

E:KRBL/BIBHU/STK_EX_1920/95
07 February 2020



The General Manager Department of Corporate Services BSE Limited Floor 25, Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001	✓	National Stock Exchange of India Limited “Exchange Plaza”, C-1, Block-G Bandra-Kurla Complex Bandra (E) Mumbai-400051
Scrip Code: 530813		Symbol: KRBL Series: Eq.

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on Wednesday, 29 January 2020

Pursuant to the provisions of Regulation 30 read with Para A of Part A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”), please find enclosed herewith the transcript of Earnings Conference Call held on Wednesday, 29 January 2020.

This is for your information and record.

Thanking you,

Yours Faithfully,
For KRBL Limited

Raman Sapra
Company Secretary

Encl.: As Above.



KRBL Limited' Q3 & 9MFY20 Earnings Conference Call Transcript January 29, 2019

Call Duration : 70 mins 27 secs

Management Speakers : Mr. Anil Kumar Mittal, Chairman & Managing Director
Mr. Mr. Anoop Kumar Gupta, Joint Managing Director
Mr. Mr. Rakesh Mehrotra, CFO

Participants who asked questions

Jayant Momania- CARE Portfolio Managers
Akash Shah- AMS Securities
Nitin Awasthi- East India Securities
Prateek Giri- Emerge Capital
Varun Goenka- Nippon Mutual Fund
Manish Bhandari- Vallum Capital
Anish Jobalia- Banyan Capital
Tiruth Muchhala- Elusive Idea Advisory
Rajeev Agrawa- DoorDarshi Advisors
Dikshit Mittal- Subhkam Ventures
Kush Gangar- CARE Portfolio Managers
Karan Chopra- Individual Investor
Shubankar Ojha- SKS Capital
Manan Patel- Equirus PMS
Sachit Khera- Smart Equity

Moderator: Ladies and Gentlemen, Good day and Welcome to the KRBL Limited Q3 and 9M FY20 earnings conference call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, Sir.

Siddharth Rangnekar: Thank you. Welcome to KRBL's Q3 and 9M FY20 earnings conference call for analyst and investors. Today, we are joined by senior members of the management team including Mr. Anil Kumar Mittal – Chairman & Managing Director; Mr. Anoop Kumar Gupta – Joint Managing Director; and Mr. Rakesh Mehrotra – Chief Financial Officer.

We propose to commence with an update on the financial performance by Mr. Rakesh Mehrotra. Thereafter we will have Mr. Anoop Kumar Gupta sharing his perspectives. After the opening remarks from the management, the forum will be open for an interactive question and answer session.

A cautionary note, certain statements that may be made on today's conference call could be forward looking in nature and actual results could vary from these statements. A detailed statement in this regard is available on KRBL's Q3 and 9M FY20 investor presentation, which has been shared to you earlier. I would now like to invite Mr. Rakesh Mehrotra, thank you and over to you, Sir.

Rakesh Mehrotra: Thank you, Siddharth. Good Afternoon everyone and thank you all for taking out time to join us on our Q3 and 9M FY20 earnings conference call. I am sure all of you would have gone through the result documents circulated earlier, which are available on the stock exchanges and also on our website for your easy reference. During the quarter under review, we demonstrated a strong performance where our consolidated revenue from operations stood at Rs. 1329 crore as compared to Rs. 936 crore in the same period last year representing a growth of 42%. Export contribution to the top line stood at 49% as against 36% in the corresponding period last year. EBITDA came in at Rs. 243 crore higher by 17% versus Rs. 208 crore in Q3 of the same period last year. PBT for Q3 FY20 increased by 29% to Rs. 211 crore as compared to Rs. 164 crore in the same period last year. PAT stood at Rs. 159 crore in Q3 FY20 up by 48% as against Rs. 107 crore in Q3 FY19.

Moving to the nine-month period, we reported a consolidated revenue from operations at Rs. 3437 crore a growth of 18%. Exports contribution to revenue stood at 46% versus 42% in 9M FY19. EBITDA came in at Rs. 655 crore as compared to Rs. 631 crore in the same period last year. PBT for the nine-month period stood at Rs. 557 crore as against Rs. 535 crore in nine months period FY19. PAT was also at Rs. 409 crore higher by 12% as compared to Rs. 364 crore. The cash generated over the last 12 months has helped us significantly reducing our working capital debt as of December 31, 2019, which stood at Rs. 820 crore as compared to Rs. 1520 crore as on December 31, 2018, whereas our inventory levels peaked at Rs. 3072 crore at the end of Q3 FY20 owing to paddy procurement between October and December 2019. This compared to Rs. 3365 crore at the end of the same period last year. The road ahead appears promising for us and we will continue to drive sustained performance with focus on maintaining strong balance sheet and further leveraging our brand.

With this, I now hand over the call to our Joint Managing Director, Mr. Anoop Kumar Gupta, for his prospective.

Anoop Kumar Gupta: Thank you, Mr. Mehrotra. I welcome you all to KRBL's Q3 and 9M FY20 earnings conference call. We reported encouraging performance during the quarter under review led by our keen focus on business fundamentals. Performance in Q3 was further supported by shift of some shipments from Q2 to Q3, which was stuck at the port due to delay in obtaining the LC. Overall, I believe that we are best positioned to deliver solid performance over the next few years given the opportunity. India has been one of the top exporters in the global rice market accounting for more than 20% of the global exports and this is expected to increase going forward. As you would be aware, we have set a milestone of achieving Rs. 8000 crore of top line in the next four to five years and I am glad to share that we are moving in the right direction led by healthy demand in both domestic and international markets as well as our unique positioning within that. With that, I would request the moderator to open the floor for Q&A.

