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KRBL Limited

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on Tuesday, 09 November 2021

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, please find enclosed herewith the transcript of Earnings Conference Call as held on Tuesday, 09 November 2021, on the Financial Results of KRBL Limited for the Second Quarter (Q2) and Half Year ended 30 September 2021.

This is for your information and record.

Thanking you,

Yours Faithfully,
For KRBL Limited

Raman Sapra
Company Secretary

Encl.: As above

KRBL Limited

Q2 & H1 FY22 Earnings Conference Call Transcript
November 09, 2021

Moderator Ladies and gentlemen, good day and welcome to the Q2 & H1 FY22 Earnings Conference Call of KRBL Limited.

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, sir.

Siddharth Rangnekar Thank you. Welcome to KRBL Limited's Q2 & H1 FY22 Earnings Conference Call for analysts and investors.

I am pleased to introduce to you senior members of the management team on today's call. We will have 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, joining us.

We propose to commence with updates from Mr. Anil Kumar Mittal, Chairman, with views on the industry, business and broad strategy. He would be followed by Mr. Ayush Gupta who would take us through perspectives on the domestic business. Thereafter, we shall have the financial review presented by Mr. Ashish Jain. After the opening remarks from the management, the forum would be open for an interactive question-and-answer session.

A cautionary note, certain statements made on today's call could be forward-looking in nature, and actual results could vary from these statements. A detailed statement in this regard is available in KRBL's Investor Presentation, which is available on the Company's website.

I would now like to invite our Chairman, Mr. Anil Mittal, to share his views. Thank you. And over to you, sir.

Anil Kumar Mittal Good evening to everybody. Let me first give my best wishes to all for this Diwali festival season. May you all be blessed with the bounty of prosperity and happiness in the coming times.

Coming to the business, we all know, with the efforts of the Government by vaccinating more than 100 crore people, within the timeframe, we have more or less controlled the COVID pandemic to some extent. However, it all depends on how much our people remain disciplined and follow the norms stipulated by the doctors and the Government.

It is a great relief to note that globally agro commodities have started picking up pace, leaving few countries like Europe and U.S. However, we had to face some hard times, especially on the logistic front, particularly in shipping. The availability of containers became a challenging factor, including the escalation of freight rates which have gone up by five times. The container freight rates for USA which used to be $2,000, have shot up to $12,000. For Canada, the rates have gone up to $14,000 per container. Similarly for Europe, the container freight rates have gone up from $900 to $7,000. And for Middle East, the rates have gone up from USD $600 to $700 to $2,000 to $2,500 per container.

Same way freight rates have gone up to every other destination which has slowed down the demand to some extent. As a result, there is a 15% decline in the 2nd Quarter in the export of basmati rice from the country. But the challenge is not just the freight rates, also the availability of containers have become a major obstacle. The containers are not available for many destinations for the last two months. We at KRBL have to wait for about a month to get container for destinations such as USA, Canada, including Australia and South Africa.

Anyhow, I remain thankful to my shipping department, who have been working day and night and have been following up with the shipping company so that we are able to manage the situation to a great extent. However, the importers are really feeling the heat because the freight amount for USA is as much as 50% of the cost of the product. You must have heard that the shipping lines have made astronomical profit to the tune of USD $200 billion this year. But we feel that things will not remain the same, and I think that there will be a correction in the freight rates in next six months.

The turnover of the Company is almost the same as compared to the last quarter and year-over-year basis. But the export sales have come down by 44% over last quarter and 57% over year-on-year basis.

During this quarter, we had an incident where there was a breakdown in one of our vessels which was carrying around 28,000 tonnes of basmati rice worth Rs. 140 crore. The cargo reached the destination only by end of October, and the payment for the same are being received now.

Besides, we are unable to locate a new distributor for Saudi Arabia, which used to be our premium market. We are not able to visit Saudi Arabia due to travel restriction, which I hope would be relaxed by the end of this month or by early December. I am sure that our 4th Quarter will show a remarkable progress as far as Saudi Arabia is concerned. Otherwise, export to other destination are going fine, except Iran.

We were quite confident when Joe Biden assumed the Presidency of USA, that the relation with Iran would improve, and there would be relaxation in the U.S. sanctions. Unfortunately, there are no signs of any mutual agreement between two countries. Iran is a market for 1.4 million tonnes of Indian basmati rice, which has definitely got hit due to U.S. sanctions. However, some quantities are still going to Iran via third countries such as Dubai and Iraq.

Pakistan has also become a big competitor, though they are also feeling the heat on recovery of money from Iran. Even Pakistan is not able to recover their money from Iran for the last two to three months. They are actually in a big dilemma being a border country. Interactions are going on between India and Iran on a Government-to-Government basis for barter deal. If things materializes, there will be a huge export of rice and medicines from India to Iran.

Recently, Iran has removed the embargo of importing rice from India and other countries, which they every year imposed during the month of July-August, because their new crops arrival season is from August onwards. So, day before yesterday only we got this announcement that the importers can import the rice and they can get the licenses. This is the latest news on Iran.

On non-basmati, we are doing extremely fine as far as China is concerned. But we do not entertain much of the non-basmati business because the profitability is quite low. And KRBL do not involve in such businesses where the profit or margins are less than 8% to 10%. China will remain a big importer of 100% broken Indian basmati rice, but there are hardly any chances of exporting large quantities of basmati rice to China. Mostly basmati rice to China is catered from Hong Kong.

But let me add over here that non-basmati business is increasing from India. And there has been an increase of four times as compared to two three years back, because we are the cheapest today in the world as far as non-basmati is concerned. When we went into the details that how the exporters are concluding such big business, we came to know that the business is concluded on a profit margin of just 3%, that is why our interest discontinued to enter into non-basmati rice.

