Ref: KRBL/SE/2023-24/94 February 21, 2024

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

Sub: Transcript of the Earnings Conference Call held on Thursday, February 15, 2024 on Unaudited Financial Results of KRBL Limited for the Third Quarter (Q3) and Nine Months ended December 31, 2023

Dear Sir/Madam,

Pursuant to the provisions of Regulation 30 read with Para A of Schedule III of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of the Earnings Conference Call of KRBL Limited held on Thursday, February 15, 2024 at 12:00 Noon onwards on the Unaudited Financial Results for the Third Quarter (Q3) and Nine months ended December 31, 2023.

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

This is for your kind information and record.

Thanking you,

Yours Faithfully,
For KRBL Limited

PIYUSH ASIJA

Digitally signed by PIYUSH ASIJA
Date: 2024.02.21 15:22:29 +05'30'

Piyush Asija
Company Secretary & Compliance Officer
M. No.: ACS 21328

Encl: As above

"KRBL Limited

Q3 FY'24 Earnings Conference Call"

February 15, 2024

MANAGEMENT: **MR. ANIL KUMAR MITTAL – CHAIRMAN AND MANAGING DIRECTOR – KRBL LIMITED**
MR. AYUSH GUPTA – HEAD OF DOMESTIC DIVISION – KRBL LIMITED
MR. ASHISH JAIN – CHIEF FINANCIAL OFFICER – KRBL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to KRBL Limited Q3 FY24 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 this 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. Ashish Jain, Chief Financial Officer of KRBL Limited. Thank you, and over to you, Mr. Jain.

Ashish Jain: Thank you for joining us. Welcome to the Q3 FY'24 Earnings Conference Call for analysts and investors of KRBL Limited. Today, we have Mr. Anil Kumar Mittal, Chairman and Managing Director; and Mr. Ayush Gupta, Head of the Domestic Division as key speakers on the call.

To kick off the call, Mr. Mittal will provide updates on the business, industry and our overall strategy besides the export business. Following that, Ayush will delve into the perspectives of our domestic business. Finally, I will present the financial overview of the company for the third quarter and 9 months of current financial year. Once the management has concluded their opening remarks, we will open the floor for an interactive question-and-answer session.

Please note that some of the statements made during this 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 exchanges website and our company website.

Now I would like to invite Anil Ji to share his views. The floor is yours, sir.

Anil Kumar Mittal: Good morning to everyone. Esteemed investors and analysts. Today, I'm here to share our performance for the third quarter of the financial year 2024 and provide insights into the broader rice industry both globally and within India. We find ourselves in a period of remarkable resilience and adaptation.

Despite the challenges posted by El Nino conditions, global rice production has remained stable at 513.5 million ton, mirroring the output of the previous marketing year. This stability, however, has not insulated us from elevated rice prices fuelled by geopolitical tensions, policy responses from major rice producing nations and concentration of rice production and exports.

Turning our attention to India, Our primary market, we observed a slight contraction in kharif rice production, which is estimated at 106.31 million metric tons, a decrease of 3.4% from the previous year. This had inevitably impacted the rice industry landscape in India, including both basmati and non-basmati segments.

Despite these challenges, India's Basmati exports have seen an 11% increase in volume in April to December 2023, reflecting the sustained high demand in international market. Conversely, the non-basmati sector faced hurdles, notably the ban on white rice exports and the imposition of 20% export duty on parboiled rice, resulting in a 37% decrease in export volumes.

The geopolitical situation affecting the Red Sea route has raised concerns about potential freight increases, order delays or cancellations. I want to assure you that we are closely monitoring these developments and have implemented strategic measures to mitigate their impact on our operation and ensure timely deliveries to our global customers.

Furthermore, as you already know, the adjustment in the minimum export price for basmati rice has not deterred our export performance as demonstrated by our average realization rate, which comfortably exceeds the revised MEP threshold.

On the paddy purchase front, our paddy purchase reflects a strategic approach to managing our supply chain amidst fluctuating prices and quality variations, despite a 12.3% increase in paddy prices compared to the previous season, our agile procurement strategies have allowed us to maintain a steady supply of high-quality rice, underscoring our commitment to excellence. Owing to strong demand, we see the rice prices sustaining in the aforesaid period.

I will now update you on our export business. KRBL export revenue was at INR 278 crores in Q3 of 2024 and INR 1,053 crores in 9 months period ending December 2023, a decline of 47% and 34%, respectively. Performance is affected by two broad factors vis-a-vis sharp drop in sales to Saudi Arabia and fewer opportunities in the bulk rice exports. With respect to former, the suit filed by our erstwhile distributor partner in Delhi High Court has been disposed of and the matter is in arbitration.

The contract with the erstwhile distributor stand terminated, and we are in the process of identifying, appointing new distributors, one each for retail, online and HoReCa. I am, however, happy to report that sales to markets other than Saudi are performing well, showing a growth of around 75% over the preceding quarter. Bulk rice sale in the current year have been affected by regulatory factors, I mentioned earlier on the non-basmati side, the lack of attractive opportunities on the basmati side. However, we are continuously prospecting and should see some bulk basmati exports in Q4 FY24 or the first quarter of the next financial year.

