

E:KRBL/BIBHU/STK_EX_1920/60
19 November 2019



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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call held on Tuesday 5 November 2019

Pursuant to the provisions of Regulation 30 read with Para A of Part A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”), please find enclosed herewith the transcript of Earnings Conference Call held on Tuesday, 5 November 2019.

This is for your information and record.

Thanking you,

Yours Faithfully,
For KRBL Limited

Raman Sapra
Company Secretary

Encl.: As Above.



“KRBL Limited
Q2 FY2020 Earnings Conference Call”

November 05, 2019

**MANAGEMENT: MR. ANIL KUMAR MITTAL - CHAIRMAN &
MANAGING DIRECTOR, KRBL LIMITED
MR. ANOOP KUMAR GUPTA - JOINT MANAGING
DIRECTOR, KRBL LIMITED
MR. RAKESH MEHROTRA - CHIEF FINANCIAL
OFFICER, KRBL LIMITED**



KRBL Limited
November 05, 2019

Moderator: Ladies and gentlemen, good day, and welcome to the KRBL Limited Q2 FY2020 Earnings Conference Call hosted by ICICI Securities 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. Aniruddha Joshi from ICICI Securities Limited. Thank you and over to you!

Aniruddha Joshi: Thanks Steven. On behalf of ICICI Securities, we welcome you all to Q2 FY2020 Results Conference Call of KRBL Limited. We have with us today Mr. Anil Kumar Mittal, Chairman & Managing Director; Mr. Anoop Kumar Gupta, Joint Managing Director; and Mr. Rakesh Mehrotra, Chief Financial Officer. Now I hand over the call to the management for their discussion on Q2 FY2020 results. Thank you and over to you Sir!

Rakesh Mehrotra: Good afternoon, ladies and gentlemen. Welcome to KRBL Limited Q2 FY2020 and Half Year Ended September 2019 Earnings Conference Call. Thank you ICICI Securities for organizing this call today. Our investor presentation is available on the stock exchanges and website for your easy reference.

Talking about performance for the quarter, consolidated revenue from operations stood at Rs.890 Crores as compared to Rs.1,245 Crores for the same period last year. Export contribution to the revenue declined to 35% as compared to 51% in the same period last year. EBITDA is at Rs.172 Crores as compared to Rs.239 Crores for the same period last year. PBT for the quarter is at Rs.146 Crores as compared to Rs.222 Crores for the same period last year. PAT for the quarter is Rs.113 Crores as compared to Rs.157 Crores for the same period last year.

Moving to performance for the half year ended September 30, 2019. Consolidated revenue from operations stood at Rs.2,116 Crores as compared to Rs.1,994 Crores for the same period last year. Export contribution to our revenue stood at 44% as compared to 46% in the same period last year. EBITDA is at Rs.412 Crores as compared to Rs.423 Crores for the same period last year. PBT for the half year period is Rs.345 Crores as compared to Rs.371 Crores for the same period last year. PAT is at Rs.250 Crores as compared to Rs.257 Crores for the same period last year.

The Company has exercised the option permitted under Section 115BAA of the Income Tax Act 1961, which has resulted into lower tax liability at the rate of 25.17% as compared to



KRBL Limited
November 05, 2019

34.94% of taxable profits computed without any exemption of the incentives under the different provisions of the act. Consequent to such change, the accumulated deferred tax liability has been remeasured, which has resulted into one-time additional charge of Rs.7.89 Crores, recognized in the profit and loss account for the period ended September 30, 2019.

Operating cash flow for the period ended September 30, 2019 on a standalone basis stood at Rs.1,365 Crores as against Rs.1365.68 Crores for the same period ended September 30, 2018. Free cash flow for the period ended September 30, 2019 stood at Rs.1,349 Crores as against Rs.1,355 Crores for the same period last year. Dividend of Rs.58.85 Crores excluding dividend distribution tax, which was declared in the AGM, was disbursed during the quarter.

As highlighted in our earlier calls, our company has very little short-term debt forming part of working capital loans. The net debt starts rising with the commencement of paddy procurement season in the beginning of Q3 every year and becomes insignificantly low by end of H1 in the next financial year. This is a cycle, which results into a zero or insignificant debt by September every year for the company. We continue to deliver our efficient working capital management for the half year ended September 30, 2019. Our net working capital debt stood at Rs.60 Crores, which is down from Rs.1,424 Crores as on March 31, 2019.

I would like to reiterate that we are able to maintain the cycle despite increasing procurement and higher inventory levels of Rs.1994 Crores as compared to Rs.1416 Crores as at the end of the same period last year.

I would like to conclude by saying that our balance sheet strength along with long-term growth opportunities for the business gives us confidence that we can take this company to much greater heights. With this, I hand over the floor to Mr. Anoop Gupta, our Joint Managing Director for his comments.

Anoop Kumar Gupta:

Thank you Mr. Mehrotra. On the macro front, I would like to reiterate that the demand for rice remains strong. For KRBL, this quarter some of the orders were rescheduled from Q2 to Q3. About 32,000 metric tonnes of our stock was stuck at the port because there was some delay in getting the LCs. This shipment was pushed to October 2019, which resulted in a drop in Q2 revenues. The delivery of this shipment was completed in October 2019 and you will see it in Q3 numbers. We expect Q3 FY2020 growth to be phenomenal, like what we reported in Q1 for this year. Our business growth is intact, and we are optimistic on



KRBL Limited
November 05, 2019

delivering results as promised. We reiterate our commitment to grow our business in domestic and international markets and expect to grow multifold over the next five years.