Moderator: Thank you, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Jayant Momania from CARE Portfolio Managers. Please go ahead.

Jayant Momania: Sir, the domestic sales have grown by 12%, so what was the volume growth and how is the outlook for the coming quarter?

Rakesh Mehrotra: For domestic, volumes have grown from 95,541 metric ton to 108,007 metric ton, so in value terms it has grown 13%.

Jayant Momania: And how is the expected volume growth going forward?

Management: For Q4 FY20, we are expecting the same as we have done in the third quarter and we are doing very well.

Jayant Momania: Sir, in case of exports our average export on quarterly basis is around Rs. 300-330 crore, so this was an exceptional quarter because of the shifting of one of the consignment, so what kind of export growth do we expect going forward?

Anil Kumar Mittal: Export growth actually to give the absolute numbers or percentage would be difficult because there are two-three distributed areas as far as export is concerned, one is Europe and the other is Iran. Iran has always remained for last 10 years the premium place for exports and we export around 32%-33% of the country's export. Whereas in Europe the total exports were to the tune of about 330,000-340,000 tons which has come down to 120,000-125,000 tons and in the month October and November, there are no shipment which have gone to Europe because day by day they are becoming more stringent as far as pesticide residues are concerned. As far as Iran is concerned, let me tell you as an exporter, there is good news; there is a shortage in the market. Prices are going high in the domestic market, they require rice and except India today because of our payment mechanism nobody can supply them any type of grains. They have acquired some grains from Russia of 2 million tons, but I have been given to understand that payment also went by squaring Russian Rupee payment with the Iranian Rupee payment because we had to give Russia some Rupee payment, hence it was squared through that mechanism. So if today, let us say, this money mechanism is opened and Trump does not give any negative remarks, I am 100% confident that this year also Iran will buy because they require rice, they require minimum 1.4-1.5 million tons for their consumption and they do not have any other source, so biggest question mark is, where the numbers cannot be mentioned or told if that what will happen in the next 2 to 4 months with Iran, otherwise, the things are everywhere. Let me tell you this year for example looking to the prices, we understand that Saudi is going to import 20% more, same is the whole Middle East, everybody is thinking that whatever are the today's prices prevailing in the market,

they will not come again and we are doing exceptionally well in rest of the Middle East countries.

Jayant Momania: Sir, total exports for nine-month is higher by 30%, from Rs. 1230 crore to Rs. 1590 crore, so is it because of Iran or we have achieved growth in Saudi Arabia and other Middle East countries?

Anil Kumar Mittal: No, it is altogether. We have done well because our brands are doing very good and we are an FMCG company the demands of the brands are also good. We are doing Iran business. along with other businesses. We were quite aggressive because the ultimate aim of the company was to ensure revenue growth along with the bottom line, which we have done good by achieving an increase of 17%.

Jayant Momania: Sir, how are the paddy price this year?

Anil Kumar Mittal: Paddy prices this year as on date is Rs. 28,000 to Rs. 29,000 a ton for 1121, Rs. 36,000 to Rs. 37,000 a ton for Basmati, and Pusa Basmati 1041, they are around Rs. 24,000-Rs. 25,000 a ton and they are lower by minimum 20% over last year.

Jayant Momania: Sir, I could not get that stock inventory figures, can you repeat that as on December 31st this quarter and the corresponding quarter?

Rakesh Mehrotra: We are carrying a total inventory of Rs. 3072 crore as on December 31, 2019. As of December 31, 2018, it was Rs. 3363 crore. As Anilji said the prices are down though we have almost same quantity, but the value is less, the purchase is cost less than that.

Moderator: Thank you. We have next question from the line of Akash Shah from AMS Securities. Please go ahead.

Akash Shah: Sir, there has been a consistent drop in the gross profit margin, so what is the reasons for that?

Anoop Kumar Gupta: Drop in the margin if you see, the valuation of the stock has come down by 20% in this quarter compared to the last year crop and my EBITDA is just down by 1.5% to 2%. You see we have done so well in the market where the prices are less by 20% and our EBITDA get a dip of only 1.5%-2%. According to us, we have done a remarkable job.

Akash Shah: Is this the new normal or do you see any revision or upward movement?

Anoop Kumar Gupta: Now, definitely the stock is valued at the current price naturally in the coming quarters our EBITDA will be again +20.

Akash Shah: My second question was there is a sharp drop in the price realization in the export market, what was the reason behind that?

Anil Kumar Mittal: There were two main reasons. First of all, if you compare to last year, the prices have been dropping since January-February of the last year and continued up till now. The prices in the international market are still dropping, so many a times you have to sell the goods as per the market trend, but in our space our majority share is of the branding so there will not be much of difference. But the main difference came because we sold a bulk quantity this year to Iran and also to the Government of many other countries respectively. That is why the realization has dropped and that is the reason of EBITDA also coming down.