Now, I will like to give you some updates on the new crop. I would like to update you on the new crop which has also shown a lot of variants in pricing and quality this year. Farmers were not able to get a lucrative return of their produce last year, and therefore there was a less sowing by 10% as per the Crop Survey this year. Besides, the weather gods were probably unhappy. And delayed rains in October have damaged the new crop further. Thus the crop size as compared to last year has gone down by 25% as against the initial prediction or 10%. This has pushed the basmati, paddy prices upwards.

Basmati 1121, which was sold at Rs. 28,000 per metric tonne last year is being sold at Rs. 36,000 per metric tonne this year. Pusa 1718 which was priced at about Rs. 24,000 per metric tonne, is today at around Rs. 32,000 per tonne. Similarly 1509, which was sold at Rs. 18,000 per tonne last year is now priced at around Rs. 28,000 to Rs. 30,000 per tonne. Traditional Basmati has not yet arrived. But I believe that the price will open above Rs. 45,000 per tone. If the prices of the 1121, 1509, increase then Traditional Basmati will further increase. But Pusa Basmati Rice 1401 is costlier by Rs. 7,000 per tonne as compared to last year. With the current price structure and the freight rates, the overseeing buying pattern is somewhat subdued. The buyers are waiting the trend and may enter the market in the first or second week of December.

Last time we had discussed about the development of new varieties by injecting two genes of bacterial blight and two genes of blast to control the pest diseases and to discontinue the use of pesticide. We have recently visited Pusa Institute and we were amazed to see that trial of pest-resistant varieties of 1121, 1509 and 1401. The crop were healthy and sound. And we will get the seed this year for foundation seed, and 2023, the commercial production will start for Pusa 1885, Pusa 1882 and Pusa 1886, a substitute of 1121, 1509, and 1401 respectively. We have recommended from the trade, rather to change the name of the variety it should be named as pest-resistant 1121, 1509 and 1401.

Now, I would like to come on domestic sales. We have achieved a phenomenal growth in domestic sales, achieving a revenue of Rs. 687 crore compared to Rs. 386 crore year-over-year and Rs. 417 crore quarter-over-quarter, which is around 77% and 65% higher over comparative periods. Further highlights on domestic business will be shared by Mr. Ayush Gupta.

We are planning to acquire some new businesses in the food category which will be informed as soon as we sign the agreement. We are in the process also of putting up some new plants for processing of regional rices in places such as Kandla, Karnataka, Maharashtra and West Bengal.

We have already finalized a land at Kandla and the plant would be ready by next year from where we will handle both export as well as domestic business. This plant will give us a major advantage in export due to logistic factors. We have already recognized a 30 acre land in Karnataka, which would most probably be finalized soon. Besides, our brokers are on the hunt for procuring land in West Bengal and Maharashtra, and this will also be finalized by the end of this year.

I am quite sure that with these new plants at Kandla, Karnataka and West Bengal along with Maharashtra, along with the finalization of the acquisition, we will be able to increase our topline as well as bottomline in the years to come. We are a bit late in procuring this land and the project because of the COVID. Otherwise these plants would have come by now, what was our original plan.

On GI, the Supreme Court of India has remanded the case back to Madras High Court to decide on the issue within three months. Out of which, two months have already passed. Since the Appeal was of the MP Government, APEDA cannot interfere, hence the initiative has to be taken by MP Government. APEDA may intervene after the lapse of three months. As far as EU is concerned the matter stands as it is.

Before concluding, let me add that in any agricultural commodity business anywhere in the world, there could be a differences in the revenues from one quarter to another. But we are sure that our yearly revenue picture will remain promising.

I would now like to hand over to Ayush Gupta. Over to you, Ayush.

Ayush Gupta I will now be discussing the domestic division's performance for Q2. I am ecstatic to share that the domestic rice business recorded a strong quarter performance with volumes growing by 105% to 152,430 metric tonne, and revenue growing by 77.9% to Rs. 687 crore.

Branded rice business which continues to be our main focus in India, grew by 56% in volume terms, and 51% in value terms. The balance increase in volume and value was contributed by a one off unbranded rice opportunity which came along the way.

The performance of the branded rice business has been all rounded with positive contribution coming from all channels and across product segments. I will be discussing the numbers in two broad segments, the Consumer segment and the HoReCa segment.

Consumer Segment:

KRBL has recorded highest number ever achieved in Q2 of any financial year in the Consumer segment. Backed by strong equity of the brand India Gate, the growth in the segment has been equally contributed by both general trade and modern trade channels. While growth in modern trade and eCommerce has been organically driven, we have through our teams put in place a concept of everyday great execution, where we monitor and manage the most critical performance metrics on a daily basis. This not only ensures consistent consumer experience, but also builds stronger trust and confidence amongst the customer. We believe these small wins every day will compound to give us a substantial competitive advantage in the long term.

On the other hand, the growth story in the general trade channel has been far from organic. We have been undergoing systematic transformation. For a category which traditionally has been wholesale driven, today 30% of our general trade business comes from active retailing. Growth in this channel has been backed by persistent efforts of increasing sales team productivity, running successful retailer loyalty programs and putting in place a GTM which is committed, resilient and agile.

To summarize, scaling up active retailing, practicing an impactful GTM, and focus on everyday great execution, are the strong pillars on which we are driving the consumer segment of the business.