Our expedition is to grow our topline at Rs.8,000 Crores at the back of our strong and widespread distribution network across India, our huge contact rice farming network covering 250,000 acres, strong R&D capabilities and global presence. We see a strong demand both in domestic as well as international markets and are committed to deliver results going forward. With this I now open the floor for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar:

Thanks for the opportunity and I would also like to appreciate the timely manner in which the company secretary has updated the results and presentation. Sir, I have a couple of questions. First thing is what is the current scenario of our tax dispute, where we were expecting favorable judgment any time after July and second thing, looking at the global uncertainty and all these things, how our Middle East business is looking up?

Anil Kumar Mittal:

Good morning to you and wish you a belated Happy Diwali. As far as tax demand is concerned, actually, the department themselves are quite puzzled that how to react on the appeal as our case is very strong and they have no points to reject the appeal. The final hearing of the appeal has already done about a month-and-a-half back and we have been given to understand that the order should come in our favor. This is what we have come to know, and we are ourselves are waiting eagerly to have the result of the appeal, which we think will be quite positive. This is our personal feeling, but till the time we get the order in hand it is too difficult to say anything. That is as far as the demand is concerned on IT. As far as exports are concerned, the prices this year that are coming from the new crop are comparatively low as compared to last year's quote. The prices of paddy are also down by about 20% this year compared to last year. So, we feel that the demand will be quite high, but still no new business has been concluded so far which has come to our notice. There are two to three reasons for that. - Iran used to be the first comer in the market and because of the sanction by the Americans, the Iran business, for the time being has been stopped, which has got no effect on KRBL at all because we are not so active in Iran. Whatever business we do with Iran is against the letter of credit. So, neither the new letter of credits are opening, nor no new demands are coming and as far as the old shipments that have gone to Iran, which was without the letter of credit, those payments are also stuck up in Iran to the tune of Rs.1,500 Crores of various exporters from Haryana. But KRBL is not at all affected due to this Iran sanction.

KRBL Limited
November 05, 2019

As far as Europe is concerned, it is now almost two years and this is the third year because of the pesticide residue. That market used to be 300,000 tonnes for India, which has come down to 92,000 tonnes to - 100,000 tonnes, and 200,000 tonnes have been taken by Pakistan. All the other markets are intact, and we are expecting by November 15, 2019 to November 20, 2019, at least a million tonne business would be concluded with different parts of the country. This is the export scenario.

Shailesh Kumar: And Sir, now that Saudi Arabia has become very strict on this pesticide front and I think they have also pushed for this rule of origin, do you think it is going to impact our country's export and KRBL in particular, how it is going to impact?

Anil Kumar Mittal: Let me tell you, as far as Saudi is concerned up to December 31, 2019, there is no problem. After December 31, 2019, they have introduced a condition called CoC, conformity certificate. Now, everybody has equipped themselves to get that CoC for the shipments that is to be made after December 10, 2019 or December 15, 2019 because any shipment that reaches Saudi before December 25, 2019 or December 28, 2019 will be cleared without any problem. Therefore, after December 10, 2019 or December 15, 2019, all the shipments to Saudi Arabia will go under CoC, and everything has been lined up, streamlined and there will be no problem. The buyer will have to pay another \$10 to \$12 being the cost of that CoC. That is all.

Shailesh Kumar: Thanks very much Sir. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Sir my question, as you mentioned, because of Iran issue the exporters are facing stress, though KRBL is not impacted directly, but indirectly. Sir, can there be an impact because if we are hearing that Iran has completely stopped the imports of Basmati rice so that may lead to impact other countries as well?

Anil Kumar Mittal: Let me make it clear to you, something has to be understood about rice today. A country like Iran, whose staple food is Basmati rice cannot afford to be without rice, that is number one. Pakistan is not in a position to fulfill the demand of Iran because the total production of Pakistan is at 600,000 tonnes and India's production is 6 million tonnes, that is 10 times over Pakistan; and Pakistan has to fulfill certain demand of other countries also, especially Europe. Now out of 600,000 tonnes, if they export 180,000 or 200,000 tonnes to Europe, they have roughly 400,000 tonnes and then there are 15-20 other countries that they have to

KRBL Limited
November 05, 2019

fulfill. What is happening between Iran and Pakistan is that because a lot of Pathanis are there via Afghanistan, the rice is smuggled, and they have some payment arrangement within themselves. That is the part which is going to Pakistan. Out of 1.4 million tonnes exported to Iran last year from India, the share of Pakistan was just 150,000 tonnes. Pakistan does not have the capacity to export or fulfill the demand of Iran, number one. Number two, it is a temporary effect. Yes, I do agree that if Iran totally stops the import then there will definitely be a big hue and cry on the exports, but that cannot be because then where will they import the food from? They cannot import, they require the food being an essential commodity. I think so it is a matter of days. We are expecting that by December 15, 2019 it will open up, by November 30, 2019 the whole payment of Rs.1500 Crores will also come and by that time everything would be clear between America and Iran and between India and Iran. The only impediment, which is between India and Iran in importing rice is - Iran says that under the rupee mechanism, they are ready to import rice provided India starts buying oil from them. Now that is the only chance between India and Iran, if that clears up then again it will go more than a million or 1.2 million tonnes; that is no problem.