- Akash Shah:** So the composition was of the lower price product and the overall market price has also decreased?
- Anil Kumar Mittal:** It is quality also, let me tell you, today also Basmati has been sold right from \$800 to \$2000, My India Gate Classic is sold at \$2000 and there is a variant of Basmati rice which is sold at \$800 to \$900, it all depends. We cannot generalize with Basmati because there are blends of Pusa with 1121, traditional with Pusa, Basmati as just Basmati. I am not talking admixture, so there are two things, one is overall price pressure because of the new crop and other is that there are various variants and various brands which fetch different prices at different profit margins.
- Akash Shah:** That is what I am asking, in the sales composition, the contribution from the lower price products has increased compared to higher price products?
- Anil Kumar Mittal:** A few percentage, you are right, if you compare to the lower price products the percentage would be higher.
- Akash Shah:** Have we exported anything to Iran in Q3?
- Anil Kumar Mittal:** Yes, we have exported to Iran and you will be surprised in spite of so much bad news coming in from the media, there is not a single dollar which is pending in Iran of KRBL, we have received 100% payment.
- Moderator:** Thank you. We have the next question from the line of Nitin Awasthi from East India Securities. Please go ahead.
- Nitin Awasthi:** Sir, just one question regarding the noise which was being made by one of the newspapers about a cess which being levied on Basmati rice that is the development of Pusa which the Government had a hand in and that they would not benefit in form of royalty on that rice, your thoughts on the same?
- Anil Kumar Mittal:** I am hearing this for the first time what you are telling. There is no sort of control whatsoever neither there is any MSP. There is nothing of the Government and that it is completely a free-trade commodity. There is no Government interference whatsoever neither I have heard any news that you are telling me, nor it is in the media or in the Ministry. I go to Ministry often, but I have not heard this.
- Moderator:** Thank you. We have the next question from the line of Prateek Giri from Emerge Capital. Please go ahead.
- Prateek Giri:** Sir, we recently saw a brand positioning from KRBL in the trendy YouTube segment where we have been seen KRBL in a high metabolism rice or that variety being advertised there. This is very commendable, so I just wanted to get your sense on the same was there a change in strategy of our brand positioning because prior to this, we were mostly into the biryani segment and we used to advertise ourselves as a biryani rice leader. But now we have seen a very positive advertisement and have seen the brand positioning strategy change, so some color on this, are we targeting youth or what is the strategy in this segment?
- Anil Kumar Mittal:** This is a health segment; it is not that biryani is going separately. This is a brown rice segment which we are advertising and we are getting very good response. We are marketing this product in 1 kilo jar and the response is phenomenal and we are selling this to gyms also. There are two types of brown rice, one is the Basmati and one is non-Basmati, so we are advertising that. It is not a strategy; it is the strategy of a particular SKU. It has nothing to do with losing out on the biryani rice we are also doing very well in biryani also.

Moderator: Thank you. We have next question from the line of Varun Goenka from Nippon Mutual Fund. Please go ahead.

Varun Goenka: Sir, I have three questions, one on our non-Middle East volume growth, how is that trending or how is that responding?

Anil Kumar Mittal: If you look at India's total exports as on date including the Persian Gulf, we have about 76% share of the Middle East including Persian Gulf and 24% in rest of the world, which includes Europe, America, African far East and part of the African East Coast and West Coast, so that is the total quantity what we are doing. It means our focus of KRBL as far as export is concerned it is always on the Middle East including the Persian Gulf. Now, the only concern in export is the Iran and Europe business. Iran is quite positive, we sometimes get so good news because recently 15 days back, there was a shortage of rice in Iran, people are demanding rice, prices have increased in the domestic market for which the Iranian Government is also concerned, so they cannot afford to not import rice whether they import from me or from somewhere else. Now Basmati is not available somewhere else, so their eyes is only on India, the only thing is they want to request the Indian Government to buy something to create that buffer what they had a year-and-a-half back of about Rs. 13,000-Rs. 14,000 crore against the import of crude oil. Now, those negotiations are going on and I do not know how Trump is going to do to help India or to help Iran or what will happen, that is the only question mark.

Varun Goenka: Sir, prices are so attractive, given our cash flows and balance sheet which was strong, maximum how much are you looking to procure?

Anil Kumar Mittal: We have procured about 6,70,000 tons of paddy and this year we have procured about 80,000-90,000 tons of rice as well and still we are buying. We are looking at another 70,000-90,000 tons of paddy.

Varun Goenka: Sir, just two more things, in the power side I am seeing our EBIT going down and I think there are some receivables coming, so first the kind of tax benefit and return that we were making maybe over the next five years or 10 years we may not make the same including receivables, including lower margins, so how are we seeing that?

Rakesh Mehrotra: Are you talking of nine months or for the quarter?

Varun Goenka: Nine months.

Rakesh Mehrotra: For the nine months, in the power generation front, the generation was a little down in the generation of wind and solar because of longer monsoon and longer winter also. And there were some REC sales last year, which were not there in this year because REC had expired so apart from that we are on track almost on the same level.

Varun Goenka: What is our ballpark figure, in case of EBIT levels annually for our total business that we should expect and what is the status of receivables?

Anil Kumar Mittal: Varun, we are expecting Rs. 110 to Rs. 120 crore as our revenue from the power results out of which we have to just give annual maintenance contract to Suzlon.

Varun Goenka: Just a final thing Sir, you are talking about Rs. 8000 crore of sales in four to five years, so anything that you can share maybe on what are we doing on investing in middle management which is strong or distribution, our branding continues to be very, very good, it is visible on YouTube and other areas, but we see across all other companies they are heavily investing in very strong middle management which can take the company next 10-20 years?

