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Initiating Coverage – Smallcap (High Risk) Chaman Lal Setia Exports Ltd.

14-May-2021



Chaman Lal Setia Exports Ltd.



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Agricultural Products	Rs. 128.5	Buy at LTP and add on dips to Rs 108	Rs. 154	Rs. 172	2 quarters

HDFC Scrip Code	CHASETEQNR
BSE Code	530307
NSE Code	CLSEL
Bloomberg	CMLTX IN
CMP May 12, 2021	128.5
Equity Capital (Rs cr)	10.35
Face Value (Rs)	2
Equity Share O/S (cr)	5.17
Market Cap (Rs cr)	664.8
Book Value (Rs)	52.8
Avg. 52 Wk Volumes	71390
52 Week High	138.9
52 Week Low	37.0

Share holding Pattern % (Mar 2021)	
Promoters	73.9
Institutions	0.1
Non Institutions	26.0
Total	100.0

Fundamental Research Analyst

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Our Take:

Chaman Lal Setia Exports (CLSE) Ltd. is an India-based manufacturer and exporter of basmati rice. The company manufactures Raw, Steamed & Parboiled Rice. The company's diverse product line covers products like Sella Rice, Bhatti Sella Rice for Diabetic peoples, Smoked rice, Pesticide Residue free rice. The company derives its strength from the experienced promoters and management team, long track record of operations, favorable manufacturing location along with established business relationship with customers and suppliers, and geographically diversified revenue profile. The long outstanding experience of the directors has helped the company to expand its global footprint. CLSE uses its strong relationship with domestic and global business partners for market penetration and presence. The company has a global reach in over 83 countries with over 272 Private Brands all over the world.

Valuations & Recommendation:

CLSE Ltd is one of the oldest rice millers in the country. Although it has a small milling capacity, the company procures rice from domestic market and exports it under its brand Maharani and also under private labels. CLSE Ltd has very low working capital requirement due to its large trading portfolio and has favourable debt to equity ratio. It has a strong dividend payment record and high return ratios. The focus on promoting its brand Maharani should lead to better recall value in the future. The management team has an experience of more than four decades in the rice industry and is supported by strong and competent third generation promoters. Although the company is relatively a small player in this segment, it stands to benefit from industry wide shift towards premiumization and higher share of regulated/branded players. Strategic spending to improve the brand's presence in domestic market and expanding its exports reach under private label business could help in achieving double digit revenue growth.

Given the consistency in earnings and the niche space occupied by the company, the current valuations are undemanding. We think the base case fair value of the stock is Rs.154 (8.5x FY23E EPS) and the bull case fair value is Rs.172 (9.5x FY23E EPS) over the next two quarters. Investors can buy the stock at LTP and add more on dips to Rs.108 (6x FY23E EPS). At LTP of Rs. 128.5 it quotes at 7.1x FY23E EPS.

Financial Summary:

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	194.8	191.2	1.9	187.2	4.1	765.0	797.7	867.0	946.6	1,020.3
EBITDA	27.5	22.6	21.5	23.6	16.6	62.5	79.0	119.4	126.6	132.1
Depreciation	1.3	1.0	31.7	0.9	49.4	4.4	4.9	4.9	5.3	5.6
Other Income	1.4	2.0	-30.1	0.4	307.4	2.2	2.7	2.2	2.4	3.1
Interest Cost	1.5	1.6	-7.7	1.6	-5.9	7.5	6.7	6.1	5.7	4.9
Tax	6.6	5.5	19.5	5.4	21.5	18.5	17.7	27.9	29.7	31.4
PAT	19.5	16.6	18.0	16.1	21.6	34.4	52.5	82.7	88.3	93.3
EPS (Rs)	3.8	3.2	18.0	3.1	21.6	6.7	10.2	16.0	17.1	18.0
RoE-%						16.4	21.0	26.4	22.3	19.3
P/E (x)						19.3	12.7	8.0	7.5	7.1
EV/EBITDA						12.3	9.1	5.5	5.0	4.5

(Source: Company, HDFC sec)

Q3FY21 Result Review:

Chaman Lal Setia Exports Ltd posted strong set of numbers in Q3FY21 mainly due to lower RM (input) cost. In 9MFY21, the company reported revenue of Rs 625.9cr (up 8.9% YoY). Q3FY21 revenue came in at Rs 194.8cr, marginally up 4% YoY. Sharp improvement in Gross margin was seen during the quarter. The company reported gross margin of 39.4% in Q3FY21 as against 29.3% in Q3FY20 and 25.3% in Q2FY21. Disruptions in North-India due to farm bill agitations, seems to have no impact on the company as it reported robust margin number in Q2 & Q3. EBITDA margins were pulled down on account of higher 'other expenses' which were more than double compared to the previous quarter. PAT for the quarter stood at Rs. 19.55cr, up 18% YoY.

