



5 MINUTE STOCK IDEA

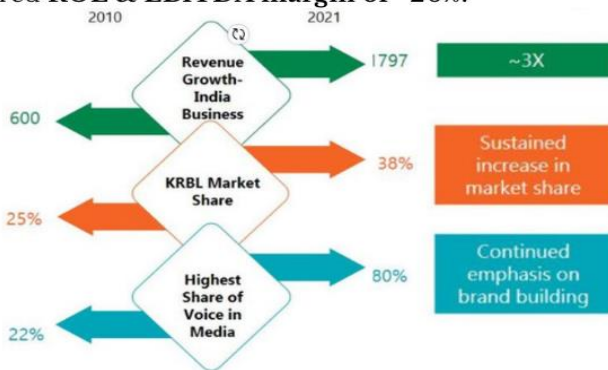
BY SMART SYNC INVESTMENT ADVISORY SERVICES

KRBL LIMITED

WHAT WE LIKE

LONG ESTABLISHED TRACK RECORD & RESILIENT BALANCE SHEET

KRBL is the largest exporter of basmati rice in the world. At 195 MT/hour, it has the largest rice milling capacity in the world. It also the market leader in the Indian basmati market with the "INDIA GATE" brand. KRBL has also built an enviable balance sheet with net debt to equity at 0.04, current ratio at 4.68 as of FY21, and has also delivered ROE & EBITDA margin of ~20%.



MASSIVE POTENTIAL FROM UNORGANIZED AND REGIONAL RICE MARKETS

Around 60% of the consumption of basmati rice in India is served by the unorganized sector. But given rising living standards, demand for branded products is rising in the entire FMCG sector particularly in foods. KRBL has massive scope for expansion from this shift to branded basmati rice as it is the market leader with ~44% market share. Similarly, regional specialty rice like gobindbhog, sona masoori and others have a market size of ~6-8 times the size of the basmati market in India in terms of volumes. This untapped market is another big opportunity for KRBL who has long established itself as the leader in the branded rice space.

BIG EXPORT POTENTIAL FROM GI TAG

KRBL exports 2 main brands-"INDIA GATE" & "Nur Jahan". Both these brands are market leaders in the Middle East, Africa, and Australasia.

This export potential can be boosted even further once India obtains the GI tag for Indian basmati.



WHAT WE DON'T LIKE

HIGH WORKING CAPITAL INTENSITY

To improve the quality of rice and attract premium pricing, KRBL stores the rice for aging. However, Basmati paddy is available only in a particular season of the year. Hence, inventory levels of the company are very high and lead to high working capital intensity. On the flip side though it also acts as a barrier to entry for newer and smaller players.

HIGHLY COMPETITIVE INDUSTRY

The Basmati rice industry is highly fragmented with numerous small players. This intensifies competition and limits the pricing flexibility of industry players. Unorganized players, operating at low margins and accounting for nearly 60% of the Basmati market, also pose a threat to the large organized players. Non-inclusion of unbranded rice products in GST has further compounded the situation.

RISK FROM DAMAGE TO CROP & INVENTORY

Being an agricultural commodity, there are various factors like plant diseases, weather & natural disasters which can adversely impact plant yield. Also, as paddy is a perishable good, fluctuation in the market prices may lead to lower offtake which in turn can lead to inventory loss.

RISK FROM EXTERNAL POLICY CHANGES

European Union (EU) and Middle-Eastern countries like Iran & Saudi Arabia are some of the biggest importers of Basmati rice from India.

The tightening of pesticide residue parameters has led to a decline in exports to the EU and a fall of ~50% in KRBL's market share in the region.

Iran used to be the biggest export market for Indian basmati. But exports to Iran plummeted due to the US trade sanctions. The export potential of the market for basmati also hit hard and now there are hardly any players exporting to the region.

REPUTATIONAL RISK FROM THE JOINT MD

KRBL suffered massive reputational damage which led to a freefall in stock price when the ED brought up charges of money laundering against the Joint MD Anoop Kumar Gupta in the Agusta Westland case. Although Mr. Gupta has been granted bail for health reasons, he has not been fully acquitted of the charges yet. Thus any adverse developments here may result in denting investor confidence.

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