Anoop Kumar Gupta: Varun, we are investing lot in logistics, warehousing, lot of processing and in packaging plants. We are investing this year also, we are going to invest for next 18 to 20 months regularly because that is the only way where we can reach to that type of a top line, number one. Number two, our distribution level from Kashmir to Kanyakumari, there is not a single place which is left empty. Our distribution level is very strong and in the last month December alone, we have created 60 new SKUs in Unity brand. This is a very average priced thing which can be very well afforded by the Indian community. I am expecting this Unity brand to be about Rs. 1000-Rs. 1200 crore in next one or two years.

Varun Goenka: Sir, the Unity brand the institutional brand you are also taking it to retail?

Anoop Kumar Gupta: To the consumer, yes.

Varun Goenka: Sir, in this GST rates is there any improvement now, because GST rates might go up then that may deteriorate our position, if that happens at all, for the institutional segment?

Anoop Kumar Gupta: A lot of representations are made, everybody has said that you should test grain at even 1% and everybody from North to South, everybody is saying that 1% or 2%, how can they increase, I do not think they will increase.

Moderator: Thank you. We have next question from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: Sir, I have few questions, this is regarding the target of Rs. 8000 crore which you have put yourself for four to five years, so how much will be from the rice and how much should be the non-rice business in this and does it include any kind of inorganic growth rate, which you would have assumed?

Anoop Kumar Gupta: This is totally I think 95%, we are not investing anymore into energy, so whatever energy we are getting Rs. 120 crore per annum, it will not be increased from that, so 98% of the revenue will be from rice only.

Manish Bhandari: When you mean your efforts in Sooji or any of those areas?

Anoop Kumar Gupta: When I say rice all kinds of rice products, I mean rice and allied products, we have recently launched Idli rava..

Manish Bhandari: Sir, one metric which you keep on giving is about your volumes which has grown in the domestic market, can you also share how much is the market share gain in the domestic market and how much the domestic market has grown in this quarter?

Anoop Kumar Gupta: We do not have the report from ALC on a quarterly basis, I will get on 31st March, so I cannot share the numbers, but as per the market feedback, we have about 35%-36%.

Manish Bhandari: Sir, I have another question regarding the silica, so I am told that there is a process from where the rice husk can be used to make silica and that is one product which goes into the tire industry and many of these companies are using to mix it with the carbon black, so do you make it and are you planning to make this product and how remunerative it is and you have ever evaluated?

Anil Kumar Mittal: No, actually we at KRBL are working on this project since 2004. We went to Japan, and also America to find out how to create silica. We even collaborated with one German guy, but didn't succeed. When it comes to a lab model, it is a successful process, but when it comes to commercial model, it is not a viable project. The amount of water, electricity and so many other things that it includes it becomes a non-viable project. Yes, you are right, I have recently understood, we have given certain ash to the tire industry say about one or two lots but they could not work with it and could not succeed on that. But recently, I've known to understand we call it amorphous silica. Now this amorphous silica I have understood that in China somebody has succeeded and we are planning to go and see if somebody can show us the plant. It is in our mind for one simple reason that we are the only company today I would say in the World not in India or Asia but in the World, in case of sugarcane we have utilized it in all vertical for example husk, we convert into furfural, furfural into furfural alcohol, then we make power, bran we use for rice bran oil, DOC we use for cattle feed, everything is utilized, only one thing is left that is the amorphous silica and we are desperate. We do not want that to be left out and would want to be a 100% byproduct utilized company.

Manish Bhandari: Sir, my another question is based on the conference call made a year back, you did make a point about the GI certification or maybe a certification where we could have distribution between a two-year age-old Basmati versus a one-year old Basmati on our selling proposition, so is there anything that you have done on this?

Anil Kumar Mittal: GI issue is total sub judice. There are various cases filed, one is at Delhi High Court, one in Madras High Court, and another is in Indore High Court. People those who have vested interests they put one case after another to ensure that whatever was the original GI area, they want to expand that area. As far as two-year ageing is concerned, we are the only company who is doing this two-year of ageing, but there cannot be any scientific recognition or a certificate which can confirm that this rice is one year or two years or this is two-and-a-half years. About four years back, this Ramdev company they filed a suit against us saying that we are putting wrong declaration on the pouch that the rice is two years old. We then went all way to Bombay to the advertising concept and we proved with the chartered accountant letter, our storage pattern and everything that genuinely KRBL products are two years old.

Manish Bhandari: So, there cannot be any technological innovation in this to prove?

Anil Kumar Mittal: There is no technological innovation.

Manish Bhandari: Sir, I have another question regarding the loss of market share for Basmati in Europe, so is there any other thing what you can do to regain the market share in Europe which is non-residual pesticide seeds and from their paddy onwards to working the chain backward?

Anil Kumar Mittal: Lot of work is being done, the Ministry of Agriculture is doing its best what it can do, every 10 days they call us. There are various meeting at the state-level and at the centre level. The only remedy or way is that we start producing the rice pesticide free. If we are not able to do it, Europeans are not going to agree to it, number one, and this stringent control will slowly in the next three to four years may come and spread to other continents of the world, so therefore it is a matter of concern for the

rice industry. We are spending crore and crore of rupees. This time a great job was done by the Punjab Government, the Secretary of Agriculture, Mr. Punia he did a remarkable job being in the Government, he became proactive and really did a notable work at the field level. As we achieved sufficient material and that to pesticide free. But not that amount of quantities which are required to be exported, may be I have today about 10,000 tons, wherein I require 50,000 tons, so there is still a gap of 40,000 tons, so we are working on it, so as I feel within two years there will be a solution and our 25% to 30% crop of what we produce will be pesticide free.