HoReCa Segment:

Majority of the growth in the domestic market in Q2 has been contributed by the tremendous volume uplift in the HoReCa segment. While all four zones of India showed high double-digit growth compared to Q2 of last year, on account of markets opening up after COVID restrictions, the South Zone, the highest contributor to the HoReCa segment demonstrated close to 100% growth. On a lighter note, all I can say is that South Indians love their biryani. The performance at this front have been phenomenal. And the HoReCa numbers are healthy double digit growth even when I compare to H1 of pre-COVID levels with the current financial year.

While brand equity and quality of product remain the top enablers, which persistently allow us to penetrate this highly cluttered market. I believe, undisrupted and consistent supply chain has given us an advantage over the vast unbranded fraternity of peers in the market.

At KRBL, our outlook for the basmati category remains progressive. We believe there is immense scope of growth in both the Consumer as well as HoReCa segment of the business. We are constantly evaluating and upgrading our retail and distribution capabilities to match that to FMCG best practices.

Thank you. 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 from an in quarter perspective. All figures mentioned by me would refer to the consolidated financials of KRBL Limited.

Total income for the quarter stood at Rs. 1,059 crore as against Rs. 1,136 crore in the same quarter last year, which marked a decline of 6.8%. Overall, revenue performance in the quarter was affected by exports during the quarter. Export rice revenue during the quarter was at Rs. 283 crore as against Rs. 669 crore in the same quarter last year while the rice volume was at 45,896 tonnes as against 95,423 tonnes. The reasons for this performance have already been explained by Mr. Mittal.

Moving on to the domestic rice business as mentioned by Ayush, the domestic rice business recorded a very strong quarter with volumes growing by 105% to 152,430 tonnes, while the revenue grew by almost 78% to Rs. 687 crore.

Arithmetically, you would see that the realization in the domestic business was lower than the comparable quarter last year. This is the direct impact of lower realization on the unbranded sales, which caused the overall realization to decline, though the realization on the branded business continues to be stable with only a marginal dip over the same period last year.

With these comments I have covered the performance of the rice business of the company. Amongst the other larger product category, the power segment recorded revenue of Rs. 35 crore against Rs. 28 crore in the same quarter previous year, thus marking a growth of 20%.

Having covered revenue, I will now move to the bottomline performance of the Company. Gross profit of the Company stood at Rs. 309 crore as against Rs. 339 crore in the same quarter last year, while the gross margin was at 29.2% as against 29.8%. As you know, rice exports offer a higher realization on a per tonne basis, owing to lower exports in the quarter, overall sales realization per tonne declined, causing the cost of materials consumed to increase as a proportion to 70.8% of total income as against 70.2% in the same period last year. This caused the aforementioned movement in gross profit margin.

EBITDA margin for the quarter was at 19.2% as against 19.7% in the corresponding quarter last year. PAT for the quarter was at Rs. 136 crore or 12.9% as against Rs. 150 crore or 13.2%. I am happy to share that our net cash flow from operations was at Rs. 974 crore, a growth of almost 30% on a year-on-year basis. This was driven by tighter working capital management during the quarter.

As we enter the paddy buying season, our cash position, our access to the working capital and thus our paddy inventorying ability remains strong. Cash and bank balance, including investments were at Rs. 915 crore at the end of the quarter as against Rs. 343 crore in the same quarter last year.

Having covered the performance in the quarter, I would now like to touch on some recurring themes raised by investors with a view to provide more color on some of these themes.

First is with respect to providing a second click on the four to five year plan, to achieve Rs. 8,000 crore revenue target managed by management in earlier quarters and the consequence capital allocation. I would like to mention that we are firming up the plan and we will be in a position to share more details on this, in the next quarter earnings call. As Mr. Mittal mentioned, both organic and non-organic growth will be key to this plan.

Second is with respect to the restructuring of the company's energy business. Basis discussion in the Board meeting yesterday, the plan has been suspended. As has been explained in earlier calls, the major challenge in accomplishing any form of restructuring in this business is in dealing with several State Electricity Boards for Amendment of the Existing Power Purchase Agreements. Second, the process to transfer the land and immovable property including certain forest lands and revenue land etc., is very cumbersome and involves considerable costs.

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

Moderator Thank you very much. We will now begin the question-and-answer session. The first question is from line of Pritesh Shah from Lucky investment. Please go ahead.

Pritesh Shah Thank you for the opportunity and Season's Greetings. Sir, some color issue to give on the H1, what is the domestic volumes and what is the export volumes that you would have done in H1 and the growth there?

Ashish Jain Can we move direct to the next question, I will come back on this right?

Pritesh Shah My second question is here, since there is a lot of quarterly swing it would be very nice if you could give us based on the H1 performance, what should be your volume outlook for FY22?

Also, this H1 export volume from your opening commentary, does it mean that it doesn't include any major shipments to Iran and Saudi if you could clarify that.

And my last question is, you mentioned about the new paddy prices in the current harvest. So, I wanted to understand what is the inventory that we are carrying at the end of September in volume terms? And is it fair to assume that a part of the Rs. 7,000 increase that you are seeing on the new cropping side, a part of that would flow down to your profitability as you start entering the next half or next one year where you use from your own inventory, this Rs. 7,000 starts flowing to your profitability. These are my questions, sir.

Anil Kumar Mittal I will be able to answer you on account of exports. In first quarter there was no exports to Iran.

Pritesh Shah I am asking for half yearly that would be very nice if it could be for half yearly.

Anil Kumar Mittal Half yearly numbers I don’t have right now.

Pritesh Shah Half yearly volumes for export and half yearly volumes for domestic and what is a growth there, yes?

Anil Kumar Mittal You had also put a question to us about exports to Iran in H1. For H1 I don’t have the numbers right now. But as regards Quarter 1, there might be small quantities exported to Iran, but definitely there were no exports in Quarter 2.

