KRBL Limited

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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.**

Sub: Transcript of the Earnings Conference Call held on Wednesday, 31st May 2023 on Audited Financial Results of KRBL Limited for the Fourth Quarter (Q4) and Financial Year ended 31st March 2023

Dear Sir/Madam,

Pursuant to the provisions of Regulation 30 read with Para A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation 2015, Please find enclosed herewith the Transcript of the Earnings Conference Call of KRBL Limited held on Wednesday, 31st May 2023, at 02:30 P.M onwards on the Audited Financial Results for the Fourth Quarter (Q4) and Financial year ended 31st March 2023.

The same is also available on the Website of the Company at https://krblrice.com/schedule-of-investor-meet/.

You are requested to kindly take the same on record.

Thanking you,

Yours Faithfully,
For KRBL Limited

JYOTI VERMA

Digitally signed by JYOTI VERMA
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Jyoti Verma
Company Secretary
FCS-7210

Encl: As Above

"KRBL Limited

Q4 and FY2023 Earnings Conference Call"

May 31, 2023

MANAGEMENT: **MR. ANOOP KUMAR GUPTA – JOINT MANAGING DIRECTOR – KRBL LIMITED**
MR. AYUSH GUPTA – HEAD, DOMESTIC BUSINESS – KRBL LIMITED
MR. ASHISH JAIN – CHIEF FINANCIAL OFFICER – KRBL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to KRBL Limited Q4 and FY 2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Jain, Chief Financial Officer of KRBL Limited. Thank you and over to you, Mr. Jain.

Ashish Jain: Thank you, Michelle, and thank you, everyone, on the call for joining us. Welcome to the Q4 and FY 2023 earnings conference call for analysts and investors of KRBL Limited. Today, we have Mr. Anoop Kumar Gupta, Joint Managing Director; and Ayush Gupta, Head of Domestic Division. Mr. Anil Mittal, who usually joins us on the call is not available today. So his comments will be read by Mr. Anoop Kumar Gupta.

To kick off the call, Mr. Gupta will share the business, industry and overall strategy. Following that, Ayush will delve into the perspectives of our domestic business. Finally, I will present financial overview of the company for the fourth quarter and fiscal year 2023. Once the management has concluded their opening remarks, we will open the floor for an interactive Q&A session.

Please note that some of the statements made during the call may contain forward-looking information and actual results may differ from these statements. For more details, you can refer to KRBL's investor presentation, which is available on the stock exchange(s) website and our company's website.

Now I would like to invite Anoopji to share his views and the floor is yours.

Anoop Gupta: Yes. Dear investors, good afternoon. In my prepared remarks, I'll be giving you an overview of the global rice scenario and then focus on the Indian rice industry and will further focus on the basmati rice industry in India. Thereafter, I'll discuss about the KRBL specific developments and updates.

The world rice production in the marketing year 2022-23 is now forecasted at 512.6 million tons, which is 2.4% below the 2021 all-time peak of 525.1 million tons. This shortfall of 12.5 million tons in global production is mainly due to lower production in China, Pakistan, Sri Lanka and Nigeria. The global rice trade, which has touched a high of 56 million tons in the year 2021-22, has come down to 53.6 million tons this year due to inclusive measures of countries such as India, who have banned the export of 100% non-basmati broken rice and implemented an export duty of 20% on non-basmati white rice.

Such measures have restricted exposure to African countries and China, who are the major importers of broken rice from India. Shifting focus on the Indian rice industry. India is expected to record rice production of 130.8 million metric ton in marketing year 2022-23, which includes 2022 kharif crop and 2023 rabi crop.

The basmati production of marketing year 2022-23 is around 9.5 million tons, around 12% higher than last year. Despite the overall increase in rice production in India in both basmati and non-basmati segment, we have seen a general price increase this year during the crop cycle, which indicates growing demand for both basmati and non-basmati rice from India.

India's basmati export has grown 16% in volume terms and 46% in value terms in FY 2023 over FY 2022. Volume growth mainly comes from Saudi Arabia, UAE, Yemen, Oman, Qatar, USA, U.K., and Jordan. Whereas India's total rice exports grew by 6% to record volumes of 22.34 million tons and 24% in value terms to INR 89,689 crores, accounting for nearly 42% of the global rice trade.

The main reason for the increase in basmati rice prices were expectation of lower crop on account of unseasonal rains, limited carryover stocks were liquidated because of high prices, historically high export and domestic demand, historically high prices in Pakistan, perhaps because of Sind floods, reduction in freight rates, rupee's appreciation, high wheat prices.

The international container rate have come down to 1/3 of the level that was seen 2 years back. The main reason has been simple availability of empty containers and vessels due to normalization and movement of goods across the world. Further, the delays and holdups at the various ports around the world due to lockdown measures have considerably eased up, leading to a faster turnaround time for the vessel and hence, an increase in supply of equipment. Many shipping lines have added a huge number of containers to their inventory and added new vessels to their fleet.

