



“KN Agri Resources Limited
Q4 FY2022 Earnings Conference Call”

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ANALYST:

MS. ASTHA JAIN – HEM SECURITIES

MANAGEMENT:

**MR. VIJAY SHRISHRIMAL – CHAIRMAN &
MANAGING DIRECTOR - KN AGRICULTURE
LIMITED**

**MR. DHIRENDRA SHRISHRIMAL – WHOLE-TIME
DIRECTOR & CHIEF FINANCIAL OFFICER - KN AGRICULTURE
LIMITED**



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Moderator: Ladies and gentlemen, good day and a welcome to the KN Agri Resources Limited H2 FY2022 and full year 2022 earnings conference call hosted by HEM Securities. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter “*” then “1” on your touchtone phone. To remove yourself from the queue you may enter “*” then “2”. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Ms. Astha Jain from HEM Securities. Thank you and over to you Madam!

Astha Jain: Thank you. Good afternoon ladies and gentlemen. Thank you for joining KN Agri Resources Limited H2 FY2022 and full year FY2022 earnings conference call. Joining us on the call today are the senior members of the management team, Mr. Vijay Shrishrimal – Chairman and Managing Director and Mr. Dharendra Shrishrimal – Whole Time Director and CFO. We will commence the call with the opening thoughts from the management team post which we will open the forum for Q&A session where the management will be glad to respond to any queries that you may have. At this point, I would like to add that some of the statements made or discussed on the conference call may be forward looking in nature. The actual results may vary from these forward-looking statements. I would like to hand over the call to Mr. Vijay Shrishrimal to commence by sharing his thoughts on the performance and strategic progress made by the company. Thank you and over to you Sir!

Vijay Shrishrimal: Good evening investors. I welcome you all to this concall to discuss our results for the second half of the year 2021-2022 and full year 2021-2022. First of all I thank you all for the overwhelming response given by you to our maiden IPO which got oversubscribed more than 150 times. We are happy that your investments in our company have more than doubled and it will keep growing.

Performance 2021-2022, the performance in H2 and year as a whole has been very encouraging against revenue of 595 Crores in H1 the revenue in H2 shot up to 1290 Crores, in case of year-to-year comparison against the sales of 1300 Crores in FY2021 this year our sales have increased to 1885 Crores. The opportunity in agri business was well converted by us into performance. The rising prices of finished goods like soybean meal and oil in particular have also resulted in high turnover of the company last year.

Sector outlook for 2021-2022, edible oils. Last year was a very eventful year wherein the global supply of edible oil was affected and then the Ukraine-Russia war added into it. Ukraine and Russia produces major quantities of sunflower oil and this was disturbed, which again resulted in increase of the edible oil prices globally. Also, with petroleum prices going up the biodiesel mandate of the country is increased which resulted in more diversion of edible oils to biodiesel. The prices of crude soyabean oil which range from \$850 to 1200 last year went up to \$1200 to \$1900 in the current year; similarly palm oil prices which range from \$700 to \$1100 last year went up to \$1100 to \$1400 in the current year. In the current year India imported around 13.2



million tonnes of edible oil as compared to 13.1 million tonnes last year. Our dependence on imported oil is around 60% to 65%.

Soyabean, - on the crop of soyabean, the government estimate for last year production was 13.83 million tonnes. The industry is saying that the production was not more than 10 million. The Soybean Processors Association of India has estimated production at 11.88 million tonnes. I want to just go through the rough balance sheet and the availability of soyabean. The carry from last year was 1.83 lakh tonne, production was 118.89 lakh tonne, import from October to September was 3.5 lakh tonne, and total availability was 124.22 lakh tonnes. Against this the dispersal of soyabean was retained for sowing is 13 lakh tonnes, direct consumption 3 lakh tonnes, exports of seed 0.5 lakh tonne, crushing 88 lakh tonnes, total is 104.5 lakh tonnes, we still have a carry of 19.72 lakh tonnes. We will get more seeds to process after the onset of monsoon. During the last year the arrivals of soyabean was little less as the farmers and obviously the traders and stockists were holding seeds in anticipation of price rise but we expect the arrivals will drive in the coming months.