Triggers:

Established business relationship with suppliers and customers:

CLSE Ltd primarily deals in basmati rice, which contributes to 90-95% of the sales. Presence of the company in the rice industry for over four decades and favorable location of the plant in close proximity to paddy growers in Haryana and Punjab has led to development of long term relationships with the suppliers and therefore easy procurement of raw materials. Strong relationships with suppliers enable the procurement of quality rice throughout the year at competitive prices.



The company has a global reach; has presence in 83 countries around the world with over 272 Private Brands all over the world. In FY20, the company derived ~88% of its total operating income from exports (~89% in FY19). The company has a long track record with its customers. Delivering quality products in its own brand name and private labels has enabled the company to establish strong business relationships with its diverse clientele. The company exports to more than 80 countries which results in geographically diversification of its the revenue profile.

Favorable Manufacturing Locations:

The company's manufacturing unit is in close proximity to paddy producing regions in Karnal (Haryana), which has an installed capacity of 12 metric tonnes per hour, this facility is a state of art and automated rice processing unit. Its grading and sorting facilities are in Amritsar (Punjab) and in Kandla (Gujarat) near the port to support its export business. These areas are a hub for paddy/rice, leading to its easy availability of raw material. The company's processing facility is at a proximity to the paddy producing region resulting in easy availability of raw material at competitive rates. The favorable location also puts the company in a position to cut on the freight component of the incoming raw materials.

Gain from increase share of branded players and premiumisation:

Indian Basmati Rice market is largely dominated by unregulated players whose share is ~55-60%. This share could be attributed to unbranded basmati being cheaper (~20-25% lower than branded players) and its non-inclusion in GST. Despite that, over the years the industry has witnessed gradual fall in share of the unorganised players. The company can stand to gain from this increasing share of branded players. Although the company's share in domestic market is low (12% of its topline), brand penetration limits the ability to benefit in a big way from this increasing share of branded players. Low brand penetration also limits the ability to charge high margin in comparison with industry leaders such as KRBL Ltd. Significant increase in brand penetration should strengthen the market position and operating margin. Strategic plans to increase its brand presence in domestic market and to expand its exports reach under private label business could help in achieving double digit revenue growth. Also, the key Paddy producing states like Punjab, Haryana and UP have reduced the market and rural development fees (Mandi Fees) on purchase of Paddy which is likely to be positive for branded basmati players like CLSE.

The share of Basmati consumption as percent of rice consumption in India is low (2%); compared to other countries. Increasing disposable income, shift towards premiumisation is likely to increase consumption of Basmati rice as well as preference for branded players.