Dikshit Mittal:

Okay. So Sir, suppose this US-Iran logjam does not clear by December, do you see any risks to the industry?

Anil Kumar Mittal:

The risk will be that the prices will come down because then there will be surplus of 1.4 million or 1.2 million, but let me tell you, you have to understand what is KRBL. See there are three things: first of all, the Iran business will continue either via Dubai or either via Iraq; they are the two places but yes, instead of 1.4 million, it may be 1 million tonne, it could be 900,000 tonne, that is number one. Out of my total kitty of India Gate or of KRBL, Iran's share is not very big. If, let us say, tomorrow Iran does not import rice, we will not have comparatively that much impact which the companies who are totally dependent on around 1.4 million tonnes will have. So, I think we cannot take a total negative figure, but one thing is sure if Iran is completely zero then it will not only impact the Basmati rice industry but everybody, the farmers, the industry. It will affect everybody as 1.4 million tonnes is not a small quantity.

Dikshit Mittal:

Alright Sir. So, Sir, like in the event of prices falling, so what can be the impact on us because I think we are holding quite a lot of inventory and looking at the balance sheet I think with the kind of inventory, can we see some inventory losses coming by the end of this year?



KRBL Limited
November 05, 2019

Anil Kumar Mittal: Let me give you a good example. Let us say the new crop price in the market today is Rs.80 a kg. You go to the market and say I want two-years-old rice or one-and-a-half years old rice - is it available? When one-and-a-half years-old rice is not available, then how come I always say that KRBL Basmati, India Gate Basmati rice is a unique rice and there is nobody today in India who can supply you two-years-old or one-and-a-half-year-old. Our prices have not come down and we maintain our brand and the prices as it was about three months back when the prices were on the peak. So as far as KRBL is concerned, there is no impact at all and that is why we are known to be FMCG company because of branding our rice, our quality. What is our USP? We always say that you if buy our rice on January 1, you will have the same quality even after 12 months on December 31, so this is the strength of KRBL.

Dikshit Mittal: Okay Sir. Sir, lastly from my side. There is 14% de-growth in the domestic volume as well. Export you mentioned there was some delay in the shipments so what was the reason for the domestic decline?

Anoop Kumar Gupta: See 14% - because the atmosphere in the domestic industry and also because of the prices going down, the stocks at the distributor level and the wholesale level were quite low, so they were not maintaining the stock, but I think in the third quarter, we will cover up this loss of 15%.

Dikshit Mittal: What was the extent of shipment that was delayed to next quarter, so what was the amount of that shipment?

Anoop Kumar Gupta: About Rs.300 Crores.

Dikshit Mittal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care Portfolio Management Services. Please go ahead.

Amit Doshi: Good afternoon Sir. Sir, with respect to Iran, of course, a lot of discussions already happened. Just wanted to know what is our share to Iran in our exports?

Anil Kumar Mittal: It is small, I cannot quantify the percentage, but it is not that much, it could be 10%, could be 8%. I do not know, but we will let you know. That can be known. You send us a mail and we will reply to you.

Amit Doshi: Okay. Second, you mentioned that in the domestic market, Anoopji just said that the prices were falling and therefore the distributors and stockists were not maintaining the inventory, but in terms of realization of prices we are seeing that it is rising so I slightly got confused between that answer and the presentation, which says that the prices have increased?

Anil Kumar Mittal: This could be answered in two different ways. From June onwards, we have a system called mapping, and we start mapping the crop that what is the size of the crop, how much crop in which state, what would be the outcome of the crop, which is known as mapping and that mapping always showed that this year the crop size is about 20% higher over the last year. Based on that from August onwards the prices start depressing, but this year the crop is higher by 20% and if the crop is really higher by 20% and with those sentiments the market prices started dropping. But as you know KRBL we have brands, we never reduce our prices and we were stuck on our prices because that type of a quality was not available in the market. That was one reason that the market share came little down. If you think that the market will come down by 15%, 20%, then after all you may be strongest brand, but you also have to reduce by 2%, 3%, 4%, not the price of the market share.

Anoop Kumar Gupta: Volumes can drop 2% to 3%, but we do not reduce our prices.

Amit Doshi: Right, to maintain our premiumness and of course the quality that we offer.

Anoop Kumar Gupta: Exactly.

Amit Doshi: So, Sir, in that light, can you share now that we are already in the post-procurement season, what is the crop like and how are the paddy. I mean, if you can just give some sort of an overview of the crop that has been coming now.

Anil Kumar Mittal: No, there is something, funny estimates are coming, which have come for the first time, though the crop is higher by 20% there is no doubt, the yield per acre this time has reduced by 15% to 20%, which is confusing in many areas. One example, 1121 used to have a yield of 19 quintals per acre. People are saying it is coming only 15 quintals or 14 quintals because of the late rains or sowing or the weather/atmosphere changes and all. So, the picture is a little dicey. By November 15, 2019 the picture would be clear that how much area is under low yield, how much area is under natural yield and what would be the impact of 20% higher coverage in paddy, that we will come to know only after 10-15 days.