I move onto the sector outlook for 2021-2022. First I would like to speak on the monsoon. As per the predictions of IMD and climate it is expected that India will again receive good monsoon this year. Madhya Pradesh, Maharashtra and Rajasthan are major soya producing states in India contributing more than 75% of the production, though the area under soyabean cultivation will not rise much, but a good monsoon will result in good yields and if that happens then we can expect a good crop of about 12 million tonnes in the coming season.

Review of the proposals and projects: First I will take up Ethanol, in line with our philosophy of increasing our presence in Agri business we have invested Rs.19 Crores from internal accruals and bought 26% stake in the holding company of an ethanol manufacturing entity. Currently the plant is of 100,000 liters per day capacity, but soon it will be substantially enhanced, sales have already commenced through PSU oil marketing companies. India has achieved little less than 10% blending of ethanol with petrol as against the target of 20% blending by 2025 said by the Government of India. This huge gap provides substantial opportunity in this segment.

Second, I would like to take up with port-based edible oil refinery. We are working towards setting up of 600 tonnes per day port-based edible oil refinery in joint venture with a multinational entity. This refinery will be able to process Soyabean oil, Palm oil and Sunflower oil. 300 tonnes per day line will be dedicated to Soyabean oil and 300 tonnes per day for Palm/Sunflower oil. The project is estimated around 125 Crores. The project will be implemented in 12 months to 15 months and we can see its earnings from the year 2023-2024.

Now, I would like to speak on other projects. We have started mustard processing facility of 200 MT per day at our Itarsi plant. The value-added soya product like nugget, grain and flour production has also started in Khandwa. In the current year we will open up an oil storage and packing facility in Raipur to have the presence of our packed oil in Chhattisgarh and some parts of Odisha, all this will have a positive impact on the earnings of this year. Thank you. I will



request that our CFO will also give some introductory remarks then we can start the question-and-answer session.

Dhirendra Shrishrimal: Thank you Mr. Vijay. Good evening, ladies and gentlemen. It is an esteemed pleasure to present the financial highlights, which depicts the current performance and growth trajectory for achievements. For **(audio cut) 9:52** 1301 Crores for FY2021, a growth of 45%. The company reported EBITDA of 70 Crores for FY2022 versus Rs.44 Crores FY2021, a growth of 59%. On year-to-year basis, PAT surged by 83% to 47 Crores for FY2022 versus 26 Crores for FY2021. For half yearly FY2022 the total revenue of company stood at 1290 Crores versus 595 Crores for half yearly 2021, a growth of 117%. The company reported EBITDA of 45 Crores for H2 FY2022 versus 25 Crores H1 FY2022, a growth of 80%. PAT surged by 84% to 31 Crores for H2 FY2022 versus 17 Crores for H1 FY2022. Once again I would like to thank you all. Over to the moderator!

Moderator: Thank you Sir. We will now begin the question-and-answer session. We have the first question from the line of Prashant S, an individual investor. Please go ahead.

Prashant S: Thank you for the opportunity. First of all congratulations for great set of numbers. My question to the management is that company is planning to set up an ethanol processing capacity I want to know capex plan related to that and when we can expect the earnings?

Vijay Shrishrimal: I have already mentioned that we have invested around 96 Crores to take up a stake of 26% in this company and the current production capacity is 100,000 liters per day and we are increasing it to 160,000 liter per day with a capex of around 30 Crores in the coming year.

Prashant S: Okay, my next question is like after the ban of Palm oil by Indonesia any impact that we are seeing in our topline?

Vijay Shrishrimal: The ban was by Indonesia Government was of a temporary nature and now the government of Indonesia has opened the ban, so it is now back to normal, so there is no impact of the ban on the market as of now.

Prashant S: Okay, my next question is what is our current market share in edible oil market and what is our target for the next two to three years?

Vijay Shrishrimal: As of now if you see we have a packed market in Madhya Pradesh where we have situated is about 35,000 metric tonne per month, so in that as of now we have a share of about 6% which we then to increase to almost about 15%-16% in two years' time.

Prashant S: Okay. That is it from my side.

Moderator: Thank you. We have the next question from the line of Shubham Jain, an Individual Investor. Please go ahead.



