



KRBL Limited
Q2 FY 2023 Earnings Conference Call Transcript
November 14, 2022

Management: Mr. Anil Kumar Mittal – Chairman and Managing Director
Mr. Anoop Kumar Gupta – Joint Managing Director
Mr. Ayush Gupta – Head, Domestic Division
Mr. Ashish Jain – Chief Financial Officer

Moderator: Ladies and gentlemen, good day, and welcome to the KRBL Limited Q2 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you, and over to you, Siddharth.

Siddharth Rangnekar: Thank you, Rochelle. Welcome to KRBL Limited's Q2 and H1 FY'23 Earnings Conference Call for analysts and investors. I'm pleased to introduce to you senior members of the management team on today's call. We have with us Mr. Anil Kumar Mittal, Chairman and Managing Director; Mr. Anoop Kumar Gupta, Joint Managing Director; Mr. Ayush Gupta, Head, Domestic Division; and Mr. Ashish Jain, Chief Financial Officer.

We propose to begin with updates from Mr. Mittal with views on the industry, the business and broad strategy. We shall then have Mr. Ayush Gupta, who will take us through the perspectives on domestic business. Thereafter, we shall have the financial overview presented by Mr. Ashish Jain. After the opening remarks from the management, the forum would be opened for interactive question-and-answer session.

A cautionary note that some of the statements made on today's call could be forward-looking in nature and actual results could vary from these statements. A detailed intimation in this regard is available in KRBL's investor presentation, which is available on the stock exchange websites.

I would now like to invite our Chairman, Mr. Mittal, to share his views. Over to you. Over to you, Anil ji.

Anil Mittal:

Good afternoon, investors. I would like to brief you on the production and consumption of Indian rice crop this year since there have been many changes due to deficient monsoons. However, as we've all witnessed, there were rains in the month of September and October, which slightly damaged basmati rice crop, but benefited non-basmati rice crop. When compared with the production of Kharif season 2021, which was 112 million metric tons, the production this year is lower by 6% at 105 million metric tons, out of which basmati is around 7.5 million metric tons.

In the last 10 years, India's rice production has grown at a CAGR of 2.4% per annum, whereas India's rice consumption has grown at a CAGR of 0.9% per annum. The production yield has grown much higher than the domestic consumption which has helped India to become the larger rice exporter in the world. Last year, India exported around 21.21 million tons of rice, out of which Basmati exports were 3.95 million tons. The government of India on 8th September 2022 imposed an export duty of 20% on non-basmati rice, exempting non-basmati parboiled rice and all varieties of basmati rice. These measures were taken since the government buffer stock was depleting and the government had to fulfill their obligation of free distribution of wheat and rice to the under-privileged, whereas 100% broken rice was completely banned for exports. There is a huge demand for broken rice for manufacturing ethanol other than feed and poultry industry. Hence, this decision of the government was a positive move to control inflation in the country. We would like to add that broken rice was primarily exported to China to the tune of 1.5 million metric tons.

This year, in the first half, India has exported around 2.2 million tonnes of basmati rice as compared to 1.95 million tonnes exported during the same period last year, showing an increase of 11% in volume terms, whereas the exports grew by almost 46% in value terms, amounting to INR17,896 crore as compared to INR12,295 crore last year. To further add, India exported around 60% of the total basmati rice to 4 countries such as Iran, 600,000 tonnes; Saudi, 407,000 tonnes; Iraq, 130,000 tonnes, UAE, 175,000 tonnes, confirming that majority of basmati export is to Middle East, including Persian Gulf.

Moving to the current basmati scenario, the crop was expected to be higher by around 15% to 16% over last year. With the delayed monsoon in the month of October, that basmati crops got slightly damaged, not only in yield but also the grain got damaged by additional 2% in some parts of the basmati growing areas. The overall crop, now after mapping and cross-field surveys, should be either higher by 5% to 7% or maybe equal to last year. The prices of new crop paddy have opened up slightly higher than expected levels. But still, the current crop prices, depending upon the varieties, are lower by 12% to 15% than the basmati rice price prevailing during April - August 2022.

Presently the demand is subdued and the buyer from Middle East, Far East, Europe and U.S.A. are working the market and are expected to start buying around first week or middle of December. But this buying trend has no importance to KRBL since we market mostly 1 to 2 year branded aged rice and the orders for which are received regularly on a monthly basis. We believe that prices will remain stable for at least 1 month till the time the correct assessment of the damage due to the late monsoon is clear.

Moreover, the mapping figures are also not correct, hence the trade up until now is in dilemma as to which way the paddy prices will move in next 45 days. The rice prices are directly correlated to the paddy prices, hence, we at KRBL are going to purchase good quantities at the prevailing prices.

There were rumors that basmati prices will take a jump due to floods reported in Sindh area of Pakistan. No doubt the basmati and non-basmati crop in Sindh area got badly damaged to the tune of 70%, but the production of basmati rice in Sindh area is very minimal compared to Punjab region of Pakistan, which is witnessing a good harvest.