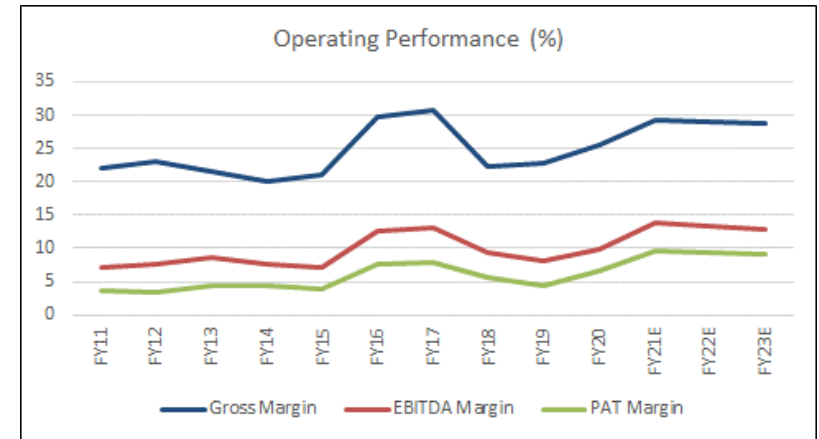
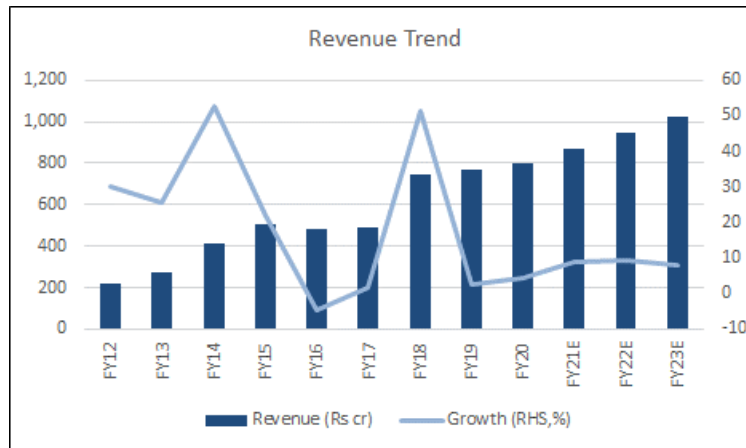


Changing lifestyle and consumer patterns opens up vast opportunity for increased consumption of basmati rice. Nuclear families, the rise in per-capita income, and greater and wider aspirations have resulted in mounting demand in India for basmati. While the global market continues to expand, swelling demand for branded basmati in India could further support the sector.

Resilient Margins:

CLSE Ltd has sound operating efficiency, backed by continued healthy RoCE of over 20% in the four years fiscal. The company's EBITDA margins is quite resilient over the years, considering that it deals in Rice - agricultural commodity which is subject to wide fluctuations. Stable operating margins gives confidence about the company's ability to pass on input cost escalations to its customers under private label business (contributes ~75-80% of revenue). The same is also reflected in the company's brand - Maharani, Mithas and Begum where price escalations are absorbed by the end consumers which protects its profitability.

In the domestic market, majority income is derived from own brand sales (Maharani, Begum and Mithas) while majority of the exports by CLSE are under customers' brands (private label business). To maintain quality, customers continue to procure their requirement from CLSE; this helps in maintaining margin.



(Source: Company, HDFC Sec)



Strong Financial risk profile:

CLSE's capital structure has been healthy because of reduced reliance on external funds, leading to low debt to equity ratio of less than 0.4 times over the four years ended March 31, 2020. CSEL's working capital management continues to be prudent compared to its peers. Further the company has adequate financial resources to meet its working capital requirement. Liquidity is supported by unsecured loans from the promoters. Current ratio was healthy at over 4 times as on March 31, 2020. High promotor holding (73.87%) and consistent dividend payment track record instills confidence about the company's operating performance. The company's installed capacity of 12MT (per hr) is sufficient to cater higher single digit revenue growth over medium term.

Industry Insights & Triggers:

Rice Industry:

Rice is the staple food for more than half of the world's population and more than 500 million metric ton of rice is produced annually, across the globe. It is the second-most important cereal crop after maize and ensures food security for numerous developing countries in East Asia and the Southeast Asian regions, with India being among the leading rice producers in the world. With a share of around 23%, India is the world's second largest producer of rice in the world, after China. The global rice production in 2020-21 was at ~501.96 million tons; up by 4.7 million tonnes or 1.65% from the previous year largely owing to better crop production in countries like China and India.

Rice is the most important food crop in India contributing to more than 40% of total food grain production and cultivated/consumed across the country. The major rice-producing states in India are Punjab, Andhra Pradesh, Uttar Pradesh, West Bengal, Tamil Nadu, Bihar, Chhattisgarh and Orissa. Together, they contribute almost 72% of the total area of rice production in the country. Growing at about 4% over the last five years, the Indian rice market is primarily dominated by unorganised players because of the presence of several local players and the easy availability of rice through small retail stores which are also called as Kirana stores. India's total rice production during FY20 is estimated to have stood at record 117.47 million tonnes, 9.67 million tonnes higher than the five years' average production of 107.80 million tonnes. Non-basmati rice commands a larger market share compared to basmati rice as the production of basmati rice is limited to only seven states and is considered in the premium rice segment. Crop Marketing Year (MY) 2020-21 consumption is forecast to increase by about 6% to 108 MMT as the government is likely to push more 'subsidized' government rice under PDS and other programs.