Looking ahead, we are excited about the progress on our expansion project in Karnataka and Madhya Pradesh. These ventures are not just about increasing our production capacity, but also about announcing our operational efficiency and market reach.

In conclusion, while we navigate through these challenging times, our unwavering focus remains on delivering value to our customers and shareholders. We are committed to leveraging, embracing opportunities for growth and addressing the challenges, as on which resilience and strategic foresight. Thank you for your continued trust and support. I now welcome any questions you may have. And I pass it on to Ayush, Head of the Domestic Business.

Ayush Gupta: Thank you. Good afternoon, ladies and gentlemen. I'm delighted to stand before you today to share the exceptional performance of KRBL Limited in our domestic business for the third quarter of fiscal year 2023-24. In Q3 FY'24, our India market sales soar to an unprecedented INR 1,143 crores, marking the highest ever quarterly revenue for our India business and a remarkable 14% growth.

For the first time, KRBL's domestic branded business surpassed the INR 1,000 crores revenue mark in a single quarter, showcasing the strength and resilience of our operations. One of the key highlights of this quarter is the achievement of our highest ever general trade market share in the packaged basmati segment. We secured a 35.9% market share in general trade, witnessing a substantial 350 basis points gain over the same period last year.

Additionally, in Modern Trade, we reached a commendable 40.9% market share, reflecting a 100 basis points gain over the previous year. This success is not isolated but part of a consistent growth strength in our domestic business. Over the last few quarters, we have been witnessing steady progress with Q3 FY '24 emerging as a highest ever quarter.

Notably, our 9-month volume growth of 13% surpasses the FMCG industry's average growth of 5% to 7%. This achievement is a testament to our unwavering focus on brand building, guided by consumer insights and sustained media investments. Our commitment to excellence extends to our supply chain capabilities, and I'm proud to announce that significant improvements in this area have empowered us to achieve our highest ever quarterly revenue. Our numeric distribution in the Indian market experienced an impressive gain of 1,190 basis points exiting December 2023 over the same period last year.

This underscores our efforts to expand distribution channels, not only fuelling growth in our existing business, but also laying a robust foundation for a multi-category and multi-brand revenue stream in the near future. The performance of our recently introduced regional rice offerings, Sona Masoori, Kolam and Gobindobhog have been outstanding.

This segment contributed to 6.95% to our overall India revenue in Q3 amounting to INR 79 crores, reflecting a remarkable 158% growth over the previous year. The branded regional rice business has clocked a 9-month revenue of INR 165 crores, and we are well on target to reach our estimate of INR 200 crores for the fiscal year. Our ambition is to achieve INR 1,000 crores revenue from this segment within the next 5 years.

Our foray into the masala segment with the launch of ready-to-cook India Gate Classic Biryani Masala range has been met with strong traction, available in modern trade source and e-commerce platforms. These products promise an authentic biryani experience at home with 3 enticing variants: Hyderabadi, Lucknowi and Kolkata Biryani Masala. While this is an ancillary product launch whose core objective is to fulfil a brand promise through an elevated cooking and consumption experience, it most definitely allows us to enter the rapidly growing INR 4,000 crores ready-to-cook market as well as the INR 30,000 crores branded spices market.

As we revel in our current success, we remain forward-looking, actively exploring opportunities to expand into new categories in the upcoming fiscal year. We are poised to continue our trajectory of growth and innovation. With that, I hand over to Ashish for his commentary on the financial overview.

Ashish Jain: Thank you, Ayush. I will now present financial performance for the quarter and 9 months period ending December 31, 2023. All financial figures discussed are on a consolidated basis. For the quarter, our total income stood at INR 1,465 crores, a decrease of 6% from the corresponding quarter last year. Other income saw a significant increase of 57% bolstered by mark-to-market investment gains and favorable foreign exchange gains.

In our domestic market, excluding power, revenue climbed by 14% to INR 1,143 crores. This rise is attributable to a 13% year-over-year increase in basmati sales underpinned by both volume and realization growth. Specifically domestic basmati volume reached 1,33,000 MT with a realization of INR 76,000 per ton.

Turning to exports. There was a decrease in Q3, where the revenue was at INR 278 crores, 47% lower than last year's corresponding quarter. Q3 FY24 includes INR 22 crores from bulk rice sales in contrast to INR 222 crores in the same period last year, partly explaining the significant movement. This reduction, as Anil Ji had mentioned, in bulk sales is due to limited opportunities in the current fiscal year. Branded rice export in the quarter was at INR 252 crores as against INR 295 crores in the corresponding quarter.