Moreover, Sindh area grows a duplicate basmati rice which is used for mixing with their traditional varieties. Therefore, the effect of Pakistan flood on pricing will have no effect on international prices of basmati rice. The two irritants in exports were the ocean freight rates and the availability of containers - both the issues have been resolved. The freight rates have come down to 1/3, and they will further come down by another 10% to 15% compared with their peak about 9 to 12 months back. Still, the freight rates for USA and Australia have not come down compared with other destinations which are also expected to reduce in the coming months. The availability of container are in abundance and supplies are going to further increase since China is manufacturing around 30,000 containers per day against orders from various shipping lines world over.

KRBL is going to have enormous advantage with the imposition of GST on unbranded prepackaged rice. This has broad parity between private label and established brands. With the imposition of 5% GST, the demand for KRBL brands have improved significantly which would be witnessed in the third quarter, the details will be shared by Ayush, who heads the domestic department. KRBL has shown a robust performance in the second quarter of FY 2023. The total revenue of the company grew by 26.5% year-over-year and 8.12% quarter-over-quarter, whereas the export business grew by 106.05% year-over-year and 21.6% quarter-over-quarter. Besides, EBIDTA margins improved to 22.79% compared to 19.27% last year. The PAT was at 15.91% compared to 12.89% last year, giving an EPS of INR9.05.

The company is growing in the export market but has made a remarkable progress in Saudi Arabia with the new distributor. And those sales pertaining to modern trade is really showing a good progress, and we are happy with the performance. We have nearly captured back our lost market share, and it seems that the customer was waiting for the India Gate products to come back in the market. We have still to finalize the HoReCa segment for which our efforts are ongoing, and we expect that during Quarter 4 we will be able to finalize it. I have tried to convey most of the events, and if something is left, it could be discussed during the question-answer session. Thank you once again. Thanks.

Ayush Gupta:

Thank you, sir, and good afternoon, ladies and gentlemen. I'm delighted to share that the domestic business recorded yet again a strong quarter performance, with revenue growing by 18% year-over-year. We have delivered best ever H1 performance, wherein revenue increased by 36%. Growth has been equally contributed by the general trade and modern trade e-com channels. It is notable that within the general trade channels, bulk pack segment has led the growth. The decision to charge 5% GST on prepackaged food nullifies the advantage local players had over established brands. We have been looking forward to this for the last 5 years. This decision will formalize the sector and lead to healthy competition.

I will now share a progress update on our 3-pronged strategy that I've been talking about in our previous calls. On the distribution front, we are diligently expanding our direct distributor network to town Class 1, town Class 2 and rural markets of India. We have effectively appointed 167 new distributors in this financial year so far, and we are on track with our target to expand our



distribution reach to 250 new towns by the end of this financial year. Our numeric distribution percentages had already increased by 370 basis points in quarter 2, but we'll be seeing the true results of this in the subsequent quarters.

In the past year, our secondary sales coverage stood at 31%, which means the percentage of distributor sales being captured by our field sales team. In the first half of this financial year, we have been able to expand our secondary coverage to 38%, a growth of 700 basis points. This is in line with our strategy to drive the category through robust active retailing. Increase in secondary sales coverage has resulted in higher throughput at retail outlets, improved relationships with trade and better saliency of the brand. We will continue to drive this feature and are targeting to reach 60% secondary sales coverage by financial year 2025.

On the third strategy, on augmented product portfolio, while the non-basmati initiatives remain under the work, I'm happy to share that Unity brand has grown by over 40% in this financial year and is on track to reach the INR1,000 crore mark by the end of financial year 2025. We have developed a strong pipeline of new product introductions which span across the value-added rice segment as well as the health segment. We will see us launching few of these products in the next 2 quarters.

As the competitive scenario in our category becomes more dynamic, we are strategically taking on the role of category captaincy. As a category captain, our approach will be to focus on the long-term evolution of the category. We are continuously deepening our understanding of the shopper behavior and reviewing the category for variable insights. For the first time, we are taking a regional approach to marketing. We have divided the country into 3 market types based on basmati penetration, KRBL market share and other quantitative factors.

Firstly, there are states where the focus is to drive consumption from unbranded segment to packaged segment. Secondly, there are states where we need to drive category penetration and frequency of consumption. And thirdly, states where we have to take disruptive market share gains. We have devised a specific marketing mix for each of these market types, and you will see communication emerging from this approach launched in the market in the next few weeks.

The category captaincy mindset will ensure that we are not just fighting the short-term market share battles, but investing appropriately in building this category for the long-term gains. During times of inflation in FMCG industry, we see consumers down-trading or downsizing. In rice, we typically witness a downgrade into unbranded loose rice segment during such times.