Amit Doshi: Okay. So, till now, you would like to say that the paddy prices, etc., are at the prior year levels. I mean there are no significant changes in the prices despite 20% overproduction?

Anil Kumar Mittal: No, it is impacted for example this year we started buying 1121 at Rs.28 a quintal, Rs.27 a quintal. We thought this is the right price, but it again came back to Rs.29 only. Two days back it was Rs.27, today it is Rs.29. Now I think within two to three days picture will be clear and all the exporters and local players will come into the market; then we will be able to assess the real price of the market.

Amit Doshi: Okay. Got it and Sir last question, I think it was clear that everybody is waiting for that income tax appeal outcome, but with reference to the payment that we were supposed to make on a monthly basis, does that continue or since the final hearing is over does that stop or it continues like it was?

Anoop Kumar Gupta: It continues, we have to pay around Rs.12 Crores a month. So, till September 30, 2019, we have paid Rs.147 Crores and in the month of October also we paid another Rs.12 Crores. So now the total is Rs.159 Crores as on date.

Amit Doshi: Till the time outcome is not going to be out we will you continue to pay?

Anoop Kumar Gupta: We will continue to pay Rs.12 Crores per month, yes.

Amit Doshi: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Rajeev Agarwal from Sudarshi Advisors. Please go ahead.

Rajeev Agarwal: The first question is to just to understand the Basmati market. It seems to me that there are only a few key players in this market so can you just give the competitive intensity in the market and how do you see that is changing over the last few years because I believe quite a few players went out of the market and so if you can just lay out how the market is looking from your perspective?

Anil Kumar Mittal: Are you talking on domestic front or are you talking on export or overall?

Rajeev Agarwal: Overall from an Indian player perspective.

Anil Kumar Mittal: Let me tell you, India has a total production of around 6.5 million tonnes, out of which 4.4 million tonnes has been exported last year, I am giving this figure up to March 31, and 2.2 to-2.3 is the domestic market; so, this is size of the market. As far as domestic market is concerned, we have a consumption of around 2.2% in India and as far as export is concerned because of the monopoly, 600,000 tonnes is the share of the Pakistani market and

KRBL Limited
November 05, 2019

4.4 million tonnes is the share of the Indian market. The total export market is 5 million tonnes, which is a monopoly of Pakistan and India, that is the predictor. The main countries who import Indian Basmati rice, which stands to 65%-70% of the total market is Iran, second is Saudi Arabia, third is Iraq and then fourth, maybe about 700,000 to -800,000 tonnes comes to Oman, Kuwait, Qatar, UAE, and all these countries. So, this is the total market share and total market of Basmati rice comparison to Pakistan. Now what is happening in last couple of years, people have been speculating on this business of Basmati rice because the crop comes in the first three months that is October, November and December. So now, let us say in the market they sell about 10% of their total production or 15% of their total production in these three months. So therefore, they are taking a risk of 35% of balance of the year. Whereas KRBL is concerned, we have got our brand, we have got our distributors, we have got our set prices and they are all controlled, and all maintained throughout the year at the same prices with good quantities, with aggressive pricing and aggressive marketing. So, this is the difference between us and the other players, who have become NPAs and have gone out of the market. Now another one good player is there in the market, that is Daawat Foods. They are also having the same proposition as that of we because they are also having their own brands throughout the world and they are also keeping the pace in the right direction. Rest all are speculating, and the most dangerous part is the private label. Now in private label, most of the people worldwide exploit the situation and how they exploit the situation, for example, let us say, they buy certain quantities, later on, either they will not open the letter of credit or if the prices go down they will try to exploit the exporter. So, there are the things where rice industry has come into trouble, whereas we are not at all neither in that atmosphere nor we do business like that and that is one of the biggest reasons that in spite of doing business with Iran, neither Re.1 is stuck up there nor we have any problems with Iran. That is why we say that Iran business also does not have any impact on KRBL and let me tell you our credibility - in the last 30 years of our export market, we have not lost a single dollar outside. That much care we take about our company.

Rajeev Agarwal:

Right. So actually, my question was it seems to me that a number of Indian players, big Indian players have gone down and therefore your positioning in the Basmati rice market both from the branding but also from just being such a big player had only strengthened, is that what you would say domestically as well as internationally?

Anil Kumar Mittal:

Yes, and I give you one example. Go to the market from there you will also understand the export market. Just go to the shelf you will see our prices and you see the competitors' prices you will come to know how we work.



KRBL Limited
November 05, 2019

Rajeev Agarwal: Right. Yes, I was actually noticing at least in some of the foreign markets like the US market I believe your product is positioned I do not know what are the other brands that are selling there, but it seems to me that you are positioned quite competitively in that market so can you just maybe elaborate. I know in the Indian market you are on the premium side, is that the same positioning you have across all markets or you position yourself differently in different markets?

Anil Kumar Mittal: We are positioned differently in different markets. Especially in America, we are not that much strong because our exports to America is hardly 8,000 to 10,000 tonnes per year compared to that the market is 100,000 tonnes, which is 10%. The leader of the American market today is Daawat, but if you look at the prices of Daawat and KRBL, there is a difference of \$100 to \$80 per tonne and we many times are surprised that how they are competing. But they have their own way of working. We cannot criticize since they are the market leader of that country, but the difference between India Gate and the Daawat prices are that they have a brand called The Royal. The prices are so different that it does come to our mind that how they are conducting the business with that lower prices.