Talking about the future outlook of rice industry for the year 2024, as per the latest USDA estimate, global rice production is expected to be around 520 million metric ton in crop marketing year 2023-24. Global rice consumption is expected to reach 523 million metric tons in 2023-24 from 521 million metric tons in 2022-23. As per the latest USDA estimates, India's rice production of marketing year 2023-24 may touch 133 million metric tons, while India's basmati rice production may touch 10 million metric tons.

The basmati production is expected to be higher in terms of rate base as basmati prices have been very buoyant consecutively for past 2 years and farmers have been very happy with the prices they have been getting for the produce. But the main factor, which has the highest impact on the production of rice is the weather. While IMD has forecasted a normal monsoon, climate estimates are below-average monsoon owing to El Nino.

Although all these estimates are very preliminary and they are subject to change as we come closer to the sowing period, but India faced El Nino in 2014 and 2018 and in both the years, the staple green production was unaffected. Hence, we feel that the impact of El Nino will be weak.

Now the KRBL financial performance. KRBL recorded highest ever annual consolidated performance. Total Income is of INR 5,456 crores. EBITDA is INR 1,031 crores. PAT is INR 701 crores. Our exports revenue of INR 331 crores in Q4 FY 2023 against INR 280 crores in Q4 FY2022. FY 2023 export of INR 1,931 crores as against INR 1,451 crores in FY 2022.

Key export destination include INR 532 crores from UAE, which includes INR 375 crores unbranded, INR 414 crores from Saudi Arabia, INR 242 crores from China, INR 117 crores from Australia and other countries also. And there's an update on expansion. The Gujarat plant is expected to go live by June 2023 that is the next 15-20 days. Karnataka, the land acquisition has been completed and the civil work has already been started. Madhya Pradesh, the land is identified, the token money has been given and due diligence is going on in process. With this, I hand over to Ayush Gupta for domestic overview.

Ayush Gupta: Thank you, and good afternoon. I will now share an update on the performance of the India business. India business clocked INR 932 crores revenue in Q4 FY2023, which is a 38% increase in value year-over-year. With this, the India full year revenue grew at 26% in value to close at INR 3,335 crores.

The year marked a new high for KRBL with our portfolio crossing a household penetration of 1 crores households landmark with an 11.5% increase against the package basmati penetration growth rate of only 2.5%. This year also has been recognized as the world's number one basmati rice brand, which further reinforces our global leadership position in the category.

Further, maintaining its market leadership position in India across channels, KRBL clocks a volume share of 32.5% in traditional trade in the exit quarter, while Modern Trade registered a higher server market share of 58% in the quarter. During the quarter, KRBL has expanded its numeric distribution by 75 basis points on sequential basis to 45.7% with availability in 3.3 lakh outlets.

We have also been driving our Unity brand as a value for money offering, which today stands at INR 750 crores+ in the KRBL portfolio with a 50% growth over last year. This GST rationalization measure implemented from mid of the financial year has given the HoReCa business strong tailwind with a healthy 28% volume growth in the full year.

I will now touch upon some of the key focus areas for our growth journey ahead. In our earlier investor calls, I had outlined our source of growth as loose basmati rice which contributes close to 65% of the total consumption of basmati in India. This presents a huge headroom for growth for KRBL in the domestic business. And being the category captain, we are unlocking the growth opportunity through strategic interventions.

Consumer communication is one of the critical levers to drive the harbor change. And in this financial year, we have pivoted our communication and media strategy around this. Starting Q3, our new advertising campaign, “Basmati rice se no compromise”, featuring the popular Bollywood actor Pankaj Tripathi has gone live with huge impact and partnerships on lead programs like Master Chef, Big Boss and Indian Idol.

Secondly, continued distribution expansion up to 50,000 plus population towns is going to be a critical driver for sustainable business growth. We are working in a focused manner to expand retail footprint through manpower investments, implementing FMCG best practices to enhance identity coverage and to have better controls in the market.

The next important lever of growth is innovation and premiumization. One of the most important intervention from our table this year has been the launch of a diabetic-friendly low GI rice. India being the diabetic capital of the world with 77 million diabetics, we believe that this product offering we are solving a very important unmet need of the Indian rice consumer and this has huge potential to scale up in the coming few years.

In line with our premiumization agenda, we are also in a very focused manner looking to scale up our flagship variant "**India Gate Classic"** and building higher penetration at the retail and household front, especially on special occasions. Lastly, a key growth lever is the intervention of addressing our total addressable market from INR 15,000 crores to INR 35,000 crores with our foray into regional rices.

Anchored under our master brand India Gate - Sona Masoori, Govind Bhog and Kolam rice have been launched in the market and are garnering good response. We have already crossed the milestone mark of INR 100 crores in the financial year 2023 in the regional rice category.

