MOI GLOBAL

V. P. Rajesh

Managing Partner and Portfolio Manager,
Banyan Capital Advisors

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D-51, Ground Floor, Gulmohar Park, New Delhi- 110049, India
Phone: +91-11-46066687 | Cell: +91-9560021124 | Email: info@banyan-capital.com
www.banyan-capital.com

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Key Investment Principles

“I don’t look to jump over 7-foot bars; I look around for 1-foot bars that I can step over.”

– Warren Buffett

“Invert, always invert.”

– Charlie Munger

“Investment policy could be reduced to three simple words: "Margin of Safety”, the price at which a share investment can be bought with minimal downside risk.”

-Benjamin Graham

“Markets can remain irrational longer than you can stay solvent.”

– attributed to John Maynard Keynes

“Many shall be restored that now are fallen and many shall fall that now are in honour.”

- Horace

Key characteristics of our strategy

- Concentrated portfolio of less than 20 stocks (mostly small-caps and mid-caps) with 80%+ allocation
- Flexibility to invest opportunistically in large-caps, special situations and fixed income securities
- Deep fundamental analysis of the investments
- Diversification across select industry sectors
- Strict risk control parameters:
  - No single investment position beyond 10%
  - Sector exposure limit of 25%
- Pay up to median multiples for quality businesses and close to multi-years low valuations for average businesses

KRBL – A high quality business

Investment rationale

KRBL is a mispriced bet with asymmetric risk-reward

- ✓ Market leader in basmati rice category with defensible moats
  - ○ MNC's like Olam, PepsiCo, Hindustan Unilever and Indian companies like ITC have entered this segment but gone out because of their inability to scale up in a profitable manner
- ✓ Focused on doubling turnover in 5-7 years which means CAGR of 10-15%; higher than its historical long term growth rate of ~9% *
- ✓ A brand focused company with a mindset of profitable growth
- ✓ Healthy balance sheet and generates positive cashflow from operations
- ✓ Run by a highly competent promoter family
- ✓ Excellent IRR potential from the current price since the market is focused on short term issues and missing the long-term growth story

* From 2010 to 2021

What does KRBL do?

Basmati rice is long grained and offers superior taste and distinctive flavour

KRBL is a consumer staple company which sells "branded" basmati rice

Business Overview

KRBL is the largest branded basmati rice player in India

- ✓ Revenue of Rs. 3,993 cr ** in FY21 – 87% from basmati rice, 5% from non-basmati rice and rest from non-rice *** and health food segment
- ✓ **Well diversified revenue base -** Revenue split of approx. 50:50 between domestic and exports of basmati rice
- ✓ Exports to 80 plus countries with strong presence in the **Middle East** and **Gulf Cooperation Council (GCC)**
- ✓ India Gate is its **flagship** brand and contributes to 67% of the branded basmati portfolio. This brand commands premium in both international and domestic markets
- ✓ 25% share of branded basmati sales in export market and 38% share in branded basmati rice in domestic market
- ✓ KRBL has capacity to mill ~**1.2 mn tons** of rice – currently operating at ~**60% utilization**
- ✓ Its distribution network includes **500 +** dealers and distributors across India, **4 lac** retail outlets and **3800 +** modern trade stores
- ✓ **15 rice brands** sold under KRBL's banner – Major brands include India Gate, Unity, Nur Jahan
- ✓ 147 MW of energy assets including biomass, wind and solar which provides **captive power** and rest is sold to the Punjab state electricity

* Data Points shared is for FY21, ** The segment data is estimated since exact figures are not shared by the company
*** Non-rice products include Sale of electricity, Bran oil, Furfural alcohol, D-oil cake, Quinoa

Source: Annual Reports, Con-call transcripts, Presentations

Indian Basmati Rice Industry

- ✓ As of FY21, India's domestic consumption of basmati rice was 2.5 mn metric tons and exports from India was 4.4 mn metric tons
- ✓ Branded basmati rice is 1 mn metric tons and unbranded basmati rice is 1.5 mn metric tons in the domestic market
- ✓ The biggest game changer for the industry was the introduction of PUSA 1121 variety in 2003 and its recognition as Basmati rice in 2008