Pritesh Shah In Saudi?

Anil Kumar Mittal There were some exports to Saudi during the 1st Quarter, but 2nd Quarter was very slow. I have explained earlier as well that Saudi Arabia was our most premium market and we used to export more than 1 lakh tonnes valued around Rs.600 – 700 crores. The slowdown is because our distributor had a financial disaster in their organization . We now have to change the distributor since we are not able to achieve those numbers which used to be 4 years back. We have come down to 20,000 tonnes a year instead of one lakh tonne a year. We are waiting for the flights to resume & visas to be issued so that we finalize our new distributor. We are already in discussion with 3 - 4 good Saudi distributors.

Ashish Jain I can now share the volumes for the export, for the domestic business for the first half of this year. The total volume sold in the first half of this year in the domestic business was 238,300 tonnes. In the export business, it was 139,320 tonnes.

Pritesh Shah What is the corresponding growth here, both these places? So, I think domestic would have grown and export would have declined, right?

Ashish Jain Yes, that's right. So, the same number for the domestic business in the last year was 137,300 tonnes. And like Ayush mentioned this marks almost a 100% growth over previous year.

Pritesh Shah For export, 139 versus one --

Ashish Jain I will come back on the number for H1.

Pritesh Shah My other question of this inventory, what is the carrying inventory that we have at half year? And your comment --?

Ashish Jain Yes, the total inventory in our books as of September end was Rs. 2,015 crore.

Pritesh Shah And in volume term?

Ashish Jain So, volume, I will share that number. In terms of volume, I will give you the volume for paddy and rice. So, we had a total inventory of 62,000 tonnes of paddy and 365,000 tonnes of rice.

Pritesh Shah So, my other question in this was when you are mentioning Rs. 7,000 increase in prices for paddy this season. Is it fair to assume that incrementally when you draw down your inventory through your P&L via sales, a chunk of this inventory on let's say high realization should now start flowing through your profitability?

Ashish Jain Yes, so the way we look at it is that, I think there is no way that we will not respond to the higher cost of purchase. But at the same time, given that most of our volumes come from the branded side, I think to that extent we have that power to pass on the price and therefore protect the margin. Now in terms of timing, whether that price increase happens in this quarter or a few quarters later, is something that we will have to work on.

Pritesh Shah And what is your volume outlook for '22, after what you have finished for H1?

Ashish Jain So, I think we are definitely looking at doing better than the last year however as Mr. Mittal mentioned, the trend on the export side is evolving. But our current view is that we should do better than what we did last year.

Pritesh Shah Okay, just so that export figures of last year volume if you could give.

Ashish Jain Yes, that I will --

Moderator Thank you. The next question is from line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi Before my question, I just wanted to clarify on two comments which were made. So, one of the comment mentioned was, there was a Rs. 140 crore of export order, which has been now realized. So, is that correct understanding that the current higher debtor is approximately Rs. 150 crore to Rs. 200 crore higher than our normal debtor, is because of that account and it will be reduced to that extent.

Anil Kumar Mittal No, actually we had exported rice in the month of September itself, and it was supposed to reach the destination before end of September. But during the voyage the vessel met with an accident, and got halted in the midstream and it took more than a month to get repaired and reach the destination. It has reached in the end of October and the payments have come. The export will reflect in the 3rd Quarter of the financial year.

Amit Doshi So, higher debtor irrespective of this order, particular order because our debtors are far higher than our average Rs. 200 crore to Rs. 250 crore of debtor. So, this quarter we have around Rs. 380 crore of debtor.

Ashish Jain Yes, that's correct. So, I will just add to what the Chairman said. So, this particular sale that Mr. Mittal had mentioned is not a part of debtors. However, you are correct, the debtors are higher, but that's because of a separate transaction, which we will collect on in the current month.

Amit Doshi And one mention was about Iran day before yesterday, some clarification came. So, now we will be able to export to Iran, correct?

Anil Kumar Mittal Factually every year, in the month of June / July, Iran puts an embargo on import of rice into Iran to protect their farmers' interests since they themselves grow basmati rice. Every year they remove this embargo in September after arrival of their own crop. They have recently announced to issue import license for different variety of rice knows as '*Sabte Sefaresh*' to import rice into Iran. But the payment problem is still persisting, since there is no payment available in the government coffers between India & Iran. Moreover sanctions are still in place, barter deals cannot materialize and there is no rupee payment mechanism available anymore. whatever rice is exported to Iran nowadays is exported via Dubai and other destinations.

Amit Doshi So, we still don't see next say half year you know going back to old volumes of our Iran sales that we used to do, probably two years back.

Anil Kumar Mittal For the last two months, high level discussions are going on between both the Governments. And we are quite hopeful that by December or January, something should materialize. We feel it is quite lucrative for both the countries to enter into barter deal because India desperately needs to import oil from Iran which is cheaper by 5 – 6% over other countries.

Amit Doshi In the opening remark of Ayush, transaction mentioned that there is one-off transaction of unbranded rice. So, of course, there is a huge jump in the domestic business of almost Rs. 300 crore, year-on-year comparison. So, what could be the contribution of this one-off transaction?

Anoop Kumar Gupta Rs. 100 crore.

Amit Doshi Which is like one-off transaction which is not likely to repeat?

Anoop Kumar Gupta Yes.

Amit Doshi And just one point that usually our margins are higher in the exports compared to our domestic. Now considering that there is a significant jump in the domestic business despite that our margins are hardly baring, a few basis points, down. So, what could be the reason for that?