Moving to the margins. Our gross margin for the quarter was at 25%, primarily affected due to increased basmati unit cost and lower exports. EBITDA margin also experienced a decline to 14.1% from 19.1% largely as a result of higher basmati input costs and additional provisions despite some offset from lower freight on sales. Finance costs for the quarter increased to INR 7.48 crores from INR 3.46 crores, reflecting higher bank borrowings during the quarter and also higher rates of interest.

PAT was at INR 134 crores or 9.1% in margin terms compared to INR 205 crores or 13.2% in the same quarter last year.

Comparing Q3 to Q2 of this year, our revenue from operations increased to INR 1,437 crores from INR 1,213 crores. This increase is marked by a robust increase in both domestic and export sales, which increased by 22% and 18%, respectively.

Q2 FY'24 included a one-off write-back of provision, adjusting for this, underlying gross margins between the two quarters are comparable and stable. For the 9-month period of FY '24, total income edged up by 0.5% to INR 4,152 crores compared to 9 months FY '23. Gross profit stood at 27%, while EBITDA and PAT were at 17% and 12%, respectively.

The margin contraction is primarily attributed to elevated input cost and reduced export volumes. Nevertheless, overall revenue remained stable, underscoring a strengthening domestic market amidst international market fluctuations. On the balance sheet, as of December 31, 2023, total inventory was valued at INR 4,868 crores, consisting of INR 2,156 crores in paddy and INR 2,554 crores in rice. This represents an increase from the previous year, mainly due to higher per unit costs.

Net bank borrowing also rose to INR 901 crores from INR 502 crores, correlating with the augmenting closing inventory. I conclude my prepared remarks here and would like to transition to the Q&A session. Please note that we will not address questions concerning the ongoing ED matters as it is subjudice. I now hand over to the moderator to begin the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Karan Gupta from CAVI Capital.

Karan Gupta: Thank you for the opportunity and very good performance in the domestic side, at least the market share is very happening to see. I have three overall questions. Number one, can you discuss the volume growth on the domestic business vis-a-vis realization and product mix? If we could just get some more details on that?

Secondly, given the high-priced inventory that we are carrying now, what are your expectations for gross margins going forward over the next 2 to 3 quarters as well as a couple of years? And then thirdly, if Anil Ji could just talk about a little bit more about the time line for resolution of the Saudi Arabia distribution business, that would be very helpful?

Ashish Jain: Yes. So overall, talking about the volume growth in the domestic business. So total basmati volume growth on the branded side is 6% during the quarter and on a 9-month basis, it stands at around 13%. I'm talking about branded rice in the domestic market.

I think your second question was on the impact of high cost inventory and how it plays out over the couple of quarters. So I think as Anil Ji had mentioned, we see the rice price continuing and to some extent, the realization even in Q3 has already been adjusted to the higher cost of both paddy and rice and we see this sustaining. So not particularly concerned about the increase in paddy cost over the last season. Now over to Anil Ji for exports.

Anil Kumar Mittal: As far as branded business is concerned, overall in other markets, we are doing good, but we have to understand that distribution channel is an asset for any company. It is not just a buyer-seller relationship. Hence, if there is any disturbance in this channel in any specific country, then it takes time for things to come back to their original position, rectification or to their normal business.

There are many factors that need to be considered when setting up a new distributor line in any of the countries, especially Saudi Arabia. They have to understand the brand reputation and the image of the brand. They also have to understand and build relationship with the company management and get aligned with their thinking and business expectations, not just market dynamics of prices and payment as we do in private trade business, private label business, other factors play a big role in having a strong and settled distribution network.

I would like to also add that most of the countries have their own label system, like in Saudi Arabia where 80% of the distributors have got their own brands. India Gate was the only one brand from India which was competing and was giving a hard competition to local distributors having their own label in Saudi Arabia.

Now it is taking time. I do realize that I made a wrong commitment last time by confirming that things had been finalised in Saudi Arabia. Things fell apart as the agreement could not be signed at the last moment.

In countries like Saudi Arabia, we do not want to repeat the mistake as we have done last time where we had ended up in legal complications. As I have told in my presentation, we are very cautious. We do not want to repeat such mistakes which may damage our brand image. We want to ensure that the distributorship is finalized proficiently so that the business starts flowing smoothly and reaches our previous levels.

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

Amit Aggarwal: Yes. I just wanted to know of the price rise -- have you taken any price rise lately...

Moderator: I'm sorry to disrupt you, you your voice is coming muffled. Can you please speak through the handset?

Ashish Jain: Yes, Amit, it's okay. Let me just repeat your question. I think your question was that whether we have taken any price hikes, right?

Amit Aggarwal: Yes, yes.

Ayush Gupta: Yes. So looking at the domestic business realizations, quarter-over-quarter we've taken a price hike of about 9% to 10%, which is in line with the price hike of cost of goods sold over in the company.

Moderator: The next question is from the line of Himanshu Upadhyay from Buglerock Capital.