One other important tailwind expected to come for our business is the introduction of the new basmati standards by FSSAI with effect from 1st August 2023. Over the years, due to mass commercialization, there is a significant amount of adulterated basmati available in trade, making the prime objective of this regulation to safeguard the integrity of the grain and maintain an authenticity of flavour and taste.

This resolution will have a number of positive impacts within domestic business scenario. First, increased literacy within the trade and subsequently consumer on basmati quality. Second, eradication of players indulging in unfair business as basmati adulteration practices, leading to consolidation of market share amongst top branded players.

And third, an accelerated shift from loose and unregulated basmati to packaged and regulated basmati. We see this as a watershed moment for the industry and expect this to be a significant growth driver in the coming years. With this, I come to the end of my remarks, and I will now hand it over to Ashish, who will take us through the financial performance.

Ashish Jain: Thanks, Ayush. I will now take you all through performance for the quarter and year ended March 31st, 2023. All figures mentioned by me would be for the consolidated financials of KRBL. Total income for the quarter stood at INR 1,323 crores, marking a growth of 33% over the corresponding quarter last year. The revenue from operations grew by 30%, while other income in the quarter increased by more than five times on account of interest on income tax refund. Domestic revenue, as Ayush mentioned, increased by 38% over the corresponding quarter last year to INR 932 crores. Year-on-year Basmati sales increased by 43%, driven by 18% growth in volume and 22% growth in basmati realization.

On the export side, revenue increased by 18% over the corresponding quarter to INR 331 crores. Branded basmati sales increased by 11%, though overall basmati sales were flattish in value terms owing to no bulk basmati sales during the quarter. Total basmati sales volume declined by 14% on a year-on-year basis, but was offset by 19% increase in realization.

The decline, like I mentioned, in volume was also because there were no bulk basmati sales during the quarter. Total value of goods dispatched during the year, but their revenue yet to be recognized pending receipt of payment at the end of the quarter was at INR 441 crores. This is the number as of March 31, 2023 as against INR 216 crores as of March 2022.

A significant portion of this is expected to be recognized as revenue in Q1 FY 2024. Gross margin in the quarter was at 26.5% and was affected by a couple of factors. One of them is higher basmati unit costs and higher share of bulk non-basmati sale in exports. So bulk non-basmati sale was at 11% of rice sales in Q4 as against 7% of rice sales in the same quarter last year.

For non-basmati sales, there was a contract which was cancelled by the customer and goods had to be diverted to another country, and therefore, resulted in lower realization. So these three factors, which is higher unit basmati cost as compared to same quarter last year, higher share of bulk non-basmati sale in exports and lower realization on a bulk non-basmati sale resulted in the gross margin.

EBITDA margin for the quarter was at 14% as against 17% in the corresponding quarter. The margin is lower primarily on account of trend in gross margin and INR 10 crores additional expense on the non-basmati deal, which I just mentioned.

Finance cost for the quarter was at INR 7.8 crores as against INR 3.9 crores on account of higher inventory-led working capital borrowing and higher interest rates. PAT for the quarter was at INR 118 crores or 8.9% PAT margin as against INR 109 crores or 11% in the corresponding quarter.

The number is lower on account of the factors that I mentioned and also because the effective tax rate in the quarter is higher as there was a MTM-related loss setoff, which is not eligible in the taxable income. So in short, our taxable income was higher than the reported PBT, which resulted in higher tax.

I will now share an analysis of Q4 FY 2023 versus the preceding quarter Q3 FY2023, Revenue from operations in Q4 was at INR 1,280 crores as against INR 1,536 crores. The lower revenue is on account of domestic sales, which were lower vis-a-vis the preceding quarter by INR 64 crores and export sales, which are lower by INR 194 crores.

Domestic basmati volume in Q4 was lower as compared to Q3, as Q3 is festive season, while export volume in Q4 was also lower because no bulk basmati export was done in Q4. Q4 gross margin is lower than that in Q3 on account of higher share of low-margin basmati sales as compared to the preceding quarter, higher share of non-basmati sales, which was at 11% of total rice sales in Q4 as against 3% in Q3, a 2.3% higher average basmati COGS as compared to Q3, while EBITDA margin was also affected by these factors besides INR 10 crores additional cost on the non-basmati deal that I mentioned. Overall, adjusting for these factors, the trend in branded basmati sales remain strong as Anoopji and Ayush have mentioned.

Now I will discuss FY 2023 performance. Total income for the period stood at a record INR 5,456 crores, marking a growth of 28% against FY 2022. Revenue from operations was at INR

5,363 crores, a growth of 27%. Gross profit of the company increased by 40%, EBITDA by 46% and PAT by 53%, respectively. Domestic basmati sales volume, as Ayush had mentioned, grew by 6%, while realization improved by 26%.