To navigate this challenge, we have beefed up our assortment with a clear price laddering strategy to arise this so that the consumer has an offering within our portfolio even during inflationary scenarios. While the basmati penetration in India is at 42%, the packaged penetration hovers around 20%. We are constantly reminded of the immense headroom for growth in the segment of this business.

With that, I come to the end of my remarks, and I will now hand it over to Ashish, who will take us through the financial performance.

Ashish Jain:

Thank you, Ayush. I will now take you through the performance for the quarter ended September 30, 2022. All figures mentioned by me would refer

to the consolidated financials of KRBL Limited. Total income for the quarter stood at INR 1,340 crore, marking a growth of 26.5% over the corresponding quarter last year. Gross profit of the company increased by almost 50% and EBITDA and PAT increased by almost 50% and 56.4%, respectively.

The company recorded several highest-ever metrics, too. For example, the company recorded highest total income, highest EBITDA, highest PBT, highest PAT, highest total comprehensive income and highest quarterly earnings per share in the quarter. Revenue from operations grew by 25.2%, led by export sales which grew by 105% to INR 592 crore. Domestic sales, excluding power, were at INR 696 crore or lower by 5%, but this is on account of higher bulk rice sale in the corresponding quarter last year. Excluding bulk rice, referring to branded sales, branded sales grew by 18%, as mentioned by Ayush.

Basmati rice sales realization increased by 42% over Q2 FY'22. Higher realization was recorded both in domestic and export segments. Gross margin improved to 34.5%, an improvement of 535 basis points over corresponding quarter. This was led by both improvement in sales mix as well as higher realization. EBITDA margin for the quarter was at 22.8% as against 19.3% on account of better gross margin, partially offset by following increases over corresponding quarter. Freight expenses increased by INR 28 crore, advertising expenses by INR 11 crore, other selling and distribution expenses by INR 4 crore besides increasing some other provisions. Freight expenses increased during the quarter, though the latter is largely recovered from the customers.

KRBL's finance costs declined to INR 1.5 crore as against INR 1.7 crore in the corresponding quarter. This is happening as our reliance and borrowing continues to reduce. The company's PBT margin also improved to 21.3% as against 17.3%, while PAT margin improved to 15.9% as against 12.9%.

Now I'll just summarize the H1 performance. For first half of this year, total income was at INR 2,579 crore, marking a growth of 23.4% as against H1 of last year. Gross profit increased by almost 37%, while EBITDA and PAT increased by 33% and 36.3%, respectively. Revenue from operations grew by 23.1%, led by both export and domestic sales, with Y-on-Y growth of 36% and 16%, respectively.

Cash generated from operations before tax is INR 169 crore higher than H1 of current year as against H1 of last year. I will now share some data with respect to inventory. Total inventory as of September 30, 2022, was at INR 2,054 crore, comprising INR 160 crore of paddy as against INR 177 crore in September 2021, while rice inventory was at INR 1,751 crore as against INR 1,700 crore at the same period last year. In volume terms, paddy stocks were at approximately 50,000 tonnes and rice at approximately 313,000 tonnes. These numbers were slightly higher at 62,000 tonnes and 365,000 tonnes, respectively, in September 2021.

Inventory, as you know, is lower primarily to lower paddy purchase since last time. The cash position of the company continues to be healthy. The total cash and bank balance, including investments, was at almost INR 1,600 crore, up 74% over the same period last year.

With that, I come to the end of my prepared remarks. I would now like to hand over to the moderator for opening the Q&A session. I would just like to mention that as the ED matter sub-judice, we will not be in a position to respond to queries on this matter. So over to the moderator now.

- Moderator:** Our first question is from the line of Pritesh Chheda from Lucky Investment Managers Pvt. Ltd. Please go ahead.
- Pritesh Chheda:** I have a few questions. In the half year, 20-plus percent top line growth that we see, what will be the volume growth in this?
- Ashish Jain:** Overall volume, you're talking about half year?
- Pritesh Chheda:** Yes, half year because both quarter 2 and half year is about 25% and 23% top line growth, so.
- Ashish Jain:** Sure. So, half year basmati rice volume growth is at around 6%.
- Pritesh Chheda:** Okay. What explains the improvement in margins that we see in the first half now?
- Ashish Jain:** So, I think the improvement in margin is explained by 2 factors. One is there is improvement in product mix, which is higher share of higher realization SKUs and also the general increase in rice prices that we've seen over the last, I would say, now 3 quarters.
- Pritesh Chheda:** Okay. Looking at the current scenario, do we see the H1 performance sustaining in H2?
- Anoop Gupta:** Yes, definitely, our third quarter and fourth quarter is going to reflect H1 performance.
- Pritesh Chheda:** And my last question is, sir, I see the export business in the first half at about, let's say, INR1,077 crore. Looks a lot of improvement versus the last year's number, because last year full year number was about INR1,500 crore, INR1,600 crore, my guess. So now what is the progress on the Saudi and the Iran business for us to better understand this export business of INR1,077 crore that I see in the first half.
- Anil Mittal:** As I conveyed in my opening remarks, we are doing very well in Saudi. It seems that people have been waiting for more than two years for India Gate to arrive in the market. The demand has been very good but the product was not available in the market. So, the order flow is very impressive currently and our performance in the Saudi market has started looking up which is being reflected in our export data. As regards Iraq, we are not able to get a good distributor, but we have exported a small quantity. It's a negligible quantity. But we expect that we will get a good distributor.
- Pritesh Chheda:** The question was Saudi and Iran, not Iraq.
- Anil Mittal:** Yes, I'm talking of both here. Problem with both the countries is same. There are local traders who have captured the local markets. Like in Japan, they are into multi-faceted businesses, say, construction, automobiles and agriculture. Under agriculture, they trade in rice, particularly basmati rice.
- So, competition is very tough especially when you have to fight with a local person. Under such circumstances, we still manage to be the market leaders in Saudi Arabia as far as the product and the pricing are concerned. However, we still have to capture the quantum business of Saudi Arabia which will be possible once we finalize on our HORECA distributor.