Himanshu Upadhyay: Good performance on the domestic market. I have a question on our thoughts on store sourcing, okay? You have always stated that the increase of basmati paddy can be transferred to the customers and profitability or profits can be maintained even if the prices rise because we are doing aged rice, and that is a scarce commodity, okay?

But if we see this quarter's number, we have stated that we were not able to raise the prices of end product and hence, the profitability, and not just profitability, the absolute profit also fell because of the higher price of the raw material. And what we understand is, even in FY '24, the price of paddy is even higher than last year.

What gives us confidence that we'll be able to transfer these higher prices of paddy to the end customer? Or you think it can lead to further erosion in profits for FY '25? So some thoughts on that and because we again have increased the value of inventory, what we are owning.

Ayush Gupta: Okay. So I'll divide your question into 2 parts. Thank you for the question. So as I mentioned earlier, we have taken price increases quarter-on-quarter basis, the commodity prices and in the domestic market, at least, the corrections or increases are in the tune of 9% to 10%. However, when we say gross margins have taken a hit because of cost of goods sold, the accounting procedures that we follow is an average of the overall stock that we have in the books.

So because our inventory this year has been built up on a higher price, the average cost of goods sold have increased. So overall, hence, gross margins have reduced. But within domestic and international markets, there are different categories of products that we sell. But cost of goods sold are depleted on an average price itself.

Himanshu Upadhyay: No. See, I understand that the percentage reduction can be higher because of the higher raw material prices and again, the higher revenues. But what we are seeing is absolute reduction of 20%, in the gross profit from INR 455 crores to INR 363 crores and even PAT of INR 205 crores to INR 134 crores. So it shows that we have been not able to transfer the prices and what we have also written in the note, so that is the question, okay?

Ashish Jain: Yes, Himanshu, I'll try and answer your question. So you're right, there's been an absolute decrease when you look at gross profit or EBITDA, etc., while that has less to do with our ability to pass on the price increase, which, like Ayush explained, we've already done. I think that has more to do with the fact that the overall export sales on a quarter-by-quarter basis and even on a 9-month basis are lower. So as the export sales get normalized, it will have an impact in terms of increasing both absolute as well as the margin, on both gross margin as well as EBITDA. I hope that explains your question.

Himanshu Upadhyay: And are you worried about FY '25? Because we are seeing that inflation is leading to lower growth for many of the consumer up-trading companies, can you be worried that a higher price of inventory may be difficult to put on the customers in near future? And how are you planning to take the price hikes? Or what is consumer behavior you are seeing?

Anil Kumar Mittal: Let me answer your question. Due to the upcoming elections, there is a huge pressure from the Government on the traders to keep down the prices so as to contain the rate of inflation. You may not believe this, but for almost a month now, traders are getting pressurised by the Ministry of Commerce, the Ministry of Food & Agriculture and also the Ministry of Finance to bring down the rice prices, including that of Basmati. We all know that Basmati is a free-trade commodity with no MSP regulations. The only restriction is that the Minimum Export Price should be US$ 950 PMT. Thus, the prices at the time of arrival of crop were around 10 – 13% higher as compared to last year.

So, till the elections, i.e. for the next couple of months, say, March & April, the prices are going to remain subdued. However, looking at the stock levels and the demand, we are quite sure that the prices are not going to remain same after the elections in April.

Moreover, export quantum has jumped from 4.5 Million Metric Tonnes to 4.9 Million Metric Tonnes. Similarly, domestic consumption has also gone up from 3 Million Metric Tonnes to 3.8 Million Metric Tonnes. Thus, the consumption is increasing and the demand will automatically increase.

It is a psychological pressure on the traders that if the government takes a strict action and comes out with stock limitations as they have been doing in the past, it may lead to lot of problems. Therefore, people are really cautious and worried as far as domestic trade is concerned. As regards exports, the next two months are little difficult. But I'm sure that after April, the prices will increase because they are correlated with the domestic prices.

Himanshu Upadhyay: Okay. And the second question was, you have faced the challenges in Saudi market for last many years. But the Saudi market is 20% of the total exports of Indian basmati, And the rest, 80% is Iraq, U.S, Yemen, UAE. we would have rolled out in those markets? And how have those markets done for us, means, because the 20% market is strong, but the 80% is still open for us, And we are still facing challenges, for growth in export markets. And this is not first year. This is, say, 3- 4 years we are seeing this challenge happening.. So, my question is, how have we done outside Saudi Arabia? Because Saudi is 20% market, the 80% market is outside Saudi for basmati exports.

Anil Kumar Mittal: The weaker numbers in exports are primarily due to two reasons. Firstly, there is a very big drop in bulk exports as our bulk exports to Europe have come down to almost zero, since Pakistan prices are lower by US$ 100 PMT, besides, there is no pesticide residue problem in Pakistan. Secondly, Iran & Iraq business has suffered a huge set back due to persisting payment problems. Further the entire region being caught in war zone, business with Iran & Iraq is not safe and has become risky.

I would like to add that there are many exporters whose payments are stuck up in Iran. It is not good to discuss these matters in public domain, but reality is that payment is a big issue with both Iran & Iraq.