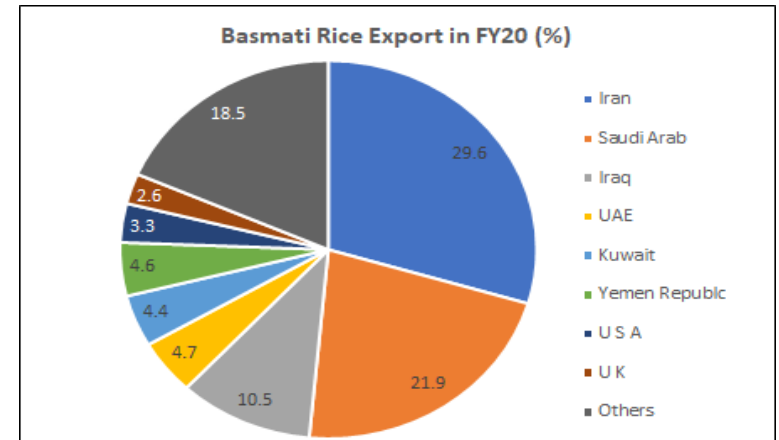
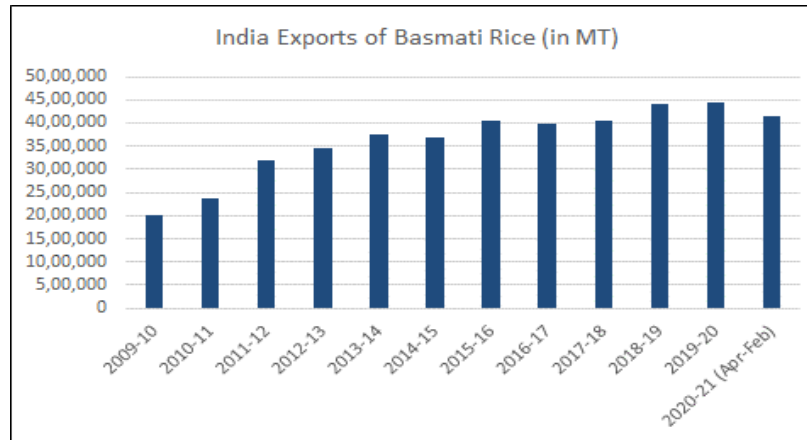
Basmati Rice Industry:

Basmati, a long-grain aromatic variety grown in the Himalayan plains of India and Pakistan, is a Geographically Identified product. Thus, there is little competition to brand-named basmati in the global market. Exclusively grown in the northern Indian states of Punjab,



Haryana, West Uttar Pradesh, Uttarakhand, and Himachal Pradesh, India is a renowned exporter of the globally popular long-grain aromatic Basmati rice. The high yielding (less water-dependent hybrid variant) PUSA Basmati 1121 variety introduced in 2003 and the shorter duration semi-dwarf PUSA Basmati 1509 variety introduced in 2013, have supported strong growth in Basmati rice production in the last two decades. India accounts for over 70% of the world's basmati rice production. The country has exported 44,54,745 MT of Basmati Rice to the world for the worth of US\$ 4,371 million during the year 2019-20. Although by volume, Basmati rice constitutes a very small portion of the total rice produced in India, but in terms of value Basmati rice exports account for ~45-50% of India's total rice exports.

India exports rice to more than 90 countries, gross exports of Basmati rice from India in terms of volume is for period Apr-Oct 2020 was around 60% (at 2.7 million tonnes) of previous fiscal owing to a number of external socio-economic factors and the outbreak of Covid-19. Further, the sudden sharp increase of in freight rates of shipping containers can also prove to be a cause of concern for the Indian basmati rice exporters. Global basmati rice consumption market is led by Middle East countries, accounting for about 45% of global consumption of basmati rice. India's major basmati exports are to Iran, Saudi Arabia, the United Arab Emirates, Iraq and Kuwait; together they make up ~75% of India's basmati exports by volume in FY20. US and UK account for respectively ~3.3% and 2%.