Anoop Kumar Gupta Who told that domestic margin are less than exports? It's a realization in export is more than domestic

Amit Doshi Realization, sorry, I mean realization are generally higher in export.

Anoop Kumar Gupta No, the question is the realization in domestic is less because the basket which we sell them is broken rice, low price rice, but the procurement cost of that rice is also low. So, you cannot comment that margin is low in domestic. Margin is equally good in domestic as well as exports.

Amit Doshi And you mentioned that non-basmati rice has a very low margin and that's something which is not of interest of KRBL. So, these new plants which are being set up in Karnataka, Kandla, West Bengal or Maharashtra, and the acquisition that you are planning or probably you are on the way to do some analysis. So, what could be those, it is towards what kind of segment expansion that we are looking at?

Anoop Kumar Gupta Yes, it's a good question, this is a regional rice and it is very premium quality regional rice. So, what we are talking, we will be buying the paddy, milling it, ageing for one year, one and a half years then selling it in a very premium segment, not only in India even in exports. And premiums are in the tune of 20% to 30% over to new rice. We are not talking as a commodity. We are talking as a totally branded regional special, just like you see Gobindobhog, Gobindobhog, today is sold more than basmati rice, which is of West Bengal. Kolam rice which is one and a half year old is sold by minimum 25% to 30% higher than to the normal rice. SonaMasoori in South has been sold at 25% higher, if it is aged and in a very good quality rice. So, we are not trying to hit the 90 million tonnes market. We are going in a market which is around a million tonne or two million tonnes.

Amit Doshi And apart from this one-off transaction of this domestic business, the balance part you believe it's more of a sustainable number, because that's something which is significantly higher? Or do you believe it’s just a Q2, there is a bit of a pent-up, etc., that is there in these figures?

Ayush Gupta No, definitely as I mentioned in my prepared remarks that the numbers that we are doing in Consumer segment as well HoReCa segment are on a positive outlook. The numbers that we have done are sustainable, and we see great amount of opportunity still lying in this market. There are a lot of expansion opportunities, there are still a lot of growth opportunities from a distribution and retailing point of view. So, the numbers that we are doing are purely results of our efforts in the general trade and modern trade channel. And we will continue to meet those and we see a lot of opportunity, still in the basmati segment.

Amit Doshi And last question about this huge cash that we now have an approximately Rs. 900 crore plus cash on our hand. What is the plan to use it for these new plans or CAPEX, for acquisition, etc., and what balance portion you plan to distribute it? So, I am just trying to understand the allocation of that cash that we are going to generate, and which you already have --

Anoop Kumar Gupta Generally the food industry the CAPEX is not that big a cost, it is generally the raw material. When I say I have to age the rice for one year, one and a half year. So, I need thousands of crore for ageing those rices. We have money, but definitely it will be used in the raw material ageing process.

Amit Doshi So, most of it is going to be rather than increasing the distribution, we are planning to use that cash existing cash as well as new cash generation towards this working capital of additional inventory, etc., Is that correct?

Anoop Kumar Gupta And we are looking at acquisitions also. So, money can be spent there also.

Ashish Jain Yes, I think there was a query earlier on the H1 exports, that number is 132,000 tonnes of last year.

Moderator Thank you. The next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal My question is, who bears the cost on the container and all, whether we bear or the client bears, to understand how the container cost behaves? And second, can there be an average inventory gain of 20% over the next one year. And third question is, because our domestic business has improved tremendously going forward if export comes back either to Iran to or to Saudi so will we be able to meet that demand, what is the capacity utilization basically?

Anil Kumar Mittal All are very important and good questions. Let me clarify that all the freight is borne by the buyers, since we do not have a long term sales. Our sales / contracts are concluded for a month or maximum 2 months, since we are into FMCG products. We do not sell like a private label with quantities varying from 40,000 - 50,000 tonnes. We sell to each distributor on the basis of 1 or 2 months sales. Therefore, whatever we sell, we sell at the increased freight rate and that is hitting the buyer. This is a big financial hit and all the customers are worried. In case the freight rates go on increasing like this, then there would be an impact on the pricing.

Rajesh Agarwal Second question was on inventory gains, on an average of ~Rs. 2,000 crore inventory? Can there be a 20% gain over one year?

Anoop Kumar Gupta That's minimum, we are expecting, minimum.

Rajesh Agarwal And third question, suppose now domestic demand has gone up, if export comes back in a big way, after six months when the container price reduce or we are trying to export to Iran, Saudi, Iraq. So, will be able to meet the demand?

Anil Kumar Mittal In all our conversations in the past, we have explained that we have a huge processing and milling unit at Punjab. We are already working on a 55% to 60% on our installed capacity. So, we have a spare capacity in case we have a growth of 35 – 40%.

Even for rice processing, we are utilizing today around 80 – 85% capacity. Therefore we have 15% extra capacity in the rice processing as well. Besides, we are in the process of putting up another processing plant. Since we have 2 – 3 years aged rice in our stock, milling is not that critical for us. We need more processing lines which we already have and are going to commission another one this year.

Rajesh Agarwal So, procurement will be easier for us or procurement will be difficult. So, much volumes, if we are going to procure more?

Anil Kumar Mittal Our speciality is on paddy & rice procurement. We have today more than 2.2 million square feet of covered warehouses, and have around 6 million square feet of open plinth area for storage of paddy. There is no issue in handling, even if we increase by 200,000 tonnes. It will not be difficult for KRBL.

Rajesh Agarwal The last question is like to like suppose we compare basmati to basmati, in exports and domestic. What is the difference in realization, the cost remaining the same?

Anoop Kumar Gupta Yes, it's about 5%, it is 5% more in exports.