I would like to inform you that last year we had concluded breakbulk business to the tune of about 100,000 MT. This has given us a setback of Rs.800 – 900 crores in the current fiscal. However, we are doing exceptionally well in all other countries and our brands are well established.

Regular orders are coming from all the markets. The main deficiency in our export turnover is primarily due to breakbulk and Saudi business. As I have already briefed you, we are making our earnest efforts to finalize the distributor for Saudi Arabia and redeem our market position. As you are aware, this is our third year we have not been able to finalize the distributor for Saudi Arabia, which is one of the crucial markets for Indian Basmati. We had appointed a distributor in FY 2022, but the results were not very good. Luckily we had won the legal battle in the High Court based on our sound & binding contract. We are now into Arbitration, but we do not want to land into same kind of problem again.

Himanshu Upadhyay: Okay. And one last question. This regional rice has grown pretty well for us. And it is now more than 5% of the revenue. How are the margins and what proportion of inventory today is non-basmati when we show the inventory value of INR 4,800 crores?

Ayush Gupta: Yes. So on the regional rice, as was planned and agreed, we had done a INR200 crores target for this fiscal year. And we're right on target, and we'll probably surpass that number. As far as margins are concerned, we don't have separate margin numbers at the moment for regional rice. But let me tell you that we are operating only in the premium regional rice market.

So all the products that we have in the market on regional rice are aged product, similar in terms of basmati. And they garner a premium of over 5% to 10% compared to the normal varieties. there is also a brand premium there. So we are able to sustain our basmati margins in the regional space. I don't have the exact numbers.

But there is no compromise on the margins when we are operating in the regional rice space. In terms of stock, non-basmati inventory, the total value in INR 4,800 crores of non-basmati INR 110 crores.

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

Anuj Sharma: I'm using a long-term data. If you look at our revenues in the past 5 years, it has increased by 32% and operating profit is flat. And if I look at pure export is down 24% absolute in the last 5 years. If you look at our export-focused competitors, their revenue is up between 75% to 100% and operating profit is up by 2 to 2.5x.

The question is this loss in export market share seems sticky and why should we are losing the shelf space? Because once you have lost the shelf space, how do you think you can win it back? That's question number one.

Anil Kumar Mittal: As far as the shelf space is concerned, the brand is very strong and when we appointed a new distributor in 2022, he gave us commitment to import about 65,000 - 70,000 tons of rice. He then gave us an order for about 17,000 – 18,000 MT in the first quarter of 2022-23 and we were quite happy. We were sure that we would soon recapture our previous market share.

But what happened subsequently was not expected. It was easy for him to place the product easily because of the strength of the brand. But due to his own deficiency and lack of knowledge about the commodity, he was not able to perform. At one given point, the orders came down to negligible quantities such as 2000 – 3000 tonnes. Ultimately, we landed in litigation.

In Saudi Arabia, India Gate brand is still very much in demand and the brand image is intact. We have been receiving lot of enquiries from various distributors. Especially during January & February there is a huge surge in demand for rice due to Ramadan which is commencing from 3rd of March. Our only requirement now is a distributor with a good understanding as I had mentioned in my presentation.

Anuj Sharma: Yes. The next question is if you look at our margins despite us holding inventory being a branded player and excluding to premium markets like Middle East, margins over the years have been declining. And if we compare the 9-month FY24 margins, our margins are very close to commodity players, right, who buy in spot and sell to private label. Why have we lost this margin advantage?.

Ashish Jain: Anuj, sorry, I'm not sure if you're referring to the correct data. On a 9-month basis, our EBITDA margin is at 17%, and the PAT margin is also healthy at 12% So, I think the commodity player profile is very different from this. I think there's probably low single digits is what at least I see in their balance sheets.

Anuj Sharma: I'm not saying they have closed in, but the gap has significantly reduced. They are touching 12%, and we are closer to -- if I remove the other income. So the gap which used to be 700 to 900 basis points is now merely 200 basis points. And that's for a player like us, I'm talking about 9 months data and over the years, the margin gap has really come down.

Anil Kumar Mittal: The profit margin has come down because the export turnover has come down. The profit margins in exports are much higher than in domestic sales. Besides, export market is 100% Head Rice, where as in domestic market we have about 40% Brokens & 60 % Head Rice or 50:50 ratio of Brokens & Head Rice.

Broken rice does not command the same premium as head rice. So, our PAT and EBITDA are coming down. The day our exports pick up by even just 200 – 300 crores, the scenario will change.

And, being the Chairman of the company, I do not want to make any statement for which I may have to feel embarrassed later on. But, one thing I am sure of, that you will see a remarkable grown in exports in the 4th quarter. We are more worried than the investors, since we have worked really very hard to reach these levels. We are trying our level best to come out with impressive results.