- Shubham Jain:** Good evening. First of all, thank you so much for giving me the opportunity and congratulations for good set of numbers. Sir I just want to know what is our revenue guidance for FY2022 and FY2023?
- Vijay Shrishrimal:** As of now everything the performance in this quarter is as per expectation and a lot depends on the monsoon and the current prediction of monsoon is good, so we expect that we should achieve reasonable growth in the earnings for this coming year.
- Shubham Jain:** Sir, can we expect double digit growth or single digit growth can you mention some particular figure?
- Dhirendra Shrishrimal:** (audio cut) 14:56 it depends on many factors but if you see our performance I think we should be able to give you a decent growth in the current year.
- Shubham Jain:** I just want to know what is the sustainable EBITDA margin for FY2023 long-term, I just want to know some figure; right now we are working on 3%, so is that same for the next FY2023?
- Dhirendra Shrishrimal:** As of now our EBITDA for 2021-2022 yearend is 3.7, so looking to their statement we have a decent monsoon, government policies are good so we should be able to do, the growth should be in line with what we have done in past year, so it should be a decent growth in coming year.
- Shubham Jain:** Okay. Thank you so much Sir.
- Moderator:** Thank you. We have the next question from the line of Ronil Dalal from Museum Capital. Please go ahead.
- Ronil Dalal:** Congratulations on your recent IPO and the results. I had a few questions; firstly I wanted to ask you that what is your share of maybe like manufacturing/processing versus purely just trading?
- Dhirendra Shrishrimal:** (audio cut) 17:10 We do major processing but then depends upon the year-to-year if you have lot of crisis and last year there was lot of crisis of oil so we had to import oil because that is there to process entire thing and give it to the imported and then we pack them and we sold it to our consumers, so that keeps changing upon the opportunity, what opportunity, so depending on the opportunity and profitability it is decided but our main focus is on manufacturing where we manufacture, process, trade and then pack it and give it.
- Ronil Dalal:** Right, so what would be like really breakup if you have that something like a normalized breakup, I understand last year was unprecedented year but usually what you will say the breakup like?
- Dhirendra Shrishrimal:** Normally, breakup should be like manufacturing side we should see around 70% to 75% and balance should be trading.



Ronil Dalal: Right, okay and that is likely to remain the way it is like maybe going ahead also it should be in that case?

Dhirendra Shrishrimal: It should be in same line but it is little different from the market conditions also, government policy, monsoon, so maybe a 5% variation here and there whatever, but again upon the opportunity what is the best for the company we decide and we do that.

Ronil Dalal: Right, okay. Next question is that you will be dealing with many variety of oils so would the margin be more or less similar across the different oil or would it be differentiated and if we differentiate it then could you give us some color on that?

Dhirendra Shrishrimal: Margins again depends on from time-to-time, so like we are doing mustard and all, so mustard as of now is giving us very good margins, so at times or sometimes in the year the margins in palms are very good, sometimes it is soya it is very good, so we have to have all the oils in our basket to maintain that profitability.

Ronil Dalal: Right but a major portion of your income would still be coming from soyabean?

Dhirendra Shrishrimal: Yes, majorly soya and slowly we are looking, we have put up a facility for mustard also so gradually we will increase our mustard also because India crop is going on mustard also, but major focus would be on soya.

Ronil Dalal: Right, Sir next question is that your capacity utilization was around 49% or so if I am not mistaken, actually sorry that is I think there are different capacity utilizations for different processes but what would you say your capacity utilization now maybe on overall company basis?

Dhirendra Shrishrimal: Capacity utilization should grow again depending on the crop how it is but what we see from the past there is a growth, and that growth will be maintained so it will be further growing.

Vijay Shrishrimal: And next year we are expecting better crop so we expect that the capacity utilization will increase in the coming year. Last year because there was a lot of volatility (**audio cut**) 20:27 but next year we see a bigger crop so we see a major impact that the capacity utilization will further grow in the coming year.

Ronil Dalal: I am trying to understand that in order to grow from here on would you require to do more investments or would you have already got sufficient capacity which you can utilize in the coming one to two years without any investment?