(Source: Ministry of Commerce, DGCIIS, HDFC Sec)



Iran is the largest export market for Indian Basmati rice (~30% of Indian exports) saw sharp decline during period Apr-Oct 2020 (33% of previous fiscal compared to more than 60% exports to other middle east countries). For the first time in decades, basmati rice exports from India to Iran have fallen drastically in the first half of 2020-21 fiscal owing to disruption in payments, a result of the US-led sanctions. Indian exporters cut shipments to Iran because of delay in payments linked to the Islamic nation running out of dollars. But the situation has improving, we expect similar levels of trade dealing in the coming years.

Basmati rice enjoys an excellent position among all the other rice varieties in the world market due to its delicious taste and distinctive flavor. Rice is an important part of Middle Eastern cuisine and also is considered a staple in many countries. Accounting for ~2.1% of the global rice industry. Basmati rice's aroma, distinctive taste and extensively usage in a number of rice-will catalyse its growth. MY 2020/21 Basmati rice production is forecast higher at 9.8 MMT, compared to 9.2 MMT last year. Although the near-term outlook is shaken up because of the pandemic, the outlook for the India Basmati rice remains stable. The India basmati industry is likely to sustain its growth momentum and is expected to grow at a CAGR of 7% over the next four years. The superior taste and aroma of basmati rice remains a key driver for its increasing preference across diverse consumer groups. In India, other factors such as rising disposable income, desire to consume superior quality food drives growth in the basmati rice market. In the medium term, demand prospects from key destinations such as Iran and Saudi Arabia will play a significant role.

Concerns:

Volatility in raw material prices: Raw material (paddy) constitutes ~75% of the sales, and its prices directly impact operating profitability. Paddy, being a kharif crop, is harvested only in September-December. The water requirement for basmati is high, and though the rice-growing states (Haryana, Uttar Pradesh, Uttarakhand and Punjab) have good irrigation systems, there is dependence on the monsoons. The cost and availability of basmati paddy is impacted by many factors like inadequate irrigational facilities, change in crop patterns and farmer's preference for other crops that yield better realization. These factors can impact basmati production impacting costs, volumes and realization.

Changing Government Policies: Factors such as Minimum Support Price, import bans and sanctions may affect the operations and profitability of the company. Trade restrictions with key basmati rice importers (Iran, Saudi Arabia etc.) can impact the realisation prices among all industry peers. Moreover, government regulations directly impact raw material availability through minimum support price and



procurement policies. Stringent regulations every year led to higher restrictions in terms of pesticide residues levels allowed on the rice. It resulted in subdued Basmati rice export scenario for the Indian companies in key international markets such as Europe and US.

Foreign Exchange Risk: As majority of the revenues of the company are derived from exports, any major fluctuation in exchange rates will affect the profitability of the company.

Impact due to Covid: Continued Covid incidence could result in repeated lockdowns and resultant impact on HORECA sales across the globe and especially in India.

Company Profile:

Chaman Lal Setia Export Ltd. is one of the oldest and hi-Tech Rice Millers cum Exporters of Basmati rice of all varieties from India with its state-of-the-art processing units based in Karnal, Amritsar, Delhi and corporate office in New Delhi. The company is engaged in the business of milling and processing of basmati rice. The company processes rice in-house and uses parboiled, raw, steam process using the finest equipment to ensure physical, aromatic and taste qualities remain intact. The flagship brand of Chaman Lal Setia Exports Limited is 'Maharani' rice, along with 'Mithas' and 'Begum' as other basmati brands. The company is also involved in selling non-basmati rice - under its brand 'Green World Aromatic Rice'. The company also offers private labeling to all its customers. The company also sells other innovative products such as 'Maharani Diabetics Rice', 'Basmati Rice Plus' and organic products such as 'Maharani - Brown Basmati Rice'.

The company was established back in 1974 in Amritsar in Punjab and went on to become one of the largest manufacturer-exporter of basmati rice. The company started its exports in 1982 and got recognized as an export house by Ministry of Commerce, Govt. of India in 1989. In the international market, the company exports to more than 80 countries around the world, which included European, Middle-eastern, American, Asian and many other markets across the world in the Maharani brand or under the private labels of the customers. The company has an installed manufacturing capacity of 12 metric tonnes per hour in Karnal (Haryana) as on March 31, 2020. The company also has a rice grading and sorting facilities in Amritsar (Punjab) and Kandla (Gujarat). The company derives most of its revenue from exports (~88% in FY20). CLSE is accredited as an ISO 9001-2008 and haccp certified a Trading House Recognized by Govt. of India for excellence in exports.