On the export side, in FY 2023, basmati sales volume were marginally lower by 2% because of lower bulk exports, although the realization improved by 38%. In FY 2023, overall basmati sales volume for the company improved by 4%, while realization improved by 29%.

Moving on to the balance sheet highlights. Total inventory as of March 31, 2023 was at INR 4,186 crores, comprising INR 1,616 crores of paddy as against INR 869 crores of paddy in March 2022 and INR 2,396 crores of rice as against INR 1,800 crores of rice inventory in March 2022. In volume terms, paddy stocks were approximately 407 thousand tons and rice at approximately 404 thousand tons. These numbers are 256 thousand tons and 382 thousand tons, respectively, in March 2022. Inventory is higher primarily to meet the higher expected demand.

Total bank debt as of March 31, 2023 was at INR 138 crores as against INR 6 crores as on March 31, 2022 due to higher inventory. Just had an update on the outcome of the Board meeting with respect to distribution of surplus to shareholders. The Board discussed various options to repatriate surplus funds and have sought professional opinion in this respect post which final decision will be taken. This is expected to be completed in the next 4 to 6 weeks.

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

Moderator: We have the first question from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: Yes. So my first question was what we hear from various consumer companies is that consumer demand is low and upgrading is not happening, especially at the middle class and lower middle class level. We have a very large inventory at this point of time. In such a scenario, can you give some of your thoughts that the bullishness what we have is usually in domestic market or exports market? And are we able to get our gross margins in absolute value terms per unit increasing for basmati rice even in Q4 in the domestic market because non-basmati is also a bigger proportion of our revenue and exports, it is difficult to really understand how successful we are on the branded side to transfer the pricing.

Ayush Gupta: Yes. Himanshu, thank you for the question. See, on the consumer front, the pressures and the inflationary pressures that you're talking about, for basmati rice I think these behaviours are quite muted because majority of basmati rice consumptions are happening in metros and Tier 1 towns of the country. And rural and Tier 2 towns are a very small portion of the overall basmati rice contribution.

So on the overall trade, the impact of this is quite minimal for a brand, branded we have firstly and then also for basmati rice as a category. Secondly, on the stock front, the stock position that we carry, that is for both export and domestic on, I would say, quite equally. So it's not that we have a leverage or stock position for any particular...

Anoop Kumar Gupta: And I would like to add that we are holding stock at a very comfortable position. I mean, the valuation, when you talk of the margins, given the stock valuation, what we are holding is very, very comfortable. So margins are not under pressure.

Himanshu Upadhyay: Okay. And secondly, again, the question was on HoReCa distributor in Saudi Arabia. Last call, we stated that we should be able to confirm the distribution agreement there. Are we done with it? And how did that market perform for us with the new distributors, then that to do what we were doing in the earlier days, but there is still some gap to fill in Saudi Arabia market?

Anoop Kumar Gupta: Yes. HoReCa is still not done, but the present distribution is not back to the same, but we are expecting that it will be done in the next 1 or 2 quarters.

Ashish Jain: So just to add to what Anoopji said, I think if you look at our value sales to Saudi, they are roughly 2x the number that we had in FY 2022, right? So the distributor is performing on expected lines, but we expect the next year to be better.

Himanshu Upadhyay: One more thing, On 6th Slide of Investor Presentation, we have said that the margins were under pressure because of some contracts which got cancelled. But was it such a big contract because on nearly more than INR 1,000 crores of revenue for nearly INR1,300 crores for the quarter, the margin got impacted you are saying?

Ashish Jain: No. So I'll explain. So that was one of the factors. I think you are referring to the reason why the margin is lower in Q4 as compared to the same quarter last year.

Himanshu Upadhyay: Yes.

Ashish Jain: Yes. So I think like I mentioned in my speech a couple of things happened. So if you look at year-on-year basis, when we look at our average cost of goods sold for basmati, on a year-on-year basis for the quarter, the basmati cost increased by 24%, while the realization increased for basmati by 17%. So to that extent, the cost increase has been higher.

This is also partly because the product mix of goods sold in Q4 comprise a higher share of lower-margin SKUs. So that is what is reflecting in the margin. Second, on the non-basmati deal that we had explained, so you are right, it was not a large contract. Yes, it was roughly the revenue size, the original revenue size was at INR 100 crores. However, the deal got cancelled and the goods have to be diverted to another country, which resulted in a lower realization.

Second, there were some additional expenses related to moving the goods from one country to the other and then storing them till the sale happened. So while not a large contract, but this is an additional cost that we incurred in the quarter, which is what is reflected in the margin.

Himanshu Upadhyay: Okay. Okay. I'll join back in the queue. One small thing about Quinoa, we are still doing or we have stopped that completely because we don't find any mention now.

Ayush Gupta: Quinoa is still available in the market. It's available and it's doing good. It's growing year-over-year.

Moderator: The next question is from the line of Siddhant from Goodwill.

Siddhant: Yes. I think my first question regarding dividend was answered. Like, any reason why you have not declared it right now and 4 to 6 weeks later?

