg for exports is expected to be stable at around Rs 90.
18. All of the domestic sales are branded while in exports 75% is branded and 25% is private label. Thus in total, 85-90% sales are branded while the rest 10-15% is private label.
19. The company will not be looking into a buyback since all the cash generated is expected to be used in inventory to reduce the inventory loans.
20. The average procurement price for paddy is Rs 28934 per ton and for rice, it is Rs 48021 per ton.
21. The average realization overall is expected to be around Rs 68.
22. The management has indicated that to reach revenues of Rs 8000 Cr the company has to have at least Rs 4000 Cr in inventory.
23. The incremental cash profit generated by the company in FY20 was Rs 630 Cr.
24. The company is targeting Rs 5000 Cr in revenues in FY21.
25. The management maintains that the company remains focused on maintaining its market share and profit margins in the USA and will not compromise on its margins to chase volumes.
26. The company is not keen on expanding business from Iran as the payment process remains problematic and opaque.
27. The company is carrying around 427000 tons of paddy and 314000 tons of rice in inventory.

28. The management has stated that the main reason for the drop in paddy prices is excess supply in the market due to increased acreage.
29. The management has no doubt about the pricing power of the company since basmati is a niche product.
30. The market share of India Gate in the USA is around 10%.
31. The company now exports to 280 countries. It exports in private label only in Iraq and Iran.
32. The company has more than 100,000 acres of land under contract farming.
33. The new law changes regarding APMC fees is expected to increase the company's bottom line by Rs 20-25 Cr.
34. The management has stated that the reason for EBITDA margin appreciation in Q4 was that 100% of all sales were branded and no private-label business was done in the quarter.
35. The overall negative impact from COVID-19 in Q4 was around Rs 100-150 Cr in revenues.

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 in FY20 despite the setback in Q4 from COVID-19. The only major loss to the company in Q4 was from loss of domestic orders while export orders merely got delayed. The company is doing well to reduce its dependence on working capital loans and to develop into regional rice and other avenues. It remains to be seen how the company will evolve to the new packing and shipping norms due to COVID-19 and whether this will prove to be a stumbling block in its way to its target of annual revenues of Rs 8000 Cr. 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.