Moderator Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta #1 I had one question on capital allocation. Now, you said that most of the cash that we have and we do have a lot of excess cash now, will be used to finance the inventory. But reality is, your return on networth is almost like 15% to 20%, historically. And against that your growth rate is much lower than the return on networth. So, even if you are targeting doubling, to Rs. 8,000 odd crore even then you are talking about growth rates of 12% or 13% maximum. And since your return on networth is much higher, you will be able to more or less finance it with your internal accruals, which means that you actually don't need the Rs. 1,000 crore net cash or whatever, Rs. 500 to Rs. 1000 crore net cash position that you have right now. So, what are the concrete plans about that?

#2 secondly, I think in the CFO's remark, also they said, two of the questions related to the investors have been answered, but no decision or no announcement has been done on the buyback front, which also has been a constant question from the investor.

So, I think on these two, we need more clarity, because we actually feel as investor that you are financing your inventory which can be financed by 5%, 6%, pre-tax cost of debt, with equity, which is much expensive way of financing this inventory, and which can be financed using the internal accrual from the profits that you will generate from this quarter to the next five years.

Ashish Jain I would just like to add to the comments that I had made. This is Ashish. I think, in the way that things stand right now, your observation is correct. However, as it has been mentioned, we are looking at a 2x revenue. Now for that, like has been mentioned, there will be a couple of levers that we will pull, one will be on the organic side, which is manufacturing plants being set up. Second, Mr. Mittal has already mentioned that there will be inorganic acquisitions. So, the future capital allocation may look a lot different than our current capital needs. And this is why we have asked for time till the next earnings call, for us to be able to give you a more second click view on how the capital will be spent or allocated over the next five years. Does that answer your question?

Sarvesh Gupta Yes, understood. Second question is, on your realizations, I think it was mentioned just now that realization in domestic is lower by just 5%. But if I remember correctly, if we were to do the maths of dividing your export revenues with our export volumes, at least in the previous periods, I think our difference in realization was very significant to the extent of 40% or thereabouts. So, more than Rs. 100 rupees per kg, in exports versus what we get in domestic. So, can you throw some more light on realizations?

Anil Kumar Mittal When we talk about the pricing in domestic market, we talk about the basket of products. In domestic market, we have about seven or eight different SKUs starting from Mogra, Mini Mogra, Dubar, Tibar, etc., whereas in export we export only the head rice. Let me add here that export of broken rice is not allowed by the government. It was banned under DGFT Regulation 1928/37 way back 20 years ago. So, when we talk of the realization of Rs.57 it includes those SKUs which are Mini Dubar, Dubar, Tibar, Mogra's which cost right from Rs. 40 to Rs. 45 and upwards. Whereas in exports, we have a better realization because whatever we export is head rice. The question was that if we match apple-to-apple, head rice to head rice, whatever head rice we sell into the domestic market as compared to the head rice being sold in exports, there is a better realization of 5% overall in the export market over domestic market.

Sarvesh Gupta And for the entire baskets, the gross margin of export versus gross margin of domestic, is that the same or you were saying that for the same --?

Anoop Kumar Gupta Yes, it maybe two, practically say, maybe 2% or 3% here or there.

Moderator Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh Most of my questions have been answered. Just wanted to get a sense of potential margin expansion, given what Mr. Mittal said about the exports to Saudi and Iran, potentially coming back in Q4. Where could these margins go up to?

Anil Kumar Mittal It is difficult to comment at this moment, because anything being conveyed from my desk should be 100% correct. We expect once the Iran and Saudi market starts, we will really have a good jump since if we look at five years back my export to Saudi Arabia alone was around 98,000 to 100,000 tonnes. And Iran we have been shipping annually about 125,000 to 150,000 tonnes. Therefore, I am talking about a gap in business of about of 225,000 – 250,000 tonnes which cannot be brought back overnight. I am hopeful that it might take a year or two to resume those numbers. Moreover, when these quantities of 200,000 tonnes business come permanently again back to us, we are talking of a top-line of Rs. 1,400 to Rs. 1,500 crore a year. And the bottom line, as you have seen in the last 10 years, we do not do any business with lesser margins since we are into our own branding & do not work under private label.

VP Rajesh My second question is that you mentioned there is a high level delegation discussing a barter deal with Iran. So, has that been done in the past meaning is there are precedence for doing barter deal with Iran?

Anil Kumar Mittal About 50 years back, India had derived out a mechanism of Rupee payment with Russia in barter deals. That helped India to carry on with huge export & import transactions with Russia. Same way 4 years back, we derived a mechanism of Rupee payment with Iran wherein we used to import crude & petrochemicals and other commodities from Iran & export medicines, rice, tyres and many other things in terms of Rupees. The system was being controlled by RBI & was being handled by UCO Brank & IDBI Bank.

So, when I talk of barter deal, India requires to buy 2 million tonnes of fertilizers besides crude & petrochemicals, which the Indian government is not able to click due to current sanctions. Last time, the sanctions were relaxed and India was intelligent enough to click the deal

VP Rajesh My last question is regarding the acquisition. So, if you can give a little more color as to what area we are looking at, and what is the potential size of the transaction that you may be looking at, that will be helpful just to understand how we are thinking about using this cash?

Anil Kumar Mittal It has been almost now four to five months, we have been discussing. It will not be appropriate for me to disclose the price of the acquisition. For five months, day and night my team has been working on this acquisition. But there are so many ifs and buts till the time the deal is not signed. If we are working on a deal for five months and there have been hundreds of calls from one end to another call, with the foreign participants & third parties to conclude this deal, it is difficult to say whether our five months' labour would be wasted of if we could succeed. I was expecting this deal would be concluded by 15th October itself. Now we are on 15th November, so it's difficult to comment anything on the deal.