Anuj Sharma: All right and lastly, the Saudi sales will remain 0 until we appoint your distributor, right? So you are expecting the other regions to do well to compensate? Or you think Saudi sales will come back via a different arrangement in next quarter?

Anil Kumar Mittal: I do not want to discuss on a specific country or a buyer. No doubt, we are very much concerned about the Saudi market, because it accounts for about 20% of the total exports. I assure you that 4th quarter will be much better than all the first 3 quarters of FY 23-24. As we had mentioned earlier, we are indeed showing remarkable progress in all other markets, and we will definitely be doing 25 – 30% more business in the 4th quarter over the 3rd quarter on export front.

Moderator: The next question is from the line of Nikhil from SIMPL.

Nikhil: I have 2 questions. One is on the market share. We talked about our market share increasing both in the GT channel and the modern trade. If you can just help me understand whom are we gaining market share from? Because if you look at the other listed large players, they are also talking about market share gains. So is it like we are gaining more from private labels or regional brands? Just some sense on both GT and modern trade, our market share gaining, through which channels or which players?

Ayush Gupta: See, if you look at the domestic landscape, there are broadly just 2 players who hold a significant market share in the market. Rest of the players, all fall under the 5% market share slab. It's rightly portrayed by you that both the players are gaining market share. So a lot of it is coming from regional local players in the market.

But also one thing to note is the speed at which one is gaining market share over the other. So that is, I would say, something which is more notable that at what speed we are gaining market share over the competition because the market is fragmented by only 2 players and both are putting efforts in terms of distribution and other spaces.

There is immense area for expansion. But on what basis market share gains are coming? Is it back of distribution, is it back of brand equity or is it back of pricing? That is something that quality of gain of market share is something to be evaluated I think to get a correct picture there.

Nikhil: And when you talk about market share, this is a value share, right? Can you talk about what would be your volume share gain?

Ayush Gupta: Actually, I don't have that number at the moment with me, but we will be able to share that later after the call.

Nikhil: Okay. Second question if we talk about the shift in the industry and staples, there is this change from loose to branded and from regional brands to larger pan-India brands. If you have to understand over the last 5 years, how has the industry shape changed from loose to branded basmati or from regional to branded? And what would be our gain versus regional brands and loose? Can you just talk about like 5- 10 minutes, how the shape of things have changed over the last 5 years?

Ayush Gupta: Yes. So I'll explain you over the last 5 years, the India's growth in terms of overall basmati penetration has increased significantly. And I would say it will be between 6% to 8% year-over-year that India's overall basmati consumption is increasing. Mostly, this consumption gain is coming on back of 2 reasons: one, if I talk about past 5 years, almost 60% of India's basmati consumption comprised of metro cities. Metro cities, mainly 40 lakh population plus towns. 60% of basmati business came from there.

However, in the last 5 years, we have seen a drastic shift now. And now only 40% of business comes from these towns. So what has happened in the last 5 years, a lot of penetration of basmati has gone down to Tier 1, Tier 2 population towns and that's where consumption increase has been substantial.

Because of that, we also see a lot of our distribution efforts being ramped up in Tier 1, Tier 2 and maybe some rural towns of North and West region where basmati is highly penetrated. So that's one part of what has happened and on the loose to packaged bit, yes, packaged basmati is also leading this growth: one, because of newcomers, because a lot of modern trade and e-commerce channels have started contributing significantly to the basmati rice industry and these channels are advocates of packaged commodity. So these are catalyzing that shift from loose to packaged.

Another notable change which has recently happened is the ruling from FSSAI on 1st of August on purity of basmati rice, right? So a lot of basmati rice, which is unbranded or loose is unpure, and government has now put strict rules on adulteration. So I think that is another area which is propelling this change from loose to packaged.

Nikhil: See, the tailwind for the industry for loose to packaged, I think this -- before this FSSAI, there was also the GST ruling because of the rate change and where we were like the price differential between loose and branded will decrease and we should gain and it's almost like 1- 1.5 years for that.

But if we look at our volume trajectory and we are just along the lines of what the industry is growing. So are these actually helping us to become, like, takeaway share? Or is it just because the larger shift is from loose to branded and we being the larger player we are gaining? So are these tailwinds which we talk about, do really change the things in the near term?

Or is it more of a structural 4- 5 year things where you believe it will happen? That is one. And last question is, can you talk about how is the mix for us changed between mass, premium and economy segment in last 5 years? What it was 5 years back and what it would be today?

Ayush Gupta: Okay. See, as far as your earlier question goes on the shift in loose to packaged. Being the category leader and a dominant market share for almost a decade now, I think it is a normal course of action that if the category moves from loose to packaged, brands like us will be preferred in an organic manner.

Also, if you see our communication strategy for the last 1, 1.5 years, we are at the forefront of leading this change from loose to packaged. And this is done strategically to ensure that consumers get into the packaged basmati rice category. And we inherently feel that because our brand equities are so strong, we will be the chosen brand in the market. So definitely, market size growth is a good sign for all of us. And yes, we are riding the wave.