Manish Bhandari: Sir, you made a comment about the size of Unity brand to be Rs. 1200 crore, is it at the company level or at the retail level?

Anoop Kumar Gupta: I am talking at the company level.

Manish Bhandari: How much will be the India Gate as of today?

Anoop Kumar Gupta: India Gate balance is about Rs. 1200-Rs. 1300 crore, in case of only domestic I am talking.

Manish Bhandari: And you have to include domestic and our exports?

Anoop Kumar Gupta: Our 65% of our top line is India Gate.

Moderator: Thank you. We have next question from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: Sir, just wanted to speak a bit on the volumes, looking at our inventory levels which is flat as of December as compared to last year and there was a shift of the orders from Q2 to Q3 as well as there were some bulk orders in Q3, so if you can provide some guidance around that how do we see the volume growth in Q4 and FY21 that will be very helpful considering what are the factors which are affecting our volumes?

Anoop Kumar Gupta: We are doing well, if you see going forward Q4 FY20 would be same as Q3, so I think it will be a repetition and as far as next year is concerned, we are quite positive, at least a minimum of 15% to 20% we would like to have increased in the top line.

Anish Jobalia: Sir, can one assume that the volumes that we did in Q3 will also repeat in Q4, is that what you are trying to say?

Anoop Kumar Gupta: Volumes more or less would be the same, actually there was around Rs. 200 crore shifted from Q2 to Q3.

Anish Jobalia: So, if we were to adjust, there was some 52,000 metric tons you had mentioned in the last call, and that got shifted so one is to adjust for that?

Anoop Kumar Gupta: That was around Rs. 200 crores, so we are left with Rs. 1130-Rs. 1140 crore which we are 100% sure of achieving that number in the fourth quarter.

Anish Jobalia: In FY21, we will get a value wise growth of 15% to 20% is that your expectation?

Anoop Kumar Gupta: Yes, we are looking at that only.

- Anish Jobalia:** Could you if possible, split this how will this be growth wise in FY21 for domestic as well as the export markets?
- Anoop Kumar Gupta:** Generally, if you see for last seven years, it is always been like 50:50, 2% or 3% here and there.
- Anish Jobalia:** So growth would be equally split between the domestic and export market?
- Anoop Kumar Gupta:** Yes, it will be equally split.
- Anish Jobalia:** The Second question about the margins, as you mentioned that the stock has been revalued, the inventory is now at lower price, so the Q4 as well as FY21, we should see more than 20% EBITDA margin is what you are trying to say in your initial comments?
- Anoop Kumar Gupta:** Yes, we were looking at that only because according to us, today the price in the market is the lowest in the last two to three years, so we think it is the time to build up the inventory and I think going forward our EBITDA will increase.
- Anish Jobalia:** One question around the business model, whatever we are buying today that will start getting reflected in the gross margins say two to three years down the line, I mean is that the right way to understand? if you are buying paddy at Rs. 28-Rs. 29, so that impact will come two to three years down the line or how should one look at it?
- Anoop Kumar Gupta:** It will come after one year to one-and-a-half years, it will start reflecting.
- Anish Jobalia:** Is it possible to give some update around the tax liability that is pending, as you mentioned we are very confident of getting it in our favor, so is there any update around that?
- Anoop Kumar Gupta:** We are hopeful that the order should come maximum by fortnight and as far as tax is concerned, we have already deposited Rs. 183 crore and we are very hopeful that order will come in our favor.
- Anish Jobalia:** So in the next 15 days, there should be some clarity around the tax?
- Anoop Kumar Gupta:** Yes, hope so.
- Moderator:** Thank you. We have the next question from the line of Tiruth Muchhala from Elusive Idea Advisory. Please go ahead.
- Tiruth Muchhala:** Sir, I actually wanted to understand something about how India consumes broken rice, so in terms of percentage of our sales approximate how much should be broken rice? And two is, what is the trend of people moving from unbranded loose broken rice to branded broken rice?
- Anoop Kumar Gupta:** The total consumption in India is about 2.3 to 2.4 million tons out of which around 35%-40% is broken rice. So for KRBL also, of my total sales 30%-35% is broken rice and 65% is head rice. But slowly people are also moving to other types. The person who was eating Mogra has shifted to Dubar, a person who was eating Dubar has moved to Tibar, a person who was eating Tibar has moved to Super so these are all head rice that I am talking about. So people are shifting preference and it depends upon the price also. If you compare the pricing from last year, it is lower by 5% to 10% so the shift is more. And more on the upper scale, the person

who was consuming Mogra has shifted because of the price, so there is a shift from broken to head rice overall.

Tiruth Muchhala: What is the trend like in the markets outside India, do people consume a lot of broken rice or is it largely head rice?

Anil Kumar Mittal: Broken is not allowed to be exported outside the country, it is only to be consumed within the country. As per the Government policy, we are allowed to only export head rice.

Tiruth Muchhala: Another question was on our future growth plans, so outside of Middle East, are there any other big markets that we can tap because you explained the Europe problem now, but apart from that are we seeing any trend towards the Basmati consumption outside of Middle East?