Rajeev Agarwal: Right. Got it. Okay. That is very helpful, and this was really helpful. Thank you very much.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Hi Sir. So, I wanted to understand this movement of price last quarter and current quarter and what gives you confidence that with the correction of the paddy prices you will still be able to maintain your margin?

Anoop Kumar Gupta: No, I am not clear, please. Can you repeat it?

Subhankar Ojha: Can you share some data point on the realization both domestic as well as exports and secondly, I am assuming that you must be having some high cost inventory and with the correction of the paddy, you have just given a figure of 20%, so what gives us confidence that you would still be able to maintain the margin?

Anoop Kumar Gupta: See as Mr. Mittal just now told you, whatever stock we are having in the inventory is the old crop and the old crop valuation and the new crop valuation is altogether different. Whatever we are selling, we are supposed to carry the stock for two years because we have consumer pack, which says the cargo is two years old or one-and-a-half years old. So, our pricing will not drop seeing the new price. Our margins will remain intact, but as far as the

realization is concerned, in the coming quarters you will see a little drop because there will be a mixture of old crop sale and the new crop sale. The net realization maybe you will see some downward trend, but our margins will be intact.

- Subhankar Ojha:** And any data points of what is the current realization and last two quarters' realization?
- Anoop Kumar Gupta:** Mr. Mehrotra will tell.
- Rakesh Mehrotra:** For the quarter ended September 30, 2019, our average realization in the domestic market is Rs.57,933 as compared to Rs.52,171 in the same period last year. It is up by 11% and in the export market our realization is Rs.86,137 as compared to Rs.76,698 in the same period last year. The realization is up by 12%.
- Subhankar Ojha:** Can you please share the inventory data Sir with respect to the value and volume?
- Rakesh Mehrotra:** We are carrying paddy stock of 104,922 metric tonne valued at Rs.361.27 Crores. Average price is Rs.34,432 per metric tonne.
- Subhankar Ojha:** Rs.34 that is approximately?
- Rakesh Mehrotra:** Yes, and we are carrying rice stock of 302,290 metric tonne valued at Rs.1,536.71 Crores, the average price is Rs.50,836 per metric tonne.
- Subhankar Ojha:** Okay. So that is approximately Rs.34 and Rs.50, I mean that is right?
- Rakesh Mehrotra:** Right.
- Anoop Kumar Gupta:** But if you look even at today's price, with the pricing of rice of Rs.50 you cannot go wrong. The stock valued at Rs.50 back to one-year, two-year-old stock even today's value it is not Rs.50. I mean the market value is even today more than Rs.50.
- Subhankar Ojha:** Okay. So, do you mean the current domestic realization is approximately that, Rs.50?
- Anoop Kumar Gupta:** No. It is around Rs.57 in the current quarter. If there will be a sale of new crop because always there is a sale of new crop, the sale would definitely be at a lower price. Average may come down by Rs.2 to Rs.3 in the next quarter.
- Subhankar Ojha:** Understood Sir. Thank you.



KRBL Limited
November 05, 2019

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

Manish Bhandari: Hi. Good afternoon. Sir, I have a few questions. One, you have spoken about the rice, which is, for us, is a two-year old so one question keeps on coming to me is that is there any technology which can prove that a similar label is one-and-a-half-year old versus a two-year-old because there is a lot of this mixing, which happens in the rice so how far the technology has progressed and is KRBL doing anything on this to make sure that the consumer can know that this is the whole package is a two-year-old?

Anil Kumar Mittal: See, it can be found out, but you have to do the DNA testing that how old is the rice and that is also not very authentic, though it is costly. Every sample cost you about Rs.25,000 and let me tell you that consumer preference and the demand of the brand itself is the label, a certificate that the rice is genuinely old, and it has been aged accordingly because you have to understand that as ageing increases, the attributes of the rice also increases accordingly. Do you think people do not know what the brands of Rice KRBL is selling, they look at the rice and they realize that, yes, the rice is of continuously of good quality with aroma, with taste, with no problem whatsoever. That is the test of the ageing. Let me tell you, somebody is selling Rs.8 a kg cheaper than me and even then, the consumer prefers India Gate it means it is the age and the quality certificate rights.

Anoop Kumar Gupta: And Manish you tell me Indian Gate Classic has been sold at Rs.200 a kg in the Indian market and the same rice, which is non-aged or they are claiming to be one-year-old or a two-year-old been sold at Rs.140 a kg our consumer is giving Rs.60 a kg on the brand only you think, it is not the quality attributes.

Manish Bhandari: No, I appreciate that, but that makes our position far more unique to get this kind of certification done or maybe money back guarantee or something, which could definitely make the consumer aware that what he is adding up, is not an apple-to-apple, which happens in the wine industry or which happens in many of the industries.

Anoop Kumar Gupta: Manish, I'll tell you one thing. Once Patanjali or other competitors had given a complaint in the Advertising Authority of India, which is in Mumbai, that they are claiming the rice to be two-year-old, they cannot claim, how will they prove it and the notice came to me. I went to Mumbai and proved with my account statements that the rice what I am carrying is two years old and I won that case.