Ashish Jain: Yes. So I'll just explain. So at this time, the Board looked at various options that are available to repatriate surplus funds. We discussed various options, but the Board wanted a professional opinion to be taken. So we are in the process of taking that. We'll come back and present it to the Board and we are hoping that this entire exercise will be concluded in the next 4 to 6 weeks. So in short it's just evaluating various options, which is why it was not declared this quarter.

Siddhant: Okay. So deciding between a buyback and the dividend essentially?

Ashish Jain: All options are on the table.

Siddhant: Okay. And my second question is relatively a follow-up, like debt to equity used to be around 1:1 towards -- in the last 5 years, we lowered it to 1 is to -- at a lower ratio. But now because we have essentially no debt, including barely any working capital loans, our ROEs are getting suppressed. So any sort of financial gearing or something that the company is looking at? Or are we staying away from debt?

Ashish Jain: No. So see, you are right. I mean, as we speak today, there is very minimal reliance on debt. In fact, where we are today, we have no debt on the company's balance sheet. So I think the question really is on what is the company's plan to utilize these funds. So one is, I think a couple of things that we need to keep in mind. One is we are in the process of setting up 3 new plants, which will then require additional inventory, for this funding will be required.

Second is that we constantly look at acquisitions. So while there's nothing in the finalization stage, there is some amount of funding that will be needed at all. And whatever is remaining after that, I think that's what the Board is looking at in terms of what's the best way to return it to the shareholders.

Moderator: The next question is from the line of Amit Agrawal from Leeway Investments.

Amit Agrawal: My question is regarding broken rice. We have been exporting broken rice to China. So what is the total amount of broken rice that has been exported in this financial year? And the government ban, are these affecting our topline because of broken rice?

Ashish Jain: Amit, we don't generally share country-specific revenue numbers.

Anoop Kumar Gupta: INR 242 crores revenue from China.

Ashish Jain: Yes. But I think Anoopji has mentioned that total revenue from China was about INR240 crores in the year.

Amit Agrawal: Yes. So broken rice was exported to China only or some other country also?

Ashish Jain: Primarily to China.

Amit Agrawal: And my second question is regarding the realization of the basmati rice in domestic market. Sir, the company has been saying that 17% is the -- more realization has been happened in the same particular year. But if you compare the retail tax pricing of basmati Classic or some other categories, the change has been 9% to 10% per annum. So how does the value coming to 17%?

Anoop Kumar Gupta: I think the question is that the change in Classic price -- 9%, while we are saying that the realization is 10%. So how has that happened?

Ashish Jain: Yes. See basmati -- India Gate Classic is a very small portion of our overall sales volume and portfolio mix. So while India Gate Classic price increase would have only been 9% to 10%, there are other products in the portfolio which have increased in high double-digits, maybe 20%-25%. So the net average realization is 17% on the overall domestic business, certain product categories would have moved accordingly to consumer behaviour and other factors.

Amit Agrawal: So is there any more scope of raising the prices further? Or I think so stable at this point?

Ashish Jain: See, being a consumer-oriented retail product, we try to maintain prices as stable as possible. But looking at the commodity markets, we will keep evaluating our realization accordingly.

Amit Agrawal: And the last question regarding Income Tax Refund, is it still pending the government?

Ashish Jain: No, for those particular years, in that case, we've received all the funds back from the government.

Amit Agrawal: So there's no refund that needs to be accounted for?

Ashish Jain: On that particular matter, yes, there may be other refund pertaining to other financial years, but on that matter, we received all the refund.

Moderator: The next question is from the line of Soumen Choudhury from Jet Age Securities Pvt. Ltd.

Soumen Choudhury: Sir, this quarter, we saw a significant decline in export revenue from the last couple of quarters that we have seen, whereas one would have thought that one should have got the benefit of Ramadan also. So is there any particular reason why this has happened? And what is the outlook on this going forward?

Ashish Jain: Yes. So as I have explained in my speech, as of March 31, we had about INR 440 crores of exports that were dispatched, but the revenue is pending recognition. Now if you look at the same period last quarter, this number was around INR 220 crores. So as you are aware, we recognize revenue only once the payments are received. So this additional revenue, most of this INR 440 crores will be recognized in Q1.

So if you look at export sales across Q4 and Q1, you will find that the trend is being maintained. So I think it's a timing difference that has happened in case of exports.

Soumen Choudhury: So are we looking at a decent increase over last year, say, if we look at for the year as a whole, are we looking at a significant improvement in volumes and revenue in terms of exports in this year?

Ashish Jain: See, I mean, if you look at Q1, you would recall that our exports in Q3 were at roughly above INR 500 crores. So we are hoping that in Q1, which is the current quarter, we will come back to that level.