Source: Con-calls and Annual reports

Sustainable moats

Business model has been built over the years and hence difficult to replicate

- ✓ Has the **balance sheet strength** to take advantage of low paddy price, age it and sell at a premium – Very few players have survived the volatility in paddy prices
- ✓ KRBL's brands command **15% price premium** over other brands in the domestic market while export realizations are higher than industry average
- ✓ The company has built a strong farmer connect through its well-established **contact farming system** over the last two decades, ensuring a high-quality supply of Basmati paddy to the company
- ✓ KRBL has a **well-entrenched distribution** of 4 lac retail outlets while its closest peer, LT Foods has a reach of 1.37 lacs in India
- ✓ Has a strong **in-house R&D** department – It pioneered the use of the PUSA 1121 Basmati seed variety in 2000's while the **whole industry had rejected** it. Today, PUSA 1121 is the most popular basmati rice variety in the world
- ✓ KRBL has the **lowest employee cost*** to sales ratio since all its plants are automated and the key labour stays in the premises which also helps the company to run the plant efficiently

* KRBL's employee cost to sales average of last 5 years is 2.1% while that of LT Foods is 6%

Source: Annual Reports (KRBL and LT Foods), Con-call transcripts, Presentations, Internal Calculations, Forbes article on KRBL (https://www.forbesindia.com/article/8th-anniversary-special/returns-on-rice-the-making-of-indias-biggest-basmati-exporter/46923/1)

Supported by a visionary promoter family

Managed by owner-operator management with no other businesses to distract it

- ✓ Promoters (3 brothers) own ~**60% stake** in the company and the next generation members from the promoter families are involved in day-to-day operations
- ✓ Management has **mindset of profitable growth** and hence clear about what "NOT" to do
- ✓ Has a track record of playing the raw material procurement cycle well which leads to **inventory gains**
- ✓ Is very clear about **capital allocation**
- ✓ Working on a plan **to achieve Rs. 8,000 crores of** revenues in the next few years – more details awaited

Anil Kumar Mittal

Chairman and Managing Director

Visionary of the company. Strategic direction to all aspects of business

Arun Kumar Gupta

Joint Managing Director

Expert on Basmati paddy supply chain management & paddy milling technology

Anoop Kumar Gupta

Joint Managing Director

Oversees strategy and financial operations

* Refer Appendix for more details

Source: Investor Presentation

Entry barriers – Commentary from its peers

Many big FMCG players have exited or decided not to enter this sector after significant evaluation

Olam's comments before existing Basmati rice business

Rajeev Raina, Global Head of Olam's Rice business said: "Olam is a global leader in the rice supply chain from Asia to Africa with a strong presence in both the sourcing origins and destination markets, supporting food security in many developing countries. India is an important sourcing origin for us. While the basmati part of the business provided some sourcing synergies, the sales and distribution channel was distinct and separate from the non-basmati rice business. Furthermore, significant investments in branding were required to grow the franchise. Through this sale we are monetising more than the book value of fixed investments, as well as

Marico's comments on the challenge of margins in Basmati rice business

Saugata Gupta: Just to take a case of rice since you have taken the example, rice is also not a level playing field. All the *basmatis* of the world might not be *basmati*. And those kind of commodities, we do not want to get into them. There are enough other categories where you can enjoy a better margin and scope for differentiation. You have to then get whole-heartedly into huge supply chain scale advantages which we might not have. It will take time to build that capability. If we get into branded staples, that requires huge back-end capability which might take time. We are looking

Chaman Lal Setia's comments on the challenges of branding

- ✓ Branded can give better return but it takes time. Need to sell below break even for a long time
- ✓ India Gate is good example - appreciate their working – they are making good money in their brand
- ✓ KRBL - his rice is selling $300-500 per ton higher than others - hence, there is scope in the market if have brand - **KRBL has built up, Chaman Lal has long way to go**

Source:

1. https://www.foodingredientsfirst.com/news/olam-international-sells-its-basmati-rice-milling-facility-in-india-to-ebro-foods.html
2. Chaman Lal Setia con-call transcript – Q4FY18
3. Marico con-call transcript – Q1FY21

Entry barriers – Management's perspective

Very few businesses have survived and thrived in the industry…KRBL is one of them.

- ✓ "…Basmati rice is a very **specialized** business. It has taken **more than 50 years** to understand this business" (Q4FY18 con-call)

- ✓ "…Here, you have to buy 25 to 30 bags from every mandi (wholesale market). When paddy is harvested, we end up procuring from **300 to 400 mandis** in Haryana, Punjab and Uttar Pradesh" (Rediff article, 2017)

- ✓ "…Another thing that can kill you is **high interest burden**, explains Mittal. "If the interest outgo is under control and you are able to command a good price in the market, you can taste success." (Rediff article, 2017)

- ✓ "…Basmati is a very specialized business in terms of quality, ageing, contract farming. **ITC, Olam, HUL, Pepsi came and left** the basmati rice business. KRBL has the expertise and hence successful in this commodity" (Q3FY16 con-call)

Source:

1. https://www.rediff.com/business/report/basmati-billionaires-we-are-born-in-rice/20171129.htm

What's been missing in the story?