KRBL Limited
November 05, 2019

- Manish Bhandari:** Sure, So I was just drawing a leaf from one of the controversies which happened in bedlinen company where the whole origin of cotton was under question and then that just became from the industry practice and finally now I think they have implemented a technology where you can have the origination of the cotton itself to be proven so I am just wondering if there is any technology in which KRBL has thought of, then I would like to know?
- Anil Kumar Mittal:** See to find out variance, cotton is also 200 different varieties grown in different part of the globe. Similarly, Basmati in India have got five-six varieties like 1509, 1121, CSR 30, 370, Pusa Basmati #1, 1401. These are the five to-six varieties, which are grown. To find out these varieties, there is a foolproof system and there is a simpler system, but to find out the ageing same way if you want to find out the ageing in that cotton, that how old that cotton base is, it is not that easy job. To find out the ageing is not an easy job, but you have put this question to me, so let me go to Pusa Institute and let me go to European lab standards whether they have such technology to exactly prove whether the rice's exact age could be found out or not.
- Manish Bhandari:** Sir my next question is regarding the newspaper item, which appeared a few days back about the GST on food grains and how serious is it and do you think whether it will be positive or negative for our company and is there any talk, which is going on?
- Anoop Kumar Gupta:** Yes, it is going to be a big positive for KRBL if food grain is taxed. We will be the happiest person if food grain is taxed. Today we have got a big problem in our institutional pack 25kg pack where we have to pay GST and no other company is paying tax on 25kg bags.
- Manish Bhandari:** So why there is a discrepancy where we are paying and a competitor with a similar attribute is not paying so what is it that they are able to find?
- Anoop Kumar Gupta:** They are not selling in the brands. I am selling in my brand, India Gate or Unity, those are registered brands. As per the law, anything sold and registered under a brand had to be taxed. I do not want to sell anything out of brand.
- Anil Kumar Mittal:** No, Manish. You have to understand the law before putting this question that in GST an amendment came, and they said the brands, which put disclaimer on the bag will not be charged with GST and this disclaimer is that this brand is not registered. Anybody can copy, and we have got no right on the registration of the brand. This is one of the disclaimers where people are not paying GST that is point number one. Point number two, when you said that all food grains will be taxed and all, let me tell you in India, since it is

KRBL Limited
November 05, 2019

independence, wherever there is a variation in the law, people have always taken advantage, you should have one common law. Now let us say if the taxation for example, let me give you munda tax example, in Delhi it is 1%; Haryana it is 4%; Punjab it is 4%; UP is 2.5%; Rajasthan it is 2%, so much billing manipulations are done because of savings at 4% to 1% or 1% to 4% so we have been always promoting to the government that please make one universal law. If whatever law consist in Kanyakumari same should be in Kashmir so we do not want a very different laws in different places.

Manish Bhandari: Sir, can you quantify the gains we could have if the GST on food grains comes, how we will benefit?

Anoop Kumar Gupta: My domestic sales will increase minimum by 40% immediately.

Manish Bhandari: So that means apple-to-apple, you mean to say, everything becomes apple-to-apple?

Anoop Kumar Gupta: Yes.

Manish Bhandari: Sure. So, my other question is I have been asking on various occasions about your diversification plan and you did a brush-up on the quinoa side so how things are going there and is there any other thought, which you have put across and now we have enough pile of cash, which keeps on coming back to us and which gets settled in the inventory. So, is there any other use of cash which you can think on acceleration and there is an amount of cash getting released by the lower taxation also, so on the areas, which you have ventured into, including also the Idli one, which you have discussed some time back?

Anoop Kumar Gupta: Idli we will be marketing very shortly because there were some problems in the south. So, I think by December we will be in the market for the Idli rice and quinoa as we told you last time also, quinoa is not doing that great. We are having a monthly sale of around 10 to-15 tonnes only. I mean, it is annual sale of 150 to 160 tonnes and we have cash surprises also. The ones I was selling at Rs.700-Rs.800 a kg, today I am selling at Rs.200 a kg, even then the market, according to my calculations, the total quinoa market in India is not more than 1,000 tonnes and my share is around 15% and the majority of the share is of South American, which is a good quality from Peru - quinoa that is a major market, Bolivia.

Anoop Kumar Gupta: As far as cash generation is concerned, Manish, I told you several times, we do not want too much dependency on the financial institutions and as our topline grows, our investment in the raw material also goes up and there are two options either to take bank finance or to invest your own money. We do not want our exposure in the bank. I want even in the peak

KRBL Limited
November 05, 2019

time my exposure should not be above 50% to 55% to the bank, rest 40% to 45%. I am talking about the peak. 45% should be by KRBL only. Suppose I have to, going forward, I want a stock of Rs.6,000 to Rs.7,000 Crores, when I am talking of Rs.8,000 Crores topline that means one day I have to keep a stock of Rs.7,000 Crores to Rs.8,000 Crores. That means, I need minimum Rs.4,000 Crores of my own funds to be invested in the stock. Dependency on the bank I do not think in today's scenario is good.

Manish Bhandari: Sure. Sir, my last question is regarding what you said recently about the stock, which you may as we progress to plan to Rs.8,000 Crores and what number it is. So, do we have the handling capacity and the warehousing capacity to handle such kind of food grain over the next two years, three years' timeframe?

Anoop Kumar Gupta: Manish, every year, we are spending Rs.20 Crores to Rs.30 Crores on warehousing. Today we have more than 2.7 million square feet of closed warehouse which we use for rice and paddy is always stored in open areas and that is covered with a tarpaulin. So as far as open land warehousing is concerned I do not foresee any problem.