VP Rajesh Maybe you don't want to talk about the size, but maybe just directionally in which area is it, is it in the rice business or is it in completely different?

Anil Kumar Mittal I would like to not disclose too many things, but it is concerning food business.

Moderator Thank you. The next question is from the line of Anuj Sharma from M3Investment. Please go ahead.

Anuj Sharma One was regarding Iran, in the best days, what was the maximum market share we had in Iran, historically?

Anil Kumar Mittal The maximum share of Iran, I feel was in ending 2020, I believe we sold about 200,000 tonnes.

Anuj Sharma My second question is on the distributor in Arabia, while it will take time, as the permits come and you said it will take one to two years. But he will be distributing on the back of existing setup, right. So, why should it take so much time for a new distributor to scale up, in a market wherein your brand is already known, just some thoughts into this segment --?

Anil Kumar Mittal You have a valid question. Actually, this distributor was appointed by us in 1988. It has been already 32 /33 years he has been our distributor. And the relationship in so many years is at a different level. He knows all the nitty gritties of the rice market right from HORECA, wholesale, general trade including modern trade. In the past we have been showing excellent exports to Saudi Arabia alongwith the results.

In last five to seven years, I don't know what mistake they made. They are not coming out with the truth about the big losses in their business transactions. I do not know where they made the mistake, which made them lose billions. That is the reason they got financially broken. Therefore, for the last two years we are really facing problem.

We now want to change the distributor. Not changing the distributor was our mistake. If we now decide on a wrong distributor, it will be a big failure for us. It is important for us that we should choose the right distributor. For choosing the right distributor, we have already selected four or five big MNC players who distribute food items. We have to visit Saudi & see their operations and infrastructure and decide on one to them. That is why it is more important to visit Saudi, stay there for a week's time evaluate their operations and then decide who will be our next distributor for India Gate Rice.

Anuj Sharma My last question is in the Middle East, are there any areas or countries beyond Iran and Arabia where you believe, you can have larger market share than what do you have now? And which would be these countries? Thank you so much.

Anil Kumar Mittal There is only one country where we are still not very aggressive. And we intend to really develop business over there. We are facing the problem of profitability. People are working like non-basmati rice where there are very small margins. Therefore, we are looking for our own distribution in Iraq. Iraq is the country who started buying around 150,000 tonnes four years back and today they import 600,000 tonnes. Entire exports are under private label, and no branded rice is going over there from India. We are looking for a good distributor for India Gate Rice to protect our brand and our profitability.

Moderator Thank you. The next question is from line of Himanshu Upadhyay, an independent analyst. Please go ahead.

Himanshu Upadhyay So, my question was on this, last year, we built a large amount of inventory as the prices were very low. And now this year, the prices are 20% to 30% higher, and we will be selling even volume terms much higher in FY21 versus FY20, or even FY19. So, how would our strategy evolve on buying of paddy? And would it be that similar amount we would like to keep of inventory or you would be, will again like to build a higher inventory because we sold a higher in last year? Or we will be selling higher in FY22? Can you throw some light on your strategy and how the mind works when the inventory or the prices of paddy increases? So, this was first question.

Anoop Kumar Gupta I don't know what will happen after one month or two months, the market is on, but as the price presently is about 25% to 30% higher. We see our procurement will be 80% to last year. It will be lesser than last year. But next year, our procurement will be 130%. This is the way KRBL operates, if the prices are higher we do 80% to 85%, if prices are lower we do 120% to 130%. That is why today the stock levels are 365,000 tonnes of rice. And it is natural phenomena in the industry. When the farmer get a very good price per acre naturally the next year, the sowing would be just 50% more than this year.

Himanshu Upadhyay And the second question was on the non-basmati side, when we mill the rice, we get even broken into half and one-third, okay, and we sell it in the market. For non-basmati, is the proportion of broken rice after milling higher or lesser? And do we get similar premium for a non-broken rice in other varieties over broken rice, because we are focusing on that segment, so this was the question.

Anoop Kumar Gupta No there is no premium on non-basmati broken. Actually, we are looking at rice flour, we are looking at idli, rava, we are looking at so many products of non-basmati broken, will be value adding to those SKUs.

Himanshu Upadhyay So, I was saying that in agro commodities or companies which deal with agriculture, there are two things or two moats one is the brand or we buy companies for a brand. The other is processing and getting the supply chain, the whole supply chain for that agro commodity. So, when a company looks at acquisitions, what would be the rationale for acquisitions for us, not the recent one we are doing, but even in future, will we want to buy brands or it would it be because we want to have a backend supply chain and storage facility and relationships with the various participants in the market.

Anil Kumar Mittal We are buying the brand for two reasons, one is the brand, and to increase our top and bottom-line because we are sure, if the brand comes to us, we will be able to achieve a good top-line as well as the bottom-line. These are the two reasons of acquiring the company.

Moderator Thank you. The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari I wanted to know if you can share the geographical breakup of India revenues, with the East, West, North, South?

Ayush Gupta I am sorry, that information is competitive in nature, will not be able to share it.

Abhishek Maheshwari My second question is that last two, three weeks we have been hearing about food shortages in China. I don't know how far it's true or not, but we have been hearing about it. So, do you, are you hearing something like this in rice industry also? Or is it just speculation?

Ayush Gupta I am just confirming your question, is your question about whether we are seeing any rice shortages in China?

Abhishek Maheshwari Yes.