Soumen Choudhury: Okay. And just one small thing on realizations. If we compare like-to-like, would realizations have been slightly higher in Q4 vis-a-vis Q3 in exports? As for basmati pre as we say?

Ashish Jain: No, very similar levels. No significant increase vis-a-vis Q3.

Soumen Choudhury: Okay. And domestic also?

Ashish Jain: Yes.

Moderator: The next question is from the line of Kush Gangar from Care PMS.

Kush Gangar: My question was on exports. So for exports, as we have seen exports have been a pain-point since the last few years and have been quite lumpy. Even in this quarter, you mentioned that some of impact would be transferred to Q1. But then if INR200 crores, which could have come in Q4 gets transferred to Q1, it means Q1 is already lower versus our current run rate. So can you just give us a clear sustainable growth or run rate for export for the next 1 or 2 years?

Ashish Jain: Yes. So I will just give a short-term view and then a slightly longer-term view. See, as you know, part of our exports also include bulk exports. That tends to be lumpy. So you may have quarters in which there is significant bulk exports and then you may have a quarter like Q4, where it doesn't happen. So first, on a quarter-on-quarter basis, that's primarily the reason why you will see export revenue moving.

However, from a longer-term perspective, when we look at both elements of export, one is both branded as well as bulk, I think we see the outlook as bright, whereas as Anoopji has also mentioned, I think we're continuing to see strong basmati demand from countries, both for the package as well as non-basmati rice.

Kush Gangar: Right, okay. And what would be the mix of bulk in exports? Can you share that?

Ashish Jain: Yes. On an annual basis, we do about INR800 -INR900 crores of bulk exports. So although the current year revenue of, let's say, roughly INR 5,200 crores, about INR800 - INR900 crores is bulk.

Kush Gangar: Okay. Okay. As was mentioned earlier, I think Saudi, our initial -- before the business went down, our net was INR1,000 crores plus, I think. And Anoopji -- Anilji has mentioned that in a year or two, we hope to reach that figure. So are we confident from current INR 400-something crores...

Ashish Jain: Yes. Yes. So I'll just give a little bit of overview. See, I mentioned that if you look at our Saudi sales in FY 2023, they were 2x that of FY 2022. However, you are right. I think we are yet to come back to the earlier revenue mark. And I think our estimate is that in FY 2024, we should get there. So it's in the right direction, but still not where it was earlier.

Kush Gangar: And our earlier figure was INR 1,000 crores plus deferred?

Ashish Jain: That's right.

Kush Gangar: Okay. Okay. And the reason for other income being quite high?

Ashish Jain: Yes. So Q4, other income includes an interest on income tax refund to the tune of about INR 44 crores. That's why the number is high.

Kush Gangar: Okay. And this is the second quarter where we have seen a very strong domestic performance, considering all the points highlighted. So are we confident that this has become a base now and we should in spite of all the weakness in demand, etcetera, this has become the base now and we should say, came up quite significantly even from current higher level?

Ayush Gupta: Yes. Definitely, I think our domestic business, as I mentioned in my remarks also, has been seeing good tailwinds, both in the bulk pack segment as well as the consumer pack segment. Our communication strategies, our distribution strategies are all working well. Brand penetrations are doing good, consumer demand as well. So what we have achieved in the last 2 quarters has now become the base for us and we'll be looking forward to build on it quarter-on-quarter.

Moderator: The next question is from the line of Varun Bang from Bryanston Investments.

Varun Bang: So first question is on Modern Trade. So this is the fastest-growing channel for us. So how is the profitability and pricing in the Modern Trade relative to traditional trade? And do we see any challenges in maintaining profitability in this channel given the dominance and purchasing power this segment has?

Ayush Gupta: Thank you, Varun, for the question. Our Modern Trade and e-commerce channel actually for us is more profitable if I compare the overall P&L account because expenses are quite less compared to general trade. So in general trade, we will have a lot of manpower and other expenses to cater to that wide spectrum of retailers, when Modern Trade because of the consolidation of supply chain and other effects, our cost tends to be lower. Also, Modern Trade and e-commerce, this category of staples is I would say crowd-pullers or footfall drivers really. So these channels also invest heavily on these particular categories. So the cost of doing business to sum it up is lower compared to general trade.

Varun Bang: Okay. And you've talked about densifying distribution reach. So can you quantify how many distributors and retail touch-points we have added during the year? And we said we've reached 3.31 lakh outlets in traditional trade. So basis of acceptability, affordability and the kind of stores that we target roughly, how many number of outlets we can keep and sell branded basmati rice in India?

Ayush Gupta: Yes. So this year, we've expanded our distribution network quite aggressively and to a number of 40% to reach a 750-plus distributor mark, dealers and distributors. So we have now 750-plus distributors and dealers in the India market. And on the outlet front, the current penetration of package basmati in India is about 7 lakh outlets. And as a brand, we are available in about 3.3 lakh outlets.