Manish Bhandari: So, this year, if the paddy prices goes down, which ideally what you are saying versus the last year you should have a record inventory and record position in terms of your warehousing position on the inventory?

Anoop Kumar Gupta: September 30, 2020 we will be the highest inventory ever in KRBL I can assure you.

Manish Bhandari: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Seema Bansal, an individual investor. Please go ahead.

Seema Bansal: Good afternoon Sir. Thank you for the opportunity. Sir now, with the LC being received and our shipment being cleared and all, I just wanted to know how does Q3 FY2020 look for KRBL and also if you could throw some light on the full year FY2020 number, some guidance around that please?

Anil Kumar Mittal: We are quite confident as far as Q3 is concerned. It will have same phenomenal results what we showed in Q1 because Q1 results were quite good and that was also one of the reasons that many of the shipments of Q4 could not be shipped so we shipped in Q1 and now it will be from Q2 FY 20 to Q3 FY 20 that is number one. Number two is that your question is a little bit early, normally every year we used to conclude, or the industry used to conclude export to the tune of 30% to 40% of whatever we export the whole year. This year it has

KRBL Limited
November 05, 2019

been delayed because the prices are coming down and buyers are also a little shaky abroad. They want to let it be stabilized, then we should come into the market and we are anticipating that buyers will come by November 15, 2019 to November 20, 2019 in the market. Once the buyer comes then the paddy prices also stabilizes and then you come to know the international and global prices, that these are the prices which are going to remain the whole year. So, based on that only I can tell you what the price would be, what would be the outcome, but one thing is sure - I can assure you that this year up to March 31, 2019; now there are two ways of calculating the quantum also. One way is the financial year, which is April to March and other is from October to September. October to September is our yearly crop year, that is kharif year and the financial year is our financial year from April to March. If you look at the April to March, we might have a little setback in our quantum, we might not be able to do 4.4, it might be 4.1, it will be lesser by 3 lakh tonnes or 2.5 lakh, 3 lakh tonnes, India. I am talking of India, the quantum, but when you look after November, what I am telling, since the prices are down, all country will jump in into India to cover their stocks. People especially like Iran and Saudi Arabia, they will like to order 20% to 25% more over the last year because the prices will remain low. So, I feel that the clear picture to us will be available around November 20, 2019. That is the reaction of the importer from outside.

Anoop Kumar Gupta: But overall, we are confident that we will gain about 8% to 10% over the last year in our topline.

Seema Bansal: That is, it from mine side

Moderator: Thank you. The next question is from the line of Varun Goenka from Max Bupa Mutual Fund. Please go ahead.

Varun Goenka: Yes. I am from Nippon Mutual Fund formerly Reliance Mutual Fund. So Anoopji I just wanted to ask you on our domestic side. I think in the last call also you have been mentioning the way biryani culture is picking up in India and Zomato also has been sharing the data. I think this H1 even though we had a price hike, but we had no volume growth. You have been sharing the potential in India, but if you could just give us some idea what could be the volume growth next two, three years, how we will be taking our distribution, our e-commerce sales, is there any competition from, if at all, any private labels or stuff like that?

Anoop Kumar Gupta: So today also e-commerce, we have an average, I think, around 40% to 45% of the share of e-commerce in the Basmati segment is by KRBL only, but you are talking of the biryani

KRBL Limited
November 05, 2019

culture, now GST is the biggest problem as far as volume growth is concerned. KRBL being the quality leader, my prices are higher by 8% to 10% to the market and that is not because it is KRBL but because we have a quality product and over and above that there is a 5% GST. So, difference is about 15%. Restaurant sales and institutional sales where they are not getting any input on account of GST, they prefer to buy a non-GST material. That is the biggest problem which is, I am able to maintain my sales, but the growth in that segment; I am growing in the segment of consumer pack. I am growing at the rate of 15% to 18% in consumer pack segment, but the segment of institutional sale, which is a bulk bag wherein I am not able to show a growth, but I am able to maintain it.

Varun Goenka: So just one concern here Sir. Ultimately, the way biryani culture is going through the country, people go to the biryani shops, but they do not ask for India Gate or KRBL ultimately they need a biryani and so how do we have a way in which I am just drawing a leaf from Intel computer had something inside a computer, which we consumers never bought, but it was very critical so how do we now going forward so that our brand remains relevant and as dominant as it is today?

Anoop Kumar Gupta: I have got a Unity brand for biryani. When I go to a restaurant I will say my volume after cooking would be 10% higher to others number one and my rice will never break after cooking. The biggest thing a biryaniwala sees is that the rice should not break after cooking and it can stay for even four, five, six, seven and eight hours after cooking and above all the taste of the rice. Taste of the rice is raised, but sometimes what happens if a biryaniwala on a very, very low cadre does not look at it, he looks only at the price. You see today, in Bengaluru Meghana Foods selling Biryani at Rs.280 a plate, he buys only India Gate Classic. I cannot compete with roadside biryani because they are buying all kinds of rice.

Varun Goenka: Right. So, is there any other significant player, Anoopji, in this, which can compete with your quality, most of the people are just buying because of their GST difference?