Growth rate has slowed down from FY15 onwards and stagnant since FY19

Metric	FY15	FY16	FY17	FY18	FY19	FY20	FY21	CAGR
Revenues (Rs. cr)	3198	3428	3148	3247	4120	4499	3992	3.8%
Growth (y-o-y)		*7%*	*-8%*	*3%*	*27%*	*9.2%*	*-11%*	
EBITDA (Rs. cr)	527	533	650	766	849	870	823	7.7%
Margins (%)	16.5%	15.5%	20.6%	23.6%	20.6%	19.3%	20.6%	

Source: Internal Banyan workings

Major factors that impacted KRBL's growth in the past?

- ✓ In FY17, revenue de-growth was seen because a bulk order of ~Rs. 517 cr was not repeated which was there in FY16. However, margins expanded since the 'low margin' products were stopped
- ✓ In FY18, domestic market got impacted by GST transition which made non-branded players incrementally competitive. Margins expanded because of increase in realizations and benefit of low inventory prices.
- ✓ In FY19, exports did extremely well because of strong buying from markets like Iran in anticipation of US sanctions
- ✓ In FY21, HORECA segment got largely impacted due to COVID led lockdowns in India and ROW. Iran sales also impacted because of US sanctions

Source: Annual Reports

Growth driver 1: Domestic Basmati Rice

Active efforts made by management to grow the segment

Domestic Performance					
Metric	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Revenues (Rs. cr)	1,822	1,667	1,949	2,096	1,797
Volumes (MT)	404,889	312,570	352,828	371,409	357,747
*Growth (y-o-y) **		**-23%**	**13%**	**5%**	**-4%**
Realization (Rs. Per kg)	45	53.3	55.2	56.4	50.2

Source: Annual Reports, Quarterly Presentations

What is going to change in the next 4-5 years?

1. Acceleration in shift from unorganized to organized due to need for hygiene and introduction of more number of SKU's for 'Unity' brand to capture the mass and mid-level price points

2. Grow the number of distributors – current reach of 500 distributors and ~4 lac** outlets – In comparison, Hindustan Unilever has a retail reach of 80 lac outlets

3. Comeback of HORECA*** and institutional segment which was impacted during COVID

Source: Interaction with management, HUL Annual Report, 2021

* Negative impact of GST on branded pack segment in FY18 and COVID impact on HORECA segment in FY21
** As per KRBL website, *** Hotels, Restaurants and Catering

Growth driver 2: Basmati rice exports

Export Performance					
Metric	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Revenues (Rs. cr)	1,083	1,300	1,842	2,081	1,897
Volumes (MT)	1,35,375	1,68,840	2,18,320	2,85,926	3,08,800
Growth (y-o-y)		**25%**	**29%**	**31%**	**8%**
Realization (Rs. Per kg)	80	77	84	73	61

Source: Annual Reports, Quarterly Presentations

What is going to change in the next 4-5 years?

1. Targeting new countries – Africa, Europe and South-East Asia

2. Volumes in Iran and Saudi Arabia to comeback once the temporary situations gets reversed

   ✓ The company has recently appointed a distributor in Saudi Arabia**

3. Expanding the presence across price points through the Nur Jahan brand

Source: Interaction with management
**** Q3FY22 Investor Presentation**

Growth driver 3: Non-basmati rice

Strong focus seen from the management to grow revenues in this segment

- ✓ Will be launching Sona Masoori rice in Karnataka, Gobind Bhog rice in West Bengal, Kolam rice in Maharashtra and Jeera rice
- ✓ Will be targeting **PREMIUM** non-basmati rice which will be a niche market for KRBL
- ✓ Competition is mainly from regional players. KRBL will have advantage of being a **national brand**
- ✓ Will be selling through same set of distributors but will also be appointing new distributors and build a retail network
- ✓ In the process of setting up processing capacities in places such as Kandla, Karnataka, Maharashtra and West Bengal
- ✓ Will be targeting international markets also
- ✓ Plan is to go for **inorganic acquisition** to fast-track growth

Management has guided towards generating ~Rs. 1000 - 1500 cr from this segment in the next 5 years

Source: Annual Report, 2019, Q4FY21 con-call, Interaction with management

Current valuation metrics

(all values in Rs. crores except market price)