So our objective right now is to obviously reach to a 60% to 65% mark of retail penetration. But eventually, our objective would also be to push the 7 lakh number of the category to 1 million number in the next few years.

Varun Bang: Okay. Okay. And typically, what I've seen is in rice typically, there is a fixed per kg spread that we charge. Is it a similar way? Do we price our package basmati rice, or is it a fixed percentage that we mark up? So if you can just comment on how we drive consumer packs and bulk packs, that would be helpful.

Ayush Gupta: You're talking about Modern Trade or are you talking about...

Varun Bang: Overall, in general. In general.

Ayush Gupta: So our pricing for the consumer packs and basmati in the segment is quite market-driven, I would say. Based on consumer affordability at various price points, we've got products right from India Gate Classic to India Gate Mini Mogra 2. So that spectrum of products cater to all types of consumer demand, needs and price points. And that becomes the basis of our product offering. But then compared to the blends and commodity prices, we keep on simulating this forward...

Anoop Gupta: Generally, we keep 20% margin for the retailer.

Ayush Gupta: Yes. On the MRP, retailer gets about a 20% margin on our products. So that's also a norm that we follow.

Varun Bang: Okay. So it's a fixed percentage markup, what we look at?

Ashish Jain: Yes. So Varun, just to add to what Ayush is saying, in the rice market for basmati, there is a clear ladder in terms of various price points. I mean, India Gate as a brand is present on all the price points. And this has a very wide range. I mean, you can have the retail price of INR 200 a kg for Classic and then going down to INR 40 or INR 60. From a pricing point of view, one is we make sure that we are available on all these price points, make sure that retailer gets a 20% margin. I think finally, your question is that what is the impact of commodity prices in this? So see any staples brand is never immune from the commodity price, but we try to maintain the price as much as possible so that there is stability for the consumer.

Varun Bang: No, that's not my question. I mean my question is do we look at a fixed trade that we charge on a per kg basis or is it a percentage per kg that we look at?

Ashish Jain: Percentage, not fixed.

Moderator: The next question is from the line of Anuj Sharma from M3 Investment.

Anuj Sharma: And just going back to this question on margin. See, what I understand is since we have been holding inventory and I think the pricing have been on an uptick and ignoring the other 2 factors, how does it work that in Q3, we could have a high margin and the cost certainly becomes high in Q4? How does the calculation work? Just could you explain the model?

Ashish Jain: Yes. So I mean, the answer really lies in 2 things. One is that the profile of our sales in Q4. So if you look at the sales of higher-margin SKUs, in volume terms that was at 71% in Q3, while in volume terms, it was up 54% in Q4. So that will have its own consequent impact on the gross profit margin.

Second factor, which I've explained was that there are addition -- we had lower-than-usual realization on a non-basmati deal because goods had to be moved to another country and sold there. So that is the second factor affecting gross profit margin. The third is you would see that there are additional other expenses, which is also coming from the non-basmati that we have.

So these 3 things together is what has really affected margin. These factors were not present in Q3, number one. Number two, the overall volume of sales, including exports was much higher in Q3. So these 2 things need to be looked at together.

Anuj Sharma: Okay. But just on an inventory, we follow first-in first-out model, is that correct?

Ashish Jain: Yes. Actually, I'd just like to give a different perspective on your question as well. So between our Q3 and Q4, there is a part of sales that is what we call it aged rice or aged rice sale. So obviously, that inventory is what we carried from the year previous to that. And our inventory cost would be quite stagnant on that.

But there's a big portion of sales that happened in Q3 and Q4, which is new crop, which is the parboiled rice and the steam rice. For those -- because it's new crop and as you know, the crop season this year, the prices were quite high. So our input costs on the raw material was quite high. So that would be an effect between Q3 and Q4 that you see would be an impact on margins.

Anuj Sharma: Okay. So one last question. What is the visibility you have? Or it's a very volatile, you can have an 8% margin and then a 22% margin. So what is the visibility you have? And let's suppose you foresee that it will be a low margin quarter. Do you stop that, you only plan that we'll have only 20-plus percent margin or it's an uncertain scenario as to how do it play out next quarter and next year? How much certainty do you have in this margin grade?

Ashish Jain: Yes. So I think, see, one is that just from a business principle point of view, we really don't engage in any trade or any product sales which gives less than 15% to 16% margin, right? So directionally, all business is planned with that benchmark as the minimum margin. Now you are right, from a quarter-on-quarter, there may be variance.

One of these factors that causes variance is the quantum of bulk sales, especially export sales, where we have limited predictability in terms of when that revenue will get recognized. However, overall, what we aim for is that during the year, we maintain the margin in the 17% to 18% trajectory.

Anuj Sharma: Okay. One last, in terms of pricing trends, can you just highlight how has been the pricing and what is the outlook on pricing going forward? This is the finished or maybe raw material, both could help?