Chaman Lal Setia Exports Ltd.

Peer Comparison:

	Mcap (Rs cr)	Sales				EBITDA Margin (%)				PAT			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Chaman Lal Setia Exports Ltd	664.8	798	867	947	1020	9.9	13.8	13.4	13.0	52	83	88	93
KRBL Ltd	5468.1	4499	4381	4816	5368	19.3	19.8	19.8	20.1	551	592	670	766
LT Foods	2635.5	4146	4606	4956	5360	11.2	12.2	12.3	12.7	185	268	229	333

	RoE (%)				P/E			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Chaman Lal Setia Exports Ltd	21.0	26.4	22.3	19.3	12.7	8.0	7.5	7.1
KRBL Ltd	19.0	18.0	17.0	17.0	9.7	9.7	8.5	7.3
LT Foods	13.0	17.0	16.0	16.0	14.2	9.8	8.8	7.9

(Source: Company, HDFC sec)

Financials:

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	765.0	797.7	867.0	946.6	1020.3
Growth (%)	2.5	4.3	8.7	9.2	7.8
Operating Expenses	702.5	718.7	747.6	819.9	888.2
EBITDA	62.5	79.0	119.4	126.6	132.1
Growth (%)	3.8	2.3	4.0	9.7	8.3
EBITDA Margin (%)	8.2	9.9	13.8	13.4	13.0
Depreciation	4.4	4.9	4.9	5.3	5.6
EBIT	58.1	74.2	114.5	121.3	126.6
Other Income	2.2	2.7	2.2	2.4	3.1
Interest expenses	7.5	6.7	6.1	5.7	4.9
PBT	52.9	70.1	110.6	118.0	124.7
Tax	18.5	17.7	27.9	29.7	31.4
RPAT	34.4	52.5	82.7	88.3	93.3
APAT	34.4	52.5	82.7	88.3	93.3
Growth (%)	-17.4	52.5	57.7	6.7	5.6
EPS	6.7	10.2	16.0	17.1	18.0

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	10.4	10.4	10.4	10.4	10.4
Reserves	215.2	262.9	343.0	427.4	516.8
Shareholders' Funds	225.6	273.3	353.4	437.8	527.2
Long Term Debt	45.3	47.8	44.4	37.3	30.3
Net Deferred Taxes	1.2	1.3	1.4	1.4	1.4
Long Term Prov & Others	0.0	0.0	0.0	0.0	0.0
Total Source of Funds	272.1	322.3	399.1	476.5	558.9
APPLICATION OF FUNDS					
Net Block & Goodwill	29.3	36.9	52.0	54.7	57.1
CWIP	1.8	10.0	0.0	0.0	0.0
Other Non-Current Assets	0.3	0.3	0.4	0.5	0.5
Total Non Current Assets	31.4	47.2	52.5	55.2	57.7
Current Investments	13.0	0.8	10.8	25.8	50.8
Inventories	182.1	213.1	204.3	233.4	251.6
Trade Receivables	113.3	100.8	111.6	119.3	128.6
Cash & Equivalents	3.1	15.4	67.2	85.9	113.8
Other Current Assets	53.2	46.3	54.6	60.9	64.3
Total Current Assets	364.7	376.4	448.6	525.3	609.1
Short-Term Borrowings	60.9	20.2	18.7	15.8	12.8
Trade Payables	11.9	22.7	19.0	18.2	19.6
Other Current Liab & Prov	51.2	58.4	64.1	70.0	75.5
Total Current Liabilities	124.0	101.3	101.9	103.9	107.8
Net Current Assets	240.7	275.1	346.7	421.3	501.2
Total Application of Funds	272.1	322.3	399.2	476.5	558.9