No. of shares (in crores)	23.5
Market price (05-Apr-2022)	Rs. 228
Market capitalization	*5,358*
Cash & equivalents (30-Sept-2021) *	557
Total debt (30-Sept-2021) *	203
Enterprise value	*5,004*
LTM EV/EBITDA	*7.0x*
LTM P/E	*11.0x*

KRBL is trading ~10% below its 10-year median EBITDA multiple(7.7x)

* Total debt and cash is taken as average of Mar 2021 (Rs 308 cr) and Sep 2021 (Rs 98 cr) since the business generates significant cash in H1FY22 and lot of it gets used in H2 for paddy procurement. Hence, there is need to adjust for the seasonality.

Trading at discount to its historical multiples

In a low growth environment, KRBL got much higher valuation than what it is getting today

	CAGR (%) ^			EV/EBITDA					
Historical Period	Revenue	EPS	Avg EBITDA (%) ^	Median	25th PCTL	75th PCTL	Highest	Lowest	Comment
High growth phase but the stock was not well discovered									
FY10-16**	13.8%	18.7%	15.0%	5.7	8.0	4.3	13.1	2.0	High revenue growth without margin expansion
No growth phase but bullish market environment									
FY16-18***	-2.7%	13.6%	22.1%	16.7	17.7	15.6	21.3	13.0	Slow growth in revenues but margin expansion was observed
After ED issue & low growth phase									
FY18-YTD*	6.6%	3.3%	19.4%	7.6	9.6	6.5	11.7	2.9	Low revenue growth and no further margin expansion
Long term period (10 years)									
FY12-YTD****	9.9%	21.7%	18.3%	7.7	12.3	5.7	21.3	2.0	Medium growth and improvement in margins

Source: Internal calculations

* Have taken the highest EV/EBITDA multiple data from 1st Jan 2019 onward to remove any volatile impact of ED overhang (which started from April 2018). EV/EBITDA data from 1st April 2018 to 4th Mar 2022, ** EV/EBITDA data from 1st April 2010 to 31st March 2016
*** EV/EBITDA data from 1st April 2016 to 31st March 2018, **** EV/EBITDA data from 1st April 2012 to 4th Mar 2022
^ For YTD data related to revenue, EPS and EBITDA margins – have taken LTM data

Key assumptions (1 of 2)

Change in growth trajectory (bull case) will re-rate the stock

Parameter	Bull Case	Base Case	Bear Case
Revenues CAGR (%)	12.0%	9.4%	6.5%
EPS CAGR (%)	12.3%	8.8%	4.9%
EBITDA Margins (%)	20%	19%	18%
Avg ROE (FY22 – FY26)	15.4%	13.7%	12.2%
EV/EBITDA	12.3x	8.3x	5.7x
Implied P/E	17.9x	12.6x	9.4x

✓ **Bull Case:** Management has guided for ~Rs. 8,000 cr revenues by FY26*. We are assuming that the company will achieve ~Rs. 7,000 cr by FY26 and hence incorporates possible execution risks, macro changes or one-time events. Revenues would be driven by pick up of growth in domestic and export markets and also scale up of non-basmati rice business. We have assumed margins in line with median of ~20% from FY15 to FY21 to reflect the continuation of improved margin performance since FY17 onwards. We expect KRBL could get 12.3x EV/EBITDA multiples - which is close to median plus one SD**(also equivalent to 25th percentile) multiple of the last 10 years as KRBL is likely to do higher revenue CAGR, better profitability and increase in scale of operations as compared to the FY12 to YTD period.

* Inferred from Q4FY21 con-call. ** Standard Deviation
- The CAGR is taken from FY21 to FY26
- The major reason for difference in ROE among the various scenarios is because of difference in expected margins. There is not much operating leverage available because of its variable cost structure and its financial leverage is already minimal

Key assumptions (2 of 2)

Our base case assumptions are conservative

- ✓ **Base Case:** Expecting growth to increase to ~9.5% over the 5 years from FY21 to FY26 which is also closer to their long term growth (10 yrs) of 10%. Hence, we are expecting that KRBL will again get back to growth (from a period of stagnation) due to steps taken by the management in both domestic and export markets. This would be driven by high growth from the non-basmati rice business (supported by inorganic acquisition) which is one of the core focus of the management going forward. We expect EBITDA margin of 19% over the forecast period which is 1% higher than the 10-yr average of 18.0% from FY12 to FY21. Hence, we expect KRBL could be valued at 8.3x EV/EBITDA, equal to 5-yr median EBITDA multiple and slightly higher than its 10-yr median multiple of 7.7x as growth returns, ED becomes a non-issue and the increase in scale of operations.