As far as Iraq is concerned, the margin of profits are very less. We have met a few prospective people for our distributorship. It will be difficult to take an immediate decision, but I hope that we would be able to have a hold on the Iraqi market by the fourth quarter, i.e. Jan-March'23. However, considering that the profit margins are so low, we are a bit disturbed and are wondering whether we have to even work on those margins are not.

Pritesh Chheda: Okay. Sir, so I could understand, so the Saudi and the Iran business, which was, let's say, at the peak about INR1,100 crore and which fell down to INR300 crore until last year, now where are we on those 2 businesses after what I see exports improving, too?

Anil Mittal: Let me correct you. It was only one country. INR1,100 crore pertained to only Saudi Arabia. We were never active in Iraq because of payment problems. There were payment problems. The problems are of course not comparable to those in Yemen or Sudan, but still the environment is not very conducive. And most of the business and the financial transactions are routed via Dubai. It is not a direct business and we have not been very active there since beginning, As regards the INR 1100 crore business of Saudi, I am quite positive that we will be able to do at least INR 550 – 600 crore this year, and another INR 500 crore in HORECA business once the distributor is finalized.

Pritesh Chheda: Okay. So, in this INR1,077 crore, we already had INR250 crore-type business in Saudi in the half year?

Anil Mittal: Should be. I don't have the correct number, but should be.

Moderator: Our next question is from the line of Anuj Sharma from M3 Investment Pvt. Ltd. Please go ahead.

Anuj Sharma: Yes, congratulations for good results. We've been hearing some positive news about the 3 new variety, which is 1185/86 and 47. Can you just highlight the productivity in these? And the price which could be different than the existing varieties. And third is, how much time the export market will take up to accept these varieties?

Anil Mittal: These varieties were given to us by Pusa Institute for our feedback after testing them at our laboratory. We found them excellent and given our positive feedback about two years ago. The grain quality, texture, cooking results and everything were good. Based on that, we were given some seed quantities only this year for test sowing. So, this year we have distributed them for seed multiplication and hence we will be able to have a large scale commercial production only next year. However, whatever little quantities that are coming in the market of these 3 - 4 varieties are pest resistant. We are very happy that there are very minimal pesticide residues in these varieties, and they will meet the stringent pesticide residue norms of countries such as Europe, America, etc. Besides, there is no compromise on the production yield, price levels, grain quality, etc. The beauty is that their pesticide residue levels are very less.

Anuj Sharma: All right. And just in terms of productivity given the same acreage of plantations, do you expect the increase in productivity due to these new varieties?

Anil Mittal: No. There is no increment in productivity because the scientists have worked primarily on pesticide-free or pest-resistant quality.