But I would say that we are not growing at the category pace. We are growing much faster than the category because you see, very aggressive market share gains happening in this last 9 months. 350 basis points in 9 months is a huge market share gain for any brand in the consumer space. In terms of the sub-segment channel mix, I think that's a bit of a sensitive information for us, and we won't be able to share it.

Moderator: Next question is from the line of Amit Doshi from Care PMS.

Amit Doshi: Congrats and great set of domestic business numbers. With this respect to our export market, we were, of course, a very strong player in Saudi, and it's been quite some time that we are not in the market. So who would be filling our space? And second, you mentioned that the distributors themselves, 80% of the distributors have their own brands.

So obviously, they could be selling probably more. So if we have not been able to settle with any other distributor for quite some time. So do you think it would make more sense to go direct? Or is there a possibility of that sort?

Anil Kumar Mittal: It is not possible to fill in the gap in the Saudi market, since it accounts for 20% of total basmati exports from India. Saudi will remain a very prominent destination for KRBL, more so, since we have remained the market leaders there for 20 years. And, we are really not able to evaluate what happened to our original distributor, or, where they went wrong.

Another important market is Iran which has got a 30% share. but it is 100% private label. There is no Indian brand available in Iran. The purchases are either made by the Government or by private players, besides payment has become a big problem.

We need to resolve both the above problems. Though KRBL is doing good business in other Middle East countries, USA, Japan, Singapore, Hong Kong, African continent as well as Europe, we cannot ignore Saudi Arabia & Iran. We need to solidify our position in these two markets if we have to regain our position in top line & bottom line. We assure you we are making our earnest efforts to ensure that we become the leaders of these two markets.

Amit Doshi: Yes. Okay. So is there a possibility of going direct rather than without a distributor in Saudi market? Is there a possibility?

Anil Kumar Mittal: It will be better for me to discuss on this topic after the 4th quarter. The 4th quarter will become a real mirror to show whether we are going the right way or not.

Amit Doshi: Okay. Sir, now that court has dismissed this matter and it is back to this arbitration. So can you just explain the process of arbitration in terms of timelines, how things work really now that the matter is with arbitration?

Anil Kumar Mittal: We have not got big experience of arbitration. According to our lawyers, it will take 3 - 4 years or even more. There are two arbitrators – one from their side & one from our side from India. And the third neutral arbitrator is from Singapore.

Normally, sometimes lawyers misguide their clients because they stand to make good money till the time of award of the settlement.

Amit Doshi: Okay, But that doesn't stop our appointment of another distributor in Saudi in the meantime.

Anil Kumar Mittal: No, it doesn’t. We have already terminated the previous distributor. The High Court has given a clear verdict in our favour. Our agreement is terminated and we are free to appoint a distributor both for HoReCa as well as retail outlets.

Amit Doshi: Okay. With respect to our domestic business, which is growing very strong as a company, KRBL. So now that obviously because of lower export, lower Saudi market, etc., do you think we should start working on KRBL numbers with lower operating margins owing to more domestic sales, at least until our Saudi business is restored? Would that be a fair thinking?

Ayush Gupta: You mean lower number, meaning lower operating margins?

Amit Doshi: Operating margin numbers, yes, percentage terms.

Ayush Gupta: I mean, I think that's not KRBL's DNA and if that had to be done with KRBL, we would have been doing turnovers of, I would say, more than $2 billion. But we are purely in the business of branded staples and our main effort and investments go into creating healthy bottom lines. It's not about delivering top line. It's about creating healthy bottom line.

And I think that's the challenge any company would face in the staples space and I think we are doing the right investments. We are putting efforts in the right direction when it comes to distribution and other GTM strategies to be able to create that equity in the market. So our DNA will always be about getting healthy bottom lines and not compromise that to deliver top line.

Amit Doshi: On the slide five, there is a mention of some additional provision. Can you clarify what provision is that? And there is also mentioned that there is a lower freight cost. So I'm presuming that's because of low sales to the Saudi market, just confirming that.

Ashish Jain: Yes. So I'll answer that question. That provision is part of a policy where once the aging of certain receivables exceed a number of days, we provide for that in the books of account. So it's a standard as per policy. Yes. So you are right. The lower freight on sales is on both: one is that there is lower volume of export. And second is that even on the existing volume in export, the freight rates have come down as compared to last year.

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

Varun Bang: Congratulations for good performance in the domestic market. So first question is on the domestic market. So as a part of our portfolio expansion strategy, we had talked about flax seeds, chia seeds, idli rava, and rice flour, etc.. So we had aggressive plans there. So where do we stand on those initiatives? And because we've not shared that in our PPT, so is there a change in the strategy?

Ayush Gupta: Yes. See, those products continue to be in our portfolio. But given India's eating habits and given India's buying capacity, some of these products or most of these products are not mass and given that we do almost INR 3,500 crores of annual turnover in the domestic business, they are not sizable to the overall scale of business. While we continue to operate there, but they are not sizable to the overall scale of business.