Anoop Kumar Gupta: No, we are expecting the new season in the month of October, November. Now the pricing are quite stagnant and in the new season, we think the prices will come down definitely.

Anuj Sharma: Okay. And despite that, we would want to have one of the highest ever inventory.

Anoop Kumar Gupta: In the aged rice, I have told many times that aged rice is a different thing than a new rice. Aged rice has its own premium.

Anuj Sharma: Answering the incremental inventory, I understand the aged rice, but we have built up inventory. And if we are expecting a price reduction...

Anoop Kumar Gupta: So that will all be aged rice. It will have a premium. There's no problem.

Moderator: The next question is from the line of Jigar Upadhyay from Amtico Consultants Private Limited.

Jigar Upadhyay: Congratulations to the management for good set of numbers. Sir, I have some very broad questions in terms of the overall volume, I mean, how it has played in terms of the India volumes and the export volume? And how do we look at the margin when one wants to model it? Do you track margins on a per ton basis? And if yes, what is the benchmark margin that you look?

Ashish Jain: Yes. So the EBITDA margin range that we look at is a minimum of 17% to 18%. So that's what we are looking to achieve through the year. Now like I explained in the previous answer, now quarter-to-quarter, this may vary because there is a lumpiness in the nature of bulk exports. But however, over the year, you can expect the 17% to 18% margin to be maintained.

Jigar Upadhyay: Right, right. And would the margin for the export business be higher than the domestic?

Ashish Jain: Not -- some work. However, the reason is that the realization tends to be higher, but then the product mix is also different, right? So typically, it may be around 5% higher than the domestic business.

Jigar Upadhyay: Understood, sir. And what would be the realization for domestic and exports broadly?

Ashish Jain: Basmati -- you're talking about Q4?

Jigar Upadhyay: I mean, even an overall picture for FY 2023 would be fine?

Ashish Jain: Yes, if you look at overall basmati realization in the domestic market, that was at around INR 74,000 per ton. This is basmati branded for the full financial year FY 2023. The same number for basmati branded in export was INR 1,30,000 per ton.

Jigar Upadhyay: And the export part is still branded?

Ashish Jain: Yes. So both numbers are for branded.

Jigar Upadhyay: Got it. And if I may ask lastly, I mean, what would be the overall scale in terms of the volumes for India and exports?

Ashish Jain: In terms of our volume sales?

Jigar Upadhyay: Yes, in sales volume.

Ashish Jain: Yes, so domestic basmati branded sales last financial year was at about 3,70,000 tons and basmati branded export sale was at around 90,000 tons.

Jigar Upadhyay: Got it, sir. Is the traded or private label volume very high or we prefer to focus more on branded?

Ashish Jain: Yes, I've given that number that out of roughly INR 5,400 crores revenue, bulk export is to the tune of about INR 800 crores to INR 900 crores.

Moderator: The next question is from the line of Hariom Patwari from GSM Wealth Advisors.

Hariom Patwari: My question is, what is the split of business between basmati and non-basmati in volume terms?

Ashish Jain: Yes. So if we look at the domestic branded business, like I mentioned, domestic branded basmati volume was at 370,000 tons. The non-basmati branded was at about 21,000 tons. So 370,000 basmati branded in domestic, 21,000 tons non-basmati branded. In exports, basmati branded was at 88,000 tons while non-basmati was small at about 5,000 tons.

Moderator: Ladies and gentlemen, this would be the last question for today, which is from the line of Praveen from YES Securities.

Praveen: First of all, congratulations for a good result. So Mr. Ashish has said about something about some M2M. So I just want to understand what kind of M2M he was discussing. And he has just informed that there is an INR44 crores income of more interest on debt refund. So what kind of refund is this?

Ashish Jain: So the MTM loss that I was referring to is that as you know, we mark-to-market our investments. So on that investment portfolio, there was a notional loss of INR 3 crores. So the PBT that we reported was after adjusting for that loss. However, in taxable income, that setoff is not available. So our taxable income was higher than the reported PBT, which is what resulted in our tax outgo.

So when you take the tax outgo as a percentage of PBT, it appears to be higher than the previous quarter. So that is what I was trying to explain. The other income number you are referring to includes interest on income tax refund. So we have made disclosures on this case. But broadly, they were delayed refund from income tax authorities on which we were entitled to interest, which was received and it is recognized as other income.

Praveen: And your inventory is also at mark-to-market or it is as a normal level?

Ashish Jain: No, we report inventory as lower of cost or NRV, which is net realizable value.

Praveen: Okay. So is there any loss sitting in the inventory?

Ashish Jain: No. I mean, on the contrary, as Anoopji had mentioned, the market prices are far higher than our average inventory cost. No loss for it.

Moderator: Ladies and gentlemen, as that was the last question for today, thank you very much, members of the management team. On behalf of KRBL Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

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We do hereby confirm that no Unpublished Price Sensitive Information was shared or discussed during the Q4FY23 Earning Conference Call.