- Anuj Sharma:** All right. My second question is on the procurement strategy. You touched upon it on pricing remain the same, your procurement will be higher. But can you just highlight how do you see the procurement strategy for this year?
- Anil Mittal:** According to the data available with us, the prices are about 12% to 15% lower as compared to last year. However, there is a little dilemma. Actually, the crop size is 15% higher than the last year. So, it was initially thought that the prices will remain quite low since the crop size is 15% higher. However, due to heavy rains, there has been a crop damage to some extent, the quantum of which we are not able to guess right now. No one knows whether the crop damage is 5% or 10% or 15%. The entire trade is keeping its fingers crossed. We still believe that the quantities would be more than last year, and the prices would remain firm at the opening price levels. Under this scenario, we are definitely going to buy 20 – 25% more over last year.
- Anuj Sharma:** All right. And my last question is on the regional rice. Based on your experience, you've been working on it for some bit of time. So what is the progress out there? And what is the consumer impact you're getting on the regional rice?
- Anoop Gupta:** Originally, we have planned for 3 varieties, one was gobindobhog, other was kolam and third was sona masoori. We have already started marketing sona masoori and kolam rice. And this calendar year, we'll be doing around INR 20 crore, INR 25 crore of these 2 varieties, which is basically we are doing the test marketing. And next calendar year, we are expecting a turnover of around INR 60 crore to INR70 crore. But everything is in progress in Gujarat. Our plant has started. We have started installing plant and machinery. And by March '23, we think the Gujarat plant will be operational. And Gangavati, Karnataka, we have already purchased land. And it will take by March '24, it will be complete.
- Till the time the plants will come, but our marketing will continue. What I told you exactly when the plants will come, our turnover would be around INR 400 crore to INR 500 crore. But in next 2 to 3 years, we will deal with the private millers or buying rice and marketing in our brand. By the time the plant comes in, we'll do a turnover of around 100 plus. So we are on track. Just for gobindobhog, it will take some more time. Otherwise, for both the varieties of kolam and sona masoori, we are on track.
- Moderator:** Our next question is from the line of Nitin Awasthi from InCred Equities. Please go ahead.
- Nitin Awasthi:** Continuing on the previous participant has asked all my questions relating to that itself, continuing on that. Currently, we see the rice market at around 100 million metric tons, out of which 7 million metric tons approximately basmati. So that is the addressable market that the company was working with until now. So with these 3 varieties of rice, what will our addressable market expand to?
- Ashish Jain:** Yes. Nitin, I think what you are asking is that with the 3 varieties that Anoop ji has mentioned, what is the market size that we see? Is that your question?
- Nitin Awasthi:** Yes. Total market.

- Anoop Gupta:** You were talking of the regional rice, we are looking at the top line of minimum INR 500 crore.
- Nitin Awasthi:** Yes, so these 3 varieties, out of the whole rice bucket, how much would it be in India?
- Anoop Gupta:** Nitin, you see these 3 varieties, it's a very, very big market, maybe in millions, but I am talking of a very aged and value-added products which is being sold to the consumer at around INR 80 to INR 100 a kilo. It is a 1-year, 1.5-year aged rice and marketed in 1 kilo pack or a 5-kilo pack. So the market for that is quite limited, and I'm looking to capture to that market around 20% of this market.
- Nitin Awasthi:** Understood, sir. So you won't be looking at the extensive reach of the whole market as such, you are saying, to convert it from non-branded to branded?
- Anoop Gupta:** Yes, that's right, Nitin, you're right.
- Moderator:** Our next question is from the line of Amit Doshi from Care Portfolio Managers Pvt. Ltd. Please go ahead.
- Amit Doshi:** Sir, you mentioned about freight costs reducing by 1/3 compared to the peak. But can you give us a guidance about what it had been sequentially? For example, what was in September quarter and what you are seeing now? Other expenses, it's not drastically changed.
- Anil Mittal:** September to now, it has not drastically come down. It started coming down from the month of April only. Let me give you an example. For Saudi Arabia Dammam, the container freight rate was \$2,200. And, it has been reducing at the rate of US\$ 100 every month. Today, we are paying only \$800. Earlier, we used to pay just \$300.
- Amit Doshi:** Okay. And you still expect further reduction from this \$800?
- Anil Mittal:** Yes. I feel it will come down to \$300 to \$400.
- Amit Doshi:** Okay. Got it. Sir, you mentioned about this export duty, this 20% on the rice other than the basmati and the parboiled exemption. So has there been any impact on the price of the basmati rice?
- Anil Mittal:** There was never any restriction on Basmati. It has always been open and the Government never touched basmati rice at all. And neither it is in the procurement program of the government. It has always remained a free trade as far as Basmati is concerned. But, yes, as regards non-basmati, the prices are reduced to that extent so that the price of the duty-paid rice remains the same as that of the original price without payment of duty. So rice prices have come down by 20%.
- Amit Doshi:** No, my question is, was there any indirect impact because of this export duty on our basmati rice prices?
- Anil Mittal:** No, not at all. There is no impact – direct or indirect, on Basmati prices.
- Amit Doshi:** Okay. Got it. Sir, you mentioned that your inventory, you plan to increase that 20%, 25% compared to last year. And considering the cash that we have of around INR1,500 crore, INR 1,600 crore, so do you believe we'll run into borrowing to reach that inventory level? Or we'll still go debt free, which had been for last 2, 3 years?