Anil Kumar Mittal: Let me tell you, if you look at the five-year chart, there has been a tremendous growth for countries like Mauritius, Seychelles, South Africa, these have started importing quite good numbers compare to what we used to import about five to seven years back. Similarly, in African continent also countries like Cotonou there are markets of non-Basmati, but they have also started quoting some Basmati rice too. African continent is importing Basmati rice. Then there are markets which we are developing that is Argentina and Brazil, Argentina is already importing but Brazil there is no customer for us yet, I do not know whether something is going to Brazil or not. Then one of the biggest markets which we dream of, which we are trying to develop for us was China and there is a good demand in China for Basmati rice. Because of the Government controls and most of the rice is controlled by the Government of China, that is becoming one hindrance to us, otherwise, China can become another importer of about 300,000 to 400,000 tons of Basmati rice. And you will be surprised that we have done already a good contract with Japan. Japan has started importing about 700,000-800,000 tons which was a market of just 100 tons five years back, so the markets are developing and increasing. We are actually working more towards Europe. Europe is a market, which I feel looking into the Asian population and even the locals inhabitants like UK, UK is a place where the locals also eat lot of Basmati rice not the others parts of Europe, but especially UK, so what I feel that if we are able to produce pesticide free, this market is going to develop, a good share of the market will come from Europe also. We are trying all the fronts to enhance the quantity from 4.4 million tons to 5 million tons.

Tiruth Muchhala: Also about Europe, the fact that we are so well connected with the funds, what is preventing us from reducing the pesticide residues in our produce?

Anil Kumar Mittal: There are two things, first of all that we say habits die hard, for last 50 years farmers have been growing their produce with a particular mindset and to change their mindset is not very easy that is number one. They are also worried that what will happen if their crop becomes effective with disease. So they start using too much of pesticides because the cost of the pesticide per ton or per acre if you see it is not that much compared to the crop size. So to enable to save them from any disaster of the crop they use too much of pesticide which we are slowly making them understand no this is a wrong philosophy and if they continue to do like that not only they are spoiling the crop, but they will spoil the soil of the country, spoil the water of the country because when it rains, the same pesticide will flow inside the earth causing damage. So there are many things which we are educating the farmers and I am quite sure it might take another one to two years, maximum two years and we will win over this situation.

- Moderator:** Thank you. We have the next question from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.
- Rajeev Agrawal:** Sir, I have a data question, can you breakdown the inventory that you gave in terms of the paddy, the rice and also the quantity that you have?
- Rakesh Mehrotra:** The inventory levels, we are having a paddy inventory of 5,16,877 metric tons valued at Rs. 1467.82 crore and the price is Rs. 28,398 per metric ton. We have rice stock of 3,08,424 metric tons valued at Rs. 1500 crore and the average price is Rs. 48,640 per metric ton.
- Moderator:** Thank you. We have the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Sir, my question is on the extent of the inventory valuation loss that you have recognized in this quarter?
- Anoop Kumar Gupta:** No inventory loss, what I said the market was down by 20% and instead of that also we adjusted our inventory accordingly and our EBITDA was down just by 1% to 1.5%. If you see the valuation of rice for the last quarter it was at Rs. 50, this quarter it is Rs. 48 so basically on a 3 lakh ton of Rs. 2 means around Rs. 60 crore.
- Dikshit Mittal:** So this correction is on the finished inventory of rice?
- Anoop Kumar Gupta:** No, we have two types of inventory, one is paddy and one is rice. Rice also we keep for ageing, it is not finished, it is semi-finished.
- Dikshit Mittal:** Sir, have you taken any price cuts in light of this fall in the Basmati price?
- Anoop Kumar Gupta:** We have not taken a price cut, if you look at the domestic market, we have given some coupons to the retailers, some schemes. So instead of price cut we are giving promotion to the retailer.
- Moderator:** Thank you. We have the next question from the line of Kush Gangar from CARE Portfolio Managers. Please go ahead.
- Kush Gangar:** Sir, my question was on other expense, our other expense has increased significantly in this quarter compared to year-on-year, was it mainly due to ad spend?
- Anoop Kumar Gupta:** No, it is the trade on sales clearing charges, you see the quantum over to last year is too much, so pro-rata the expenses are also high and even advertisement is high, you are right about the Rs. 10 to Rs. 15 crores difference in the advertisement amount. if you compare with the last quarter same year. And there is a difference of about Rs. 35-Rs. 40 crores on trade on-sale advertisement than other expenses on account of related to sales.
- Kush Gangar:** With respect to your interview probably after the last quarter result, you had mentioned that you wanted to increase the promoter holding to 62%-63%, how do you aim to do that? As we have been buying from the open market, because of the silent period that must have been stopped, so is there any possibility of buyback or how do you aim to increase that?
- Anoop Kumar Gupta:** We will look at it, Trading window was closed for last one month, now it is going to open tomorrow. We may look at it whatever the market is.