Vijay Shrishrimal: What we are doing is we have sufficient capacity for the soyabean processing which is the basic thing but what we are doing is to improve the profitability and the overall performance of the company we are adding new things like as we mentioned we added a mustard line, so if you see last year the mustard crop was around 88 lakh tonnes and this year it is around 110 lakh tonnes to



115 lakh tonnes, so mustard is growing and **(audio cut) 21:28** government is also there on mustard, so we got a mustard line so that during the offseason we can process mustard so it will give us profits as well as the capacity utilization will also increase, other than this we are increasing our presence in the packed oil, our share as we mentioned right now is around 6% in the packed oil which we want to increase to around 15% and we are putting up a packing and a storing facility in Raipur so that our presence of edible oil can be there in the major market of Raipur and some parts of Odisha. Apart from this to extend our agri-related activity we have invested in ethanol because ethanol looks very good and there is a very good profitability in the ethanol, so this also will reflect in our balance sheet in the coming year and the last thing is we have also started the production of value-added products which I mentioned in my opening speech, we have started making grains, flours and nuggets, so this will also stabilize and this will add up to our both capacity utilization as well as profit margins.

Ronil Dalal: Sir, my next question is that how much was the volume growth in this year like prices have also moved up substantially, so how much of your revenue growth would you attribute to that increased volume growth for FY2022?

Dhirendra Shrishrimal: Right now I do not have the exact number but you can just shoot a mail to us and we will revert on that but on the basis on the turnover wise I have already mentioned what was the growth.

Ronil Dalal: Yes. Sir my next question is that who would you say are you all listed pure companies like if I had to understand your business model, would there be any maybe on a direct listed pure but some competitors in some of the areas that you are operating?

Dhirendra Shrishrimal: It is Kriti soya which is there and Ajanta soya is there and then you have Gokul is there, Gokul Agri is there then on a similar line on a bigger scale is Adani and Ruchi.

Ronil Dalal: Right and Sir you are supplying to Adani and Ruchi also right?

Dhirendra Shrishrimal: Yes, we do.

Ronil Dalal: When you supply to Adani and Ruchi, how do they sell it forward like they would repackage it and sell the same product?

Dhirendra Shrishrimal: They at times process also, at times they pack and sell also, so they have their few registered vendors where they do the audit and the team comes and they approve the facility and then they start buying, so they have a yearly audit of six monthly audit session, so they buy both, they buy finished also, they buy crude also and accordingly they use it.

Ronil Dalal: Your largest customers would be what percentage of your revenue like?

Dhirendra Shrishrimal: There is no certain fixed system in this because time to time it changes depending on the market **(audio cut) 25:17**, so there is nothing fixed that this guy is only the biggest customer.



- Vijay Shrishrimal:** But in oil Adani and Ruchi are our regular buyers and their share would be say around 15%.
- Ronil Dalal:** 15% each or both together?
- Vijay Shrishrimal:** Together.
- Ronil Dalal:** Sir what about going ahead next three, four years I understand it is hard to give a revenue growth guidance but what kind of volume growth do you see going ahead maybe in the next two years to three years, I understand one year may be affected by climate but if you had to say over the next three years what volume growth we aspire to have?
- Vijay Shrishrimal:** Basically if you see down the line our revenues from ethanol will also start coming in then we are putting up a edible oil refinery at the port once that starts the turnover will have a major impact, it can grow up to 70% from the existing turnover and then with all our modification and the new things with that we are starting that will also add up both in terms of our utilization capacity as well as our profitability, so next two to three years, we see a very positive impact both on volume and the margins.
- Ronil Dalal:** What I am saying just to understand to summarize what I understood, so around maybe 60%-70% growth can be there, I am sure new capacities all are in place over the next maybe two, three, four years possibly and you are adding value added products, margins will also be improving, extent to what the margins will improve you are not comfortable to share right now but in short the company has urged for a good growth and did not see any potential risks to this?
- Vijay Shrishrimal:** Always there are some **(inaudible) 28:09** but as of now the only risk that we always foresee is the monsoon that is the main.
- Ronil Dalal:** The volatility in oil price also would be another one right?
- Vijay Shrishrimal:** How you place a volatility that is important, so we have always taken advantage of the volatility in the past. **(audio cut) 28:39** which also helps us to tackle the volatility.
- Ronil Dalal:** So would you have hedging policy or something?
- Vijay Shrishrimal:** We have a risk committee which decides which policy and decides exposure limits and everything.
- Ronil Dalal:** Right and then you would have inventory of maybe on average how long?
- Vijay Shrishrimal:** For what product?
- Ronil Dalal:** Soya oil and soyabean if you can mention?