- Anoop Gupta:** Yes, you see we are very comfortable as far as debt is concerned. But this year, since paddy, what Anil just said, 10%, 15% lesser, that is lesser of the closing price. If we look at the opening price of last year, we are higher by 10%, 15%. That is my cost of paddy this year compared to last year would be higher by 15% to 20%. And number two, I'll be buying more quantity by not even 25%, it can go up to 30%, 35% more buying, because our demand in Saudi Arabia has gone up, our demand in domestic market and requirement of the branded rice has gone up. So because whatever paddy we buy today, we have to take it in mind for the next 2 years. So looking at our demand, we will be buying 30% to 35% extra. That means 15% prices more, 30%, paddy is more. So we'll be taking around INR1,000 crore, INR1,500 crore from the bank this year. And naturally, our ROCE will become better.
- Amit Doshi:** Yes, that was my question. So there will be borrowing because of that higher inventory.
- Anoop Gupta:** Naturally.
- Amit Doshi:** And sir, HoReCa growth segment, any idea how did it grow in last quarter? Overall what is the contribution of sales.
- Anoop Gupta:** We got a big benefit in HoReCa due to the abolition of 5% GST on a pack above 25 kg. Now our every pack which is of HoReCA is 30 kilos which is out of GST ambit. Number two, we are doing all our 30 kg sales in India Gate or Unity or our registered brands. Previous year, we used to pay 5% GST and our competitors were not paying any tax because they were not branding under their registered brand. So that was a big benefit, and we are getting this benefit in third quarter. You will see in quarter 3 our HoReCa sales, especially in the domestic market, will take a jump. And I should not say, but it will take a jump of nearly 50% more in quarter 3, what I am expecting.
- Amit Doshi:** Okay. And last, this EBITDA margin of 20% to 23% that we have achieved in this quarter, would you believe that we should consider this as a one-off? And historically, 19%, 20% or 18%, 20% should be considered?
- Anoop Gupta:** I tell you, frankly, our EBITDA, in general, in the normal term is ranging from 16% to 19%. But 22%, it has come because of inventory gains. And KRBL, we carry too much of old stocks. So, there's always an inventory gain. So, 19% to 23% is the range what KRBL is working. If we have an inventory gain, it can go to 22%, 23%, otherwise 19% is always there.
- Moderator:** Our next question is from the line of Anand Venugopal from BMSPL Capital. Please go ahead.
- Anand Venugopal:** So, I have just a question, like could you help me understand what is the current state of basmati rice industry? And how are prices of basmati rice holding up? And what is the outlook for business? And what is the outlook for basmati rice prices going into 2023? And lastly, what are the demand and supply factors that are leading to this outlook?
- Anil Mittal:** Let me tell you, whether it is domestic or exports, basmati consumption has been increasing every year by 6% to 7%. This is the normal trend. However, there is a huge potential for domestic market to grow, because the current consumption level of basmati rice in domestic market is just 3% as compared to non-basmati rice.

We consume around 95 million tonnes of non-basmati rice annually, whereas basmati rice consumption is just 2.5 million tonnes. So, as you can well imagine, there is a very big scope of growth for basmati trade as far as domestic market is concerned.

Now, talking about the industry, I must say the industry is indeed doing exceedingly well. New plants are coming up and new markets are opening. Saudi Arabia used to import only 700,000 tonnes. I can't understand what magic has happened in the last 2 – 3 years, their market size has grown to one million tonne plus. Same is the picture everywhere. Iran has always been a big buyer. Day by day, the demand of Iran is increasing. Let me tell you, if Iran doesn't have a payment problem or U.S. sanctions problem, Iran can import from India around 1.6 – 1.7 million tonnes. Their own production is depleting day by day because of urbanization & higher cost. Same is the case with Iraq. Iraq used to produce a lot of rice earlier, but their production is coming down day by day. Thus, they are becoming more dependent on basmati rice. Similarly, America used to be a market of 60,000 - 70,000 tonnes. In just 6 months this year, they have imported 100,000 tonnes. It was a surprising news, and 100,000 tonnes is a very big quantity indeed.

The only drawback or setback to Indian Basmati is the European countries. And I believe that with the scientific research and the new type of pest-resistant varieties, we will have a good going in the European markets as well from next year onwards. So, rice industry is doing good, new plants are coming, plants are going for expansion and the industry has made money last year and it's running very well.

Anand Venugopal:

Okay. Just in regards to prices, how is it going to go into 2023?

Anil Mittal:

It is too early to talk about prices. Just imagine, if somebody asks what would be the dollar price after 2 months, can anyone answer with certainty? We expect price to go up. But we do not know whether they will rise or not. We don't work on speculation in KRBL. Our margins are good. I think Anoop wants to give reply to this. Okay.

Anoop Gupta:

But he's right. We cannot say, but our expectation is looking at the crop and the demand. And the carryforward stock in the industry was practically zero this year. So, everyone is taking rice, and we expect the prices to be higher.

Moderator:

The next question is from the line of Mohit Khanna from Banyan Capital Advisors Pvt. Ltd. Please go ahead.

Mohit Khanna:

Sir, congratulations on a good set of numbers here. I have one question, that if your cost of paddy this year, cost of procurement of paddy this year is higher by 15%, 20%, how do you decide or come up with the selling price 2 years out after maturing it? So is it something that we have to deal with that type of pricing? Or is there any pricing mechanism in between?