- Moderator:** Thank you. We have next question from the line of Karan Chopra, an Individual Investor. Please go ahead.
- Karan Chopra:** Sir, I would be really grateful if you could throw some light on the latest updates on the ED case?
- Anoop Kumar Gupta:** On the ED case if you see AA adjudicating Authority has confirmed the attachment of the property, we immediately went to the tribunal and tribunal has restored the possession to the company, but they have taken an undertaking from us saying that we cannot sell or do anything of the property but we can use the property until the case is decided and the case will be decided in three to five years, but the amount is limited to Rs. 15 crores.
- Karan Chopra:** How much time it is going to take for the case, is there any time bound or no limit as such?
- Anoop Kumar Gupta:** Generally, what we have heard is that the cases take four to five years.
- Karan Chopra:** GST on unbranded rice, any possibility?
- Anoop Kumar Gupta:** At present it is zero, I do not think Government will go for a tax on the non-branded rice.
- Karan Chopra:** And the Rs. 183 crores that we have submitted for the income tax case, in case as you said if it goes in our favor, is all that amount going to be remitted back to the company?
- Anoop Kumar Gupta:** Yes definitely with 6% interest.
- Karan Chopra:** Okay, that will directly go into the profits of the company?
- Anoop Kumar Gupta:** Not profit, but the reserves of the company, it will reduce our debt further. It has not gone from the profit so why it should come in the profit.
- Moderator:** Thank you. We have the next question from the line of Shubankar Ojha from SKS Capital. Please go ahead.
- Shubankar Ojha:** Sir, I missed out your answer on potential buyback, if you can just share your view on the same?
- Anoop Kumar Gupta:** We were buying up till December 31st thereafter the window was closed for one month, now that the results have come, we may restart buying again.
- Shubankar Ojha:** That you are doing, I am saying is a company doing a buyback?
- Anoop Kumar Gupta:** No, we do not have any proposal for the company to do buyback because I feel our liquidity is already too less in the market and if we start further squeezing the liquidity, it will not give a good reflection and that there is no much liquidity in the market.
- Shubankar Ojha:** So the promoter was a buyer prior to the trading window got closed I think and it is again opening on Monday I believe?
- Anoop Kumar Gupta:** Yes.

- Shubankar Ojha:** Right, that you continued to do, that arrangement you have?
- Anoop Kumar Gupta:** Yes we may continue depending upon the availability of funds on Director's side.
- Moderator:** Thank you. We have the next question from the line of Manan Patel from Equirus PMS. Please go ahead.
- Manan Patel:** Sir, I have one question in one of the interviews you mentioned that you are looking at divesting the energy business, so do you have any updates on that?
- Anoop Kumar Gupta:** We had tried, we had appointed KPMG and E&Y also, but it does not make any economic sense to us disinvest the energy business.
- Manan Patel:** Okay, so for now it will be in the business?
- Anil Kumar Mittal:** With KRBL only, yes.
- Moderator:** Thank you. We have next question from the line of Sachit Khera from Smart Equity. Please go ahead.
- Sachit Khera:** Sir, could you tell me the inventory figures as of December 18th if that is available with you, volume figures for paddy and rice?
- Rakesh Mehrotra:** Rice we had 3,37,065 metric tons valued at Rs. 1581 crore, average price is Rs. 46,905 per metric ton. The paddy is 5,00,392 metric ton valued at Rs. 1675.59 crores, average price is Rs. 33,486 per metric ton.
- Sachit Khera:** Sir, in Q4 do we plan to considerably increase our procurement, considering the low paddy prices?
- Anil Kumar Mittal:** You will see paddy season has already gone, 90%-92% of the paddy has already come in the market, now the balance 6%-7% paddy is there and we are regularly buying. We have already bought 670,000 tons and I told you previously also we intend to buy another 70,000-80,000 tons.
- Sachit Khera:** Sir, considering that the price, acreage this time was higher, right for Basmati?
- Anil Kumar Mittal:** It was more or less same, it was higher by 2%-4%.
- Sachit Khera:** Isn't it our policy to sort of slightly increase the procurement by 15%-20% if the prices fall by end of quarter?
- Anil Kumar Mittal:** When you talk of procurement, it is not only the funds availability, like that I can also buy 100,000 tons. Let me tell you, as a company we also want at this prices to procure another 200,000-300,000 tons and we have funds also, but the reason is you require place, you require godowns, you require so many other infrastructure, there is a lot of logistic problem and if you do not handle paddy properly it gets damaged, discolored, there are so many things you have to look into the paddy. Many a times what happens that if we require paddy and we feel that next year will be a difficult year then in March-April also we will start buying paddy from the inside sources, people those who are hoarders, from hoarders then we buy paddy and rice both. Let me tell you Basmati, it is not that easy because of your funds you can

buy as much quantity as you want, but you require a special care to handle those quantities.

Sachit Khara: Sorry, I was under the impression KRBL increased its warehousing capacity over the last one or two years, so procurement might potentially be higher, I think that was my mistake and I apologize for that?

Anil Kumar Mittal: You know how much warehousing I have, if I tell you the figures, today my warehousing would be around 2.4 to 2.5 million square feet, number one. In that I keep only rice, there is no paddy. For paddy, we have around may be six or seven million square feet of area on which we keep paddy, so already we are increasing, nobody in the country has even one-third what I have.

Sachit Khara: Sir, in the institutional sales, are we still suffering in the bulk pack because I remember over the last few calls you have been mentioning there may be, people are getting more economical considering all these online delivery restaurants and what not developments taking place?

Anoop Kumar Gupta: You see despite GST our brands are doing very well. I told you Unity is our institutional pack especially for biryani rice and doing very well, but definitely the person who is not paying tax he has an edge over me, 5% is a big amount so he is entering the new market where people see only price and not the quality, so there are a lot of buyers and of every kind in India, for them 5% is a lot of money and they do not see the quality, they see the price, so people are entering that segment without tax.

Sachit Khara: There is no input if I understand correctly?

Anoop Kumar Gupta: There is no input further to this, yes.

Moderator: Thank you. We have next question from the line of Jayant Momania from CARE Portfolio Managers. Please go ahead.

Jayant Momania: Sir, you said that this year the paddy prices were lower by 20%, what is the reason, is it the higher crop or disruption in Europe and Iran?

Anil Kumar Mittal: It is primarily because of the higher crop, this year the demand comparatively there is an effect of Iran and Europe also, number one, and the crop was also higher by 5% over last year.