Anil Kumar Mittal There is a shortage of rice in China. As far as rice is concerned when it comes to head rice or superior quality of rice, they don't want to buy from India, and they are buying the total demand either from Thailand or from Vietnam. When it comes to India, they are buying only broken rice because that is their necessity, because they don't have the availability of broken rice from Thailand and Vietnam. They don't have alternative for that quantity of broken rice.

Moderator Thank you. The next question is from the line of Aman Madrecha from Augmenta Research. Please go ahead.

Aman Madrecha Can you just give me a mix of our B2C and B2B, if there is any, like what proportion of revenue comes from B2B and what proportion comes from B2C?

Ayush Gupta I am sorry, once again this is competitive in nature, we will not be able to disclose that.

Aman Madrecha Just a basic question, like why are we seeing the insulation such price rises in the paddy and the rice, like what are the reasons for this price increase?

Anil Kumar Mittal Let me explain you, the rice sowing is done in GI area which are limited to seven states. And there cannot be any expansion, whole India cannot produce basmati rice. Basmati rice as compared other crops is directly connected to the economics of the farmer income. Last year the farmer never got a good pricing and prices were quite low. You will be surprised, a variety called 1509 was sold at Rs. 18,000 to Rs. 19,000 a tonne, which was in huge production last year. This year, for 1509 the price is about Rs, 29 – 30 a Kilo which is around 35% higher over last year. This year since the farmer is going to get a handsome return, and economically they are very happy on basmati prices, next year the production of basmati is going to increase as Mr. Anoop Gupta told you. So, this is directly connected to the economical situation and the income of the farmer.

Moderator Thank you. Ladies and gentlemen, we take the last question from the line of Chetan Doshi from Tulsi Capital. Please go ahead.

Chetan Doshi Looking at the balance sheet, if you see that there are changes in inventory of finished goods or work in progress or stock in trade. Now, this current quarter the amount has increased by almost five times. So, last quarter, it was Rs. 55 crore, this year you have shown Rs. 283 crore. Suppose we remove this or whatever is saleable, what impact it will have on the Profit Before Tax? Because six times that amount is increased.

Ashish Jain We have not understood your question.

Chetan Doshi I will tell you, see you have shown that the work in progress or stock in trade or increase in finished goods, last year, September quarter, it was only Rs. 55 crore, this year it is Rs. 283 crore, that has reduced the Profit Before Tax by that much amount.

Ashish Jain Sorry, I am not still not able to relate to the figures. Can we just take this offline? If you don't mind?

Ashish Jain So, let's take that offline because I am not able to relate to the numbers at least in the balance sheet.

Chetan Doshi Another question is you have shown your inventory position at Rs. 2,016 crore, what is the saleable value of this current price, if you see, what will be the saleable value of these Rs. 2,016 crore?

Ashish Jain I think Mr. Gupta had mentioned that, if we look at our purchase price as compared to what we are able to sell, there is a clear markup of 20% that we estimate. So, does that answer your question.

Chetan Doshi It is around Rs. 2,400 crore.

Ashish Jain Yes, but that, so like I had mentioned our inventory includes amongst other items, two things, one is paddy and the other is rice. So, I think you should look at the 20% number on the rice value.

Anoop Kumar Gupta No even both the value, 20% number, but it will come in next three four quarters when the rice will be sold.

Chetan Doshi Going by the logic what you just explained to other investors that there is the 30% gain in the current pricing over the last year. Now, if that is true, then the profitability is not showing that much improvement in the quarter which we ended that is September. Can we expect that in December quarter, the 20% to 30% jump in the current profit level will be shown?

Anoop Kumar Gupta It doesn't mean that I will sell everything in that quarter only, the stock which I am carrying 365,000 tonnes, will be sold in next five to six quarters.

Chetan Doshi Let me tell you KRBL is a very efficient company, it is doing an excellent investor presentation. We have no doubt that the performance of company is in good hands. We have no doubt on that.

Anoop Kumar Gupta No, what you are saying, suppose I reached a turnover of Rs. 1,200 crore in the 3rd Quarter. In Rs.1,200 crore I will be selling the new crop also, I will be selling the old crop also. It is not the total stock which I sold, which I am carrying, I will be selling it. Maybe I am selling 30% of that, 40% of that, 60% I will be selling the current also, because parboiled doesn't require ageing. So, the average profit, you can't say the total profit of that will come. Naturally we are giving EBITDA of 18%, 19%, 20% then 3rd Quarter we expect a better EBITDA, no doubt about it.

Chetan Doshi Reason is nobody carries such a big inventory in the rice industry like KRBL. So, what we are concerned is that the profitability of the company also will increase because of the increase in the prices, and the realization is improving.

Anoop Kumar Gupta Yes, you are right.

Chetan Doshi One last question, we requested you couple of times regarding issuing some discount coupons on the premium basmati, which we are selling. Now, if that is not possible, then I would request that we may be having around 40,000 to 50,000 shareholders, why not distribute something free of cost, if discount is not possible. Because we are carrying Rs. 900 crore cash, we can very well afford to spend around Rs. 1 or Rs. 1.5 crore on this.

Ashish Jain Thank you for the suggestion. See, as far as pricing for the domestic market is concerned, Ayush runs it. He is sitting right next to me. If he sees value in doing this, he will do it but the decision is really his.

Moderator Thank you. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Anil Kumar Mittal Thank you to all the participants. We are quite confident that we are able to answer the question in an appropriate and proper manner. And we are able to satisfy our investors. And if anything is left over you are welcome to send us a mail, to make you satisfied in this regard. Thank you very much for your attendance.

Moderator Thank you. Ladies and gentlemen on behalf of KRBL Limited, that concludes this conference. Thank you all for joining us and you may not disconnect your lines.