Anoop Gupta:

You see, definitely, when today, I am buying paddy which is higher by 10% to 15% higher to the opening price of last year. If you look at the closing price, I am still lower by 10% to 15%. So, our pricing after 2 years is comfortable. I mean, after 2 years, my certain SKUs, even if I don't change my prices, my EBITDA is very good, there is no problem. But looking at the market, we can see after 2 years, even we have to increase 5%, 7% or 10%. But the question is there is even where we have to decrease the rice, looking at the present scenario. So we are comfortable as far as pricing is concerned because of our brand. It is fully shielded by our brand. Mr. Mittal will tell you.

Anil Mittal: Yes, whenever we go to the ministry, we always compare basmati rice with whiskey and wines. Basmati is the only grain in the world where the older it is, the better. And, we have been working on this basis only, whether it is GI or it is pricing. But we found out that it is not commercially viable to age the rice for more than 2 years, because cost, interest and so many things are involved. That is why we have kept it at 2 years.

Last year we fell short by just few hundred tonnes of 2-year old stocks. We went to the market and were willing to pay even Rs.50 / kg extra for a 2-year old Basmati rice. Much to our astonishment, not a single kilo was available. I can confidently say, that in the whole of India nobody other than KRBL is having 2-year old Basmati stocks as of today. This is where our advantage comes into play. We stand a cut above others clearly in terms of pricing & quality.

Anoop Gupta: And I would like to add one thing in the last 30 years of KRBL history, KRBL has never done inventory devaluation. It is always lower than the market price, and that is the reason why we carry aged rice.

Moderator: Our next question is from the line of Amit Doshi from Care Portfolio Managers Pvt. Ltd. Please go ahead.

Amit Doshi: You mentioned that you plan to procure 30%, 35% more quantity. But production is concerned, you mentioned either it will be likely to be the same as last year or it will be 5% to 7% higher. So how do we believe that we'll be able to procure such a higher quantity?

Anil Mittal: We have 40 years' experience of buying & milling Basmati paddy, and we understand the pulse of the market. Every year we have to assess which way the market would go, whether the prices will go up or down or would remain the same. We follow our instincts.

There are 3, 4 advantages with KRBL. Our carrying cost is lower compared to the industry. We always make cash payment to the farmer and others, and thus we get 3% to 4% cheaper paddy from the market compared to many. I will not say we are the only ones who work like this, but our payment to the farmer is so excellent that we always get a cheaper paddy. Thirdly is the brand, the premium on the brands.

Given these 3 points, we cannot afford at any cost to remain without the raw material. We cannot go to the market after 6 or 7 months in search of the right quality of paddy or rice. As I said earlier, we fell short by a very small quantity last year and we couldn't get any quantities even when we were ready to pay extra. So, this year, we have decided to buy more quantities, looking to the price levels, inflation and all other costs. I was thinking of 25%, but Anoop said that we are going to buy 35% higher volumes over last year.

Amit Doshi: And sir, in this Europe market that the new variety with less residue of pesticide, what kind of market it would be like, for example, Saudi today is around INR1,000 crore plus so in future whatever 3-year, 5-year once this commercialization gets, what could be the size of Europe market which you believe?

Anil Mittal: Total European Market for Indian basmati rice is 400,000 tonnes or so. 98% of this volume is in the form of brown rice because there is no duty on brown rice. And white rice has a duty of EURO 160 - 170 per tonne, which makes it commercially unviable for White rice to be exported to Europe. However, some brands like India Gate are being exported, but the quantities are very small. However, there is a good news. Out of the 400,000 plus market, 150,000 tonnes are being purchased by U.K. alone, and balance 250,000 tonnes by other EU countries.

There has been a very big pressure on both the governments to come on a free trade arrangement with each other. They want their whiskeys and wines to come without duty into India. And India wants its agriculture produce to go without duty over there. But since India is at a bigger loss, they are more interested and they are finding the mechanism where both countries are on a win-win situation.

If that happens, let me tell you, that 150,000 tonne market will straightaway come to India and it would be white rice. It will be like other Middle East countries. Otherwise, the total market is 400,000 tonnes, and out of which 250,000 tonnes are to other European countries, 150,000 is U.K. Whether it is white rice or whether it is brown rice, it has to be pesticide-compliant. Therefore, I think it will take 3 years. Next year, we will be able to do some quantities, maybe 100,000- 120,000. The next year, it will be 250,000 or 300,000. And in three years, about 70% of our entire basmati production would be pesticide-free.

Anoop Gupta: What is today share?

Anil Mittal: Today share in Europe is very little, may be 100,000.MT. And out of that, 75% is to U.K.

Moderator: Our next question is from the line of Manish Bhandari from Vallum Capital Advisors Pvt. Ltd. Please go ahead.

Manish Bhandari: Two questions. One, your observation related to the demand in U.S., which has surprised you as well as demand in Saudi Arabia. So, there is some inventory hoarding which is happening in any of these countries? Or the natural consumption has gone up? So one, I wanted to know from you on this.