Jayant Momania: But the acreage remains the same?

Anil Kumar Mittal: No, acreage was also more. Let me tell you one tragedy that happened, there were some early sowing farmers in Punjab and Haryana, their yield per acre came very less and we got panicked that the paddy might not be 15%-20%, lesser over previous year. But luckily only for 15 days we saw that panic. After October 20th, things went very right and yield everything percentage were okay and we were able to achieve rather 2% or 3% more paddy production over last year.

Jayant Momania: Sir, we had a problem in Europe due to pesticide residue, is there any possibility of this propping up problem with Saudi Arabia or Middle East countries?

Anil Kumar Mittal: There was a problem which cropped up in Saudi Arabia, there were two to three delegations for which we went over there, and were accompanied by our Joint Secretary and the Government officials also. And we settled down that problem. Now, a procedure has been drilled out and for the last three months from the new

crop good quantities are going to Saudi Arabia and it is working very well. There is no problem whatsoever in Saudi Arabia, no other country other than Saudi Arabia has imposed any problem as far as Middle East is concerned.

Jayant Momania: Sir, that IT addition, which has generated demand of around Rs. 700 crores plus penalty, so it was for cash purchase?

Anoop Kumar Gupta: It was 95% was direct purchases from the farmers against cash payment which we are allowed to do as per the law.

Jayant Momania: But that cash purchases are added to the inventory, so that was not considered, inventory must have been added for the cash purchases?

Anoop Kumar Gupta: Actually, they have excluded the purchase.

Jayant Momania: Then the inventory must have reduced to that extent actually?

Anoop Kumar Gupta: That is only for the income tax level.

Jayant Momania: Sir, last question, ours is an FMCG company and there is a cash flow of Rs. 600 crore and if you look at the market, the FMCG companies are valued around 50-60 PE, even consumer durables are valued at 50 PE while ours is only around 15 or 12-13 PE, one thing I have noted is that our payout is very low, normally in FMCG company the payout is 30%, 40%-50% whereas our payout is only 12% and 13% and we do not have to do any major CAPEX too, so can we expect higher payout in future?

Anoop Kumar Gupta: We will think of it, it is a good point, we will look at it.

Moderator: Thank you. We have next question from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: Sir, I had a few follow-up questions which I asked earlier, so in terms of your inventory levels as you mentioned that the volumes are flat, so just wanted to understand because you were expecting 15% to 20% growth next year so why didn't our inventory levels go up higher by that much because you already had the visibility of that happening, so how should one understand your inventory levels? could you just explain that.

Anoop Kumar Gupta: We are in make of our purchases; we will buy up to March-April and May. Our inventory level this year will be the highest ever in terms of quantity because the prices are down by 20%, you are comparing with the value in terms of quantity I think we are the highest as on date.

Anish Jobalia: But I think as you mentioned in your initial remarks, it is flat the inventory levels and value has come down by 20%?

Anoop Kumar Gupta: That is December, now we are buying from January 1st continuously, we will be buying in February and March also. The market is still flat so why we should be in a hurry hence we are buying slowly.

Anish Jobalia: Overall, we are expecting that Rs. 8000 crore would happen in four to five years so that I implies growth rate of around 10% to 12% and in the past also we have grown at similar rates, so what has changed in our outlook for FY21 is that we are confident of 15% to 20% growth because that is much higher than what we have done in the past?

Anoop Kumar Gupta: We have doubled our SKUs, previously I was marketing about 110 SKUs, today I am marketing 175 SKUs, number one. The acceptability of the brand in the consumer segment is great. Even when the market was down by 20%, I was doing very well in the third quarter where the new crop came and we sold the old quantities and if you see our third quarter sale is above 108,000 tons. So we are hopeful that we will reach this number in four to five years.

Anish Jobalia: Could you give the quantum of the bulk orders in this quarter and that would not be repeating going forward, right, I mean it is like more of an on-the-spot demand?

Anil Kumar Mittal: There is hardly any bulk order, all are branded sales. But we are expecting that the markets open up, and we get some bulk orders from Iran. But we will not do any business till payment position and everything is clear and they are in a position to open the LC. We are not going to leave such a big market which has 32%-33% share of the India's total export, how can you leave that big of a market, but we have to be ensured of the payments first. Payment is the only concern, till we are 100% sure of the payment we will not continue that business.

Anish Jobalia: When you are mentioning 15% to 20% growth, so are you factoring the tightness from Iran and US or that can be like a Delta in the next year, things can deteriorate with Iran situation?

Anil Kumar Mittal: Let me tell you, in agriculture produce, act of God cannot be taken into consideration, anything can happen, how can it be factored because it could be a bonanza also, it could be a win-win situation also, it could be a complete disaster too, so it is too difficult to predict as far as agriculture crop is concerned. Tomorrow you say if there is a flood in Punjab-Haryana what will happen, definitely the whole industry will be in a big problem, so these types of acts cannot be anticipated as to what type of risk could be there. But, one thing is there if you see Iran whether there is a restriction or not, they will eat rice they will not die of hunger, whether the rice goes from Dubai, whether the rice goes from anywhere of the world it will be Indian Basmati only. It does not have much problem on that kind.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for any closing comments. Sir, over to you.

Anil Kumar Mittal: Thank you everyone for joining us today on the call, hope we were able to address all the queries. Should you need any more clarification, please feel free to reach out to us or our investor relation partners, CDR India. Thank you once again for your time.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of KRBL Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.