- ✓ **Bear Case:** Expecting revenue growth to remain low at 6.5% (which has been closer to the growth observed from FY14 to FY20*) by making an assumption that management will not be able to execute as per its plans of accelerating growth. We are also assuming that the margins will reduce by 2% from the median margins of 20% from FY15 to FY21. Assuming that KRBL will get EV/EBITDA of 5.7x which is 75th percentile for the last 10 years. This is even lower than the 75th percentile (see slide 18) EV/EBITDA since April 2018 to YTD (The ED issue had first surfaced in April 2018) and hence conservative.

* Taken FY14 to FY20 to exclude the impact of COVID's impact

Financial projections – FY26E

Key Parameters	Bull Case	Base Case	Bear Case
Revenues (Rs. cr)	7,025	6,264	5,467
Op EBITDA (Rs. cr)	1,405	1,190	984
Op EBITDA Margins (%)	20%	19%	18%
PAT (Rs. cr)	1,003	855	713
EPS (Rs.)	42.0	35.8	29.8

Source: Banyan Capital

Expected returns are attractive

Value bet with a number of catalysts that could provide significant upside

Valuation Parameters	Bull Case	Base Case	Bear Case
EPS (Rs.) – FY26E	42.0	35.8	29.8
EBITDA (Rs. cr) – FY26E	1,405	1,190	984
Exit EV/EBITDA – FY26 E	12.3x	8.3x	5.7x
Expected Price (Rs.) – FY26 E	751	450	279
Implied P/E (x)	17.9x	12.6x	9.4x
IRR (%) *	34.7%	18.5%	5.2%
Probability of scenario	20%	60%	20%
Expected IRR (%) **	**20.2%**		

Down side is protected

Possible Catalysts

1. ED case becomes a non-issue
2. Growth starts coming back in KRBL
3. Shareholder friendly actions like buyback

* At price of Rs 228 per share (as on 5th April, 2022)
** IRR is weighted average of the various scenarios

What are the concerns of the market?

Likely to get mitigated in the next few years with growth coming back

No	Concerns	Mitigation
1.	**Stagnation in revenues:** Revenue growth has slowed down in the last 6 years (4.6%) v/s 17% from FY10 to FY15	▪ Growth is likely to come back as discussed previously
2.	**Management is highly optimistic about future and sometimes overpromises** Examples "We aim to achieve turnover of Rs.5,000 cr in the near future" (**Source: FY14 Annual Report**) – KRBL has not reached 5000 cr turnover until now KRBL introduced the 'health food'**** products in FY17 to diversify from basmati rice, but since then have not been able to scale up this category	▪ We are discounting what the promoters have been guiding in both our base and bull case projections, but despite of this IRR potential is **highly attractive**
3.	**Legal Issues:** Ongoing investigation by Enforcement Directorate (ED) against Mr Anoop Gupta for involvement in the 'AgustaWestland' scam for money laundering. (Refer appendix)	▪ Track record of ED is **"poor"** * – 2,300 cases initiated against money laundering in the last 14 years but achieved only 15 convictions ** ▪ Management bought 15.27 lac shares (0.65% of share capital) worth Rs 38.6 cr (avg price of **Rs 253** per share) from Dec 2019 to Mar 2020 *** ▪ Promoters have further bought 8.02 lac shares (0.35% of share capital) worth Rs. 15.5 cr at a price of **Rs 193.5** per share from 18th Feb,2022 to 22nd Feb,2022 ***
4.	Negligible shareholding by mutual funds and FIIs	▪ Primarily because of the ED case

* Management interaction with analysts – 9th Dec, 2020

** https://www.sundayguardianlive.com/news/15-convictions-ed-cases-past-14-years, *** BSE website

**** Products like Quinoa, variants of Brown rice, Flaxseed etc. As per Annual Report, the 'health food' category has scaled up to only 25 cr as of FY21

Key monitorables and risks

Risks are worth taking for the expected payoff

- ✓ Whether the company is able to scale up to the next level of growth through both organic and inorganic routes
- ✓ Developments in the ED case
- ✓ Ramp-up in markets like Iran and Saudi Arabia gets delayed
- ✓ Whether the company is able to maintain the margins along with growth

Contact information

V.P. Rajesh

Banyan Capital Advisors, LLP

vpr@banyan-capital.com

Office: +91-11-46066687

Look forward to comments, questions and feedback!