- Vijay Shrishrimal:** Yes, so during the season time the inventory of soyabean is more and it can be at least two to three months but in the off season it is around one month or so and finished inventories are always low, our inventory level of soyabean meal is around maximum 15 days and oil also within 15 days, so we have lower finished product inventory.
- Ronil Dalal:** Right. Sir next question is that how would you say that there are two options like one is that would you say that you are doing something differentiated so which is hard for a competitor do or number two is that there are quite a few competitors in the industry but there is enough demand and you do not foresee any problem with the demand, what kind of bucket would you fall into?
- Vijay Shrishrimal:** Both the things in fact because this is a food related industry, so demand is never a problem, there is always a demand in the price so demand is not a problem but what we are doing differently from our competitors is we are expanding our base, we are just not dependent on one thing, we are dependent on the processing, we are dependent on the refining, we do a bit of trading then now we have entered into ethanol then we are putting up the edible oil port this edible oil refining, so our base will become wider base, so that is the major differentiation between us and the others.
- Ronil Dalal:** Right and Sir last question from my side is that what do you say from the ROCE perspective like you have a healthy ROCE but some parts are there that would you look for some specific ROCE when you are all looking at new projects and number two is how do you see the ROCE moving going ahead over the next two to three years possibly?
- Dhirendra Shrishrimal:** ROCE growth will be definitely there that is why we are putting up the new projects to our better return, so next two to three years coming what we see the market and what we see is we expect a different growth on this also.
- Ronil Dalal:** Right. So, I think I have taken up a lot of your time I will reach out to you my queries over e-mail. Thank you very much for patiently answering my questions.
- Moderator:** Thank you. We have the next question from the line of Kartik Sharma from NVS Brokerage. Please go ahead.
- Kartik Sharma:** My questions have been answered. Thank you.
- Moderator:** Thank you. We have the next question from the line of Venkatesh from Introhive. Please go ahead.
- Venkatesh:** All of my questions have been answered and I have one question is like the custom duty has been removed for soyabean and for pure edible oils and what would be the impact on the KN?



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- Vijay Shrishrimal:** Yes, I will try and answer this, due to inflation already the government has reduced the duty to zero, only there was some cess which was around 5.7%, now yesterday the government has come with a notification that under TRQ scheme about 2 million tonne per year they will allow imports at zero duty and zero cess, so this is a positive impact on us and the details of the notification have also come and based on the capacity they will be allocating with amount of imports that we can do, so definitely this will have a positive impact on us.
- Venkatesh:** Another question is what would be the market share that we have on the soyabean oil as well as edible oil?
- Dhirendra Shrishrimal:** Total monthly sales are about 35,000 and share of about 6% packed oil.
- Venkatesh:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Bibhor Jain, an Individual Investor, Please go ahead.
- Bibhor Jain:** Congratulations first of all for the good set of numbers. My question to the management is how much percent of revenue comes from the top five customers and top 10 customers?
- Vijay Shrishrimal:** See again it depends on year-to-year, it is scattered whatever top five customers are this year, maybe they are different set of customers next year because the trade is very dynamic, so you have different kind of suppose some year is very good exports so the major sales comes from export buyer when it is domestic it comes on domestic, so it keeps changing depending on the situation how it is.
- Bibhor Jain:** Second question is in future do the company will have a dividend policy for the investors?
- Dhirendra Shrishrimal:** Nothing decided so far.
- Vijay Shrishrimal:** But of course, one time capex is over then we will have a dividend policy in place.
- Bibhor Jain:** Thank you.
- Moderator:** Thank you. Due to time constraint that was the last question. I now hand it over to Ms. Astha Jain for closing comments please.
- Astha Jain:** Thank you Sir. On behalf of HEM Securities Limited I thank KN Agri Resources Limited team for responding all the queries in the detailed way. I would also like to thank all the participants for joining this call. I would like to hand over the call to the moderator.
- Moderator:** Thank you. Ladies and gentlemen on behalf of HEM Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.