Anoop Kumar Gupta: Quality, I think I am on the top, but people are buying, it is not only because of GST it is also the price difference. They are selling at least Rs.7 to Rs.8 a kg cheaper than me.

Anoop Kumar Gupta: Unity was started five years back at 5,000 tonnes. Today this SKU is at 80,000 tonnes. In five years', time, I have grown from 5,000 to 80,000. Now the question is the same speed should go for next five years.



KRBL Limited
November 05, 2019

Varun Goenka: Right. Okay and the news of India Gate brand getting ownership, I think, since the 1970s or something was very, very heartfelt. So, are we looking to now use this dominant brand for any other categories, non-Basmati we are trying and Idli rice, but as such, any other adjacent food categories are we looking at?

Anoop Kumar Gupta: Frankly we find a very big scope in rice only.

Varun Goenka: Fair enough.

Anoop Kumar Gupta: We started India Gate Ambemohar, we have started India Gate Jeera Rice, we have started India Gate Sona Masoori rice, but all our products are premium products. If you tell us India has got a market of 100 million tonnes and you are selling say a few 10,000 tonnes, but selling 10,000 tonnes at EBITDA of 20% plus. I do not want to sell my product at the EBITDA of 3% to 4%.

Varun Goenka: Perfect. So branded rice itself is a very, very big opportunity point taken Sir yes. Just one more thing on exports to non-Middle East, how is that doing for us, is there any traction, is there any material market possible?

Anil Kumar Mittal: Middle East total market is 68%, 32% market is rest of the world. One of the biggest market non-Middle East was Europe, which we have lost in the last two years, but the way government is, I think the way individual exporters are behaving, the type of interaction we have with the farmers and the amount we are spending, I am quite sure that it might take another one year, we will take back the European market because we will have pesticide-compliant material. Today, the problem is on the pesticide-compliant material, that is one market. Number two, all other markets throughout the world, for example, Africa, if you go back five years back, the total African market was just 7,000 to 8,000 tonnes, five containers a year, sometimes 10 containers a year, from India I am talking. Now each African country is buying 50 to 100 containers as the economy is developing and they are able to afford to pay for Basmati rice, they love to eat Basmati rice. One of the biggest markets is Nigeria. Nigeria used to import 1,000 tonnes, now they are importing 8,000 to 9,000 tonnes of Basmati rice, so markets are increasing, but as far as markets like China is concerned, let me tell you, for example, market like Brazil, Argentina is concerned, it will take lot of time. See, you will be surprised, in Argentina, only India Gate Basmati rice is available, no other Basmati rice; but what is the quantum, may be 4 containers a year, which is 80 tonne or 100 tonne, that only India Gate, but we cannot expect this market to go over hundreds and thousands of tonnes so easily.

Varun Goenka: Okay. Just one final question. Since we are looking to get to Rs.7,000 Crores to Rs.8,000 Crores sales in four, five years and that volume of sales so this north India climate changes, yield variations, are you seeing challenges in terms of crop output of Basmati or production in any way?

Anil Kumar Mittal: First of all, let me tell you, as far as Punjab is concerned, 70% to 75% land is under non-Basmati cultivation, 25% in Basmati. Haryana is the only state where it grows 70% to 75% Basmati and 25% parmal. As far as Western UP is concerned, it is only 10% to 15% of Basmati, rest all is parmal. So as far as land is concerned, we have sufficient land provided, farmer gets good income and is satisfied. For example, this year, the prices are lower, and farmer is not happy with Basmati pricing, next year, the production will come down by 25% to 30%, so this is a circle as per the market behavior that is number one. Number two, let me tell you some good two to - three things, which have happened in the last two years. Pusa Institute, Delhi is really working very hard and they have been working hard for the last seven to eight years because two things were in their mind: first was that water is going to be a very big scarcity in India and what will happen to rice crop that was number one. Number two was pesticide attack and we used to have too much of fungicides and pesticide attack and used to use pesticide and number three was about the temperature, the various type of temperatures in three to-four states. Now as far as water is concerned, already this year, Pusa Institute has come out with two genes, which will allow you to grow Basmati rice as per ordinary grains like wheat or bajra or matka, no need of sowing Basmati rice in 1 feet 6 inches, 9 inches water all the time. That is good news especially for agriculturists. Number two, as far as pesticides are concerned, we already have new varieties, which are already there in the market. This year the results have come very good, they have not been attacked by any pesticide diseases, so that is also one of the more successful things and third thing is they are coming out with certain varieties where we will have short duration, where they can sustain more heat and different climates.

Varun Goenka: Okay. Sir, water consumption of Basmati is how much less versus normal rice, just to get a sense?

Anil Kumar Mittal: Today, as per the scientific, non-Basmati consumes around 4,000 liters, basmati consumes about 2,000 liters, so half and I think that is a big success. If we are able to sow any type of rice including Basmati without the consumption of water that will be a good achievement.

Varun Konika: Great. Thank you so much Sir. That is all from my side.



KRBL Limited
November 05, 2019

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to the management for closing comments.

Anoop Kumar Gupta: As far as our forward-looking statement for FY2020, we are expecting very good results and especially on this tax slab of 25%, additional PAT of Rs.50 Crores will come in the bottomline this year, which is due to 7% of tax reduction and PAT will definitely be much better than last year so we are expecting very, very good results for FY2020. Thank you very much for the call and God bless everybody.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.