Hence, our product expansion strategies will differ going forward. And as mentioned, that we are taking some steps in that direction as our basmati business now is on a growth and upward trend, our product expansion plans are in place, and we will be updating you guys as and when we have concrete information on that front or plan on that front.

Varun Bang: Okay. And in the modern trade, we have seen a lot of variation in our market share. So what is the reason for the same? I think in Q4 2023, it was 58%, which then fell to 29% in the last quarter. And now again, it is up to 41%. So is it due to our marketing initiatives?

Ayush Gupta: See, the -- if you look at the data for the last couple of years, you'll see that it's a cyclical kind of a nature. That's also because the Indian modern trade ecosystem is highly fragmented with Reliance and DMart in the ecosystem. Both of them currently contribute to 90% of overall modern trade sales, point number one. Point number two, DMart doesn't share data to A.C. Nielsen. So whatever DMart sales is actually a projection of Reliance's stores in that area, and they kind of extrapolate it from there. So Reliance performance, henceforth becomes an ultimate projection to the market share data, right? And Reliance, currently the way of working is that they have quarterly engagements with brands and which shows was a very erratic trend in the market share.

Varun Bang: Okay. Got it. And second question is on the distributor in the export market. So once any distributor is appointed, how do you manage these relationships? And what is the employee hierarchy in the export business? So I think Ms. Priyanka, who is heading the division. So how is the hierarchy below her? And any changes that we have made in the hierarchy in the recent past? Or any changes that we think we need to make?

Anil Kumar Mittal: There is no change. In the last two years, she has appointed 1 or 2 sales promoters from our side considering the size of business in the respective countries, for giving us the correct feedback on the functioning of the distributors. Such feedbacks help us communicate with distributors accordingly. She continues to head the export division and we have a GM sitting in Dubai who looks after the whole of Middle East.

Moderator: Next follow-up question is from the line of Anuj Sharma from M3 Investments.

Anuj Sharma: Yes. I'm saying if you look at markets like North America and EU, the recent volumes and realizations have been better than Middle East and are becoming sizable. Historically, we have not given significant emphasis to these markets. So any thoughts out there to these markets?

Anil Kumar Mittal: Yes. North America in the last couple of years has shown a remarkable growth. And one of our competitors has got a major share of it. I would say, 60% of that market has gone to our competitors because they have their own huge setup over there.

As far as Europe is concerned, I think exports to Europe will increase because of the FTAs which are going to be signed in the next 5- 6 months. That will give a boost to export of packed White Rice from India to Europe instead of Brown Rice.

Once the FTAs are signed, the custom duty or the custom abatement which is presently going on in Europe between white and brown rice will vanish. Presently, on brown rice it is almost zero duty, whereas on white basmati rice it is EURO 175 per ton. So once the duty is done away with, Indian White Basmati Rice exports to Europe will become very competitive, & Europe will become a huge market for India.

Moreover, Pakistan has taken away 65% market of brown basmati rice from India this year because of the 100 dollar price advantage. Once the FTA comes in place, we will definitely be able to overcome the disadvantage we have suffered this year at the hands of Pakistan.

Anuj Sharma: All right. And 1 more question. I'm sorry, I'm digging into the distribution relationship because that's, I think, the key for us. And I remember, we have been very, very careful in selecting a distributor, right, for Saudi also but the HoReCa option is still open. We have not selected for the past 3 years. So my question is, where is the challenge?

Are we not aware of the key distributors? Or the agreement or the terms we are not able to set? What is the real challenge in finding a distributor? And HoReCa was never subject to any, but we still haven't been able to set a HoReCa distributor there. So what is the challenge? And we deal in multiple countries, it's not a single country, but we have got it right in multiple countries. But in Saudi, we still find it challenging.

Anil Kumar Mittal: There are certain things which cannot be articulated in the public domain. You are welcome to my office any time, where we can discuss these things. We will explain to you about the challenges & problems being faced by the rice industry.

Moderator: The next follow-up question is from the line of Karan Gupta from CAVI Capital Advisors.

Karan Gupta: Anil Ji's point is very well taken regarding top line versus actually collections of receivables. It's quite evident if you look at the international receivables for some of the other players. But what I wanted to ask actually was, just longer term on the pricing ones, if the cost of the raw material goes down over a period of time, given that a lot of our sales are branded, do you foresee reducing prices going forward also if raw materials were to come down? Or once price increases are taken sticky for our customers?

Ashish Jain: Yes. I'll answer that. See, generally, what happens in a branded space is brands show utmost resilience when markets go down. So when prices go up, we are able to take price increments very comfortably. But when prices go down, generally, brands show resilience. So if markets go down by 8% to 10%, brands generally put down prices by 2%- 3%. So generally, it's a positive scenario for us while that trend is going on.

Moderator: Thank you very much, ladies and gentlemen, thank you very much for members of the management and on behalf of KRBL Limited, we conclude the conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.