Anil Mittal: Manish, as far as Saudi is concerned, it is not that this year they have imported 1 million. Actually, if you look at the figures for last 4, 5 years, they used to import 600,000 tonnes 5 years back. It increased to 700,000 tonnes, and then to 780,000 tonnes and this year it has been 1 million tonnes. They always stock big quantities. It is not something they have started doing today. They have been following this practice of stocking huge quantities for past more than 20 years. May be they are having a stock of 50,000 tonnes but it cannot be a stocking base of 1 million tonnes. It could be 40,000 - 50,000 tonnes. They might have purchased more rice this year, but I think for this year also, they are going to buy not less than 900,000 to 1 million tonnes.

- Manish Bhandari:** Okay. And my second question was related to your guidance in Saudi. So, FY'24 can be some INR600 crore plus number for Saudi exports of KRBL, which may include HoReCa or may not include HoReCa?
- Anil Mittal:** No, we are looking at the INR1,000 crore market by FY'24.
- Manish Bhandari:** Which includes HoReCa segment for Saudi.
- Anil Mittal:** Which includes HoReCa, definitely, which includes HoReCa.
- Manish Bhandari:** Okay. And my last question is related to this pesticide-free Europe, which may be something what you have to export to Europe. So, you would do the same thing in India also, pesticide-free?
- Anil Mittal:** No. Today, whatever we are able to buy pesticide-free, it is totally for exports because domestic market doesn't have those type of restrictions and bar. . Please understand that what is being stated by various governments is that the pesticide levels are on the basis of what is being followed in Japan. You will be surprised to know that the pesticide residue levels being followed by Japan are much higher than the norms fixed by Indian Government. This is nothing but a non-tariff barrier, and we have to fight it out. But, our scientists are intelligent and capable. They have already come out with a solution, and they have already come out with such a quality of seeds which are pest resistant and virtually no pesticides will be required to cultivate them.
- Manish Bhandari:** Sure. And sir, last, maybe one more question related to long back, you had a vision of having a portion of turnover in a non-rice and non-Basmati. So where are we? Is there any thoughts on that?
- Anoop Gupta:** Yes, we are working, but we will be on a value-added product where the margins and EBITDA is more than 40%, 50%. But we are looking at rice bran oil, which will take some time, but we are looking at it.
- Moderator:** Our next question is from the line of Amit Aggarwal from Leeway Investments Pvt. Ltd. Please go ahead.
- Amit Aggarwal:** Sir, I have two questions. One is last year, at the same time, you were talking about buying a food company. But after that, there has been no discussion on that. And the other question is, sir, some e-commerce companies are launching their private labels. So will it affect our market share, especially if the market has their own brand? So in future is this a competition for us?
- Ashish Jain:** So Amit, your voice was not very clear. So, I'll just confirm what you were asking. I think your first question was around what is the update on acquisition? And I think your second question was that the impact of private label launches in India on the domestic front.
- Amit Aggarwal:** I feel like that some market has their own brand, like BB Royal.
- Anoop Gupta:** Yes, let me answer the first question. The second will be answered by Ayush. We are still looking at any food company. We are open to it. You see, there are a lot of consultants come to our office and discuss. We are open to it. If any opportunity comes, cash is already there in the balance sheet. We don't have any issues.
- Amit Aggarwal:** But sir, last year, you said that you were almost buying some company by December 2021.

- Anoop Gupta:** No, no, that was I mean, it never happened. It never materialized. We were looking at it. We were hopeful we'll get by December, but it never materialized.
- Amit Aggarwal:** Private label about e-commerce companies.
- Ayush Gupta:** Yes. On the private label e-com side of the business, I believe there aren't many e-commerce players right now doing private labeling, especially in the basmati rice segment, barring Big Basket, which is doing that. But even in Big Basket, we enjoy close to 45% category share. So, the private label scope is very limited at the moment, and it is mainly due to their margin expansion strategy. So on private label, they are able to garner a better margin compared to national brands. So, from that perspective, they have that in the portfolio. And private labeling is also more pertinent in the regional rice category rather than basmati rice. So, in the overall e-commerce space, it's a very small play at the moment, done by one player from a strategic perspective, as I said.
- Amit Aggarwal:** But in future, that can be a big risk to our brands because e-commerce is taking more and more share, more business-like of the whole market.
- Ayush Gupta:** We see e-commerce to be a very consumer-focused channel. So, consumer demand and brand strength continue to be the prominent drivers to sale. So private label player does not stand to gain a lot of penetration or market share from an e-commerce perspective because the consumers are more brand-conscious and less price conscious, I would say.
- Moderator:** We take that as the last question. I now hand the conference over to the management for closing comments.
- Anil Mittal:** Thank you. We are thankful to all the investors for their patient hearing, and there were insights for us also to learn from their questions, and I hope we will try to further provide and give them better results for all times to come, I can promise that also. And we are trying our level best to make you happy and to show that we are the real big rice company with a tradition of doing business. Thank you.
- Moderator:** Thank you very much, members of the management team. Ladies and gentlemen, on behalf of KRBL Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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