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	52.9	70.1	110.6	118.0	124.7
Non-operating & EO items	-0.5	-0.8	-0.1	0.0	0.0
Interest Expenses	7.5	6.7	6.1	5.7	4.9
Depreciation	4.4	4.9	4.9	5.3	5.6
Working Capital Change	-67.0	1.2	-8.4	-38.0	-24.0
Tax Paid	-18.9	-17.7	-27.9	-29.7	-31.4
OPERATING CASH FLOW (a)	-21.6	64.5	85.2	61.2	79.8
Capex	-5.1	-20.7	-10.0	-8.0	-8.0
Free Cash Flow	-26.6	43.8	75.2	53.2	71.8
Investments	0.0	0.0	-10.0	-15.0	-25.0
Non-operating income	0.3	0.8	0.0	0.0	0.0
INVESTING CASH FLOW (b)	-4.8	-19.9	-20.0	-23.0	-33.0
Debt Issuance / (Repaid)	32.9	-38.3	-4.9	-10.0	-10.0
Interest Expenses	-7.5	-6.7	-6.1	-5.7	-4.9
FCFE	-1.2	-1.2	64.3	37.5	56.8
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	-2.6	-3.9	-3.9
Others	0.3	0.1	0.0	0.0	0.0
FINANCING CASH FLOW (c)	25.7	-44.9	-13.6	-19.6	-18.8
NET CASH FLOW (a+b+c)	-0.7	-0.3	51.7	18.6	27.9

Key Ratios

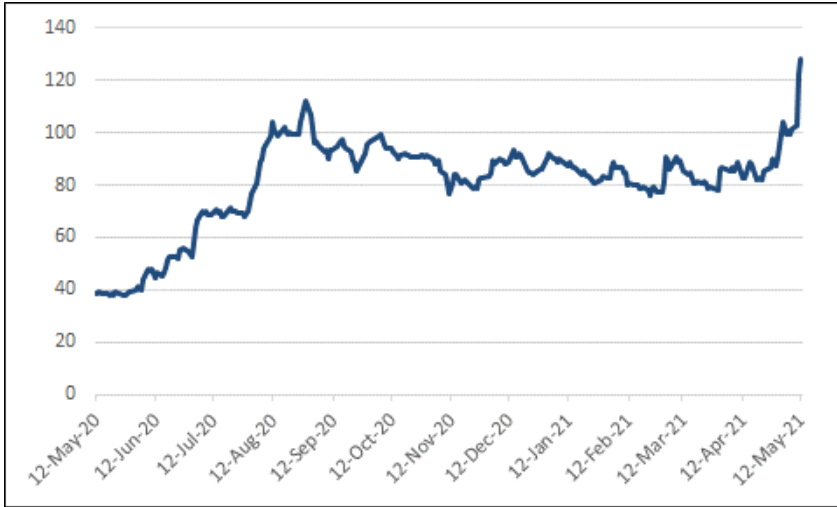
	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	8.2	9.9	13.8	13.4	13.0
EBIT Margin	7.9	9.6	13.5	13.1	12.7
APAT Margin	4.5	6.6	9.5	9.3	9.1
RoE	16.4	21.0	26.4	22.3	19.3
RoCE	20.1	22.8	30.8	27.3	24.4
Solvency Ratio					
Debt/EBITDA (x)	1.7	0.9	0.5	0.4	0.3
D/E	0.5	0.2	0.2	0.1	0.1
PER SHARE DATA					
EPS	6.7	10.2	16.0	17.1	18.0
CEPS	7.5	11.1	16.9	18.1	19.1
Dividend	0.5	0.5	0.5	0.8	0.8
BVPS	43.6	52.8	68.3	84.6	101.9
Turnover Ratios (days)					
Debtor days	47	49	45	45	44
Inventory days	80	90	88	84	87
Creditors days	5	8	9	7	7
VALUATION					
P/E	19.3	12.7	8.0	7.5	7.1
P/BV	2.9	2.4	1.9	1.5	1.3
EV/EBITDA	12.3	9.1	5.5	5.0	4.5
EV/Revenues	1.0	0.9	0.8	0.7	0.6
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.6
Dividend Payout	7.2	4.9	3.1	4.4	4.2

(Source: Company, HDFC sec)

Chaman Lal Setia Exports Ltd.

85	(-50.01)	(-55.00)	(-0.21)	103	(-2.19)	(-20.7)	(-5)
598.71	685.65	68.64	(-1.05)	203.88	118.92	118.09	
(-2.11)	(-14.5)	(-7.74)	(-1.05)	(-1.05)	(-1.05)	(-1.05)	
142.09	167.29	154.12	393.13	-62.95	-187.58	-42.88	
(-35.1)	(-17.4)	(-7.88)	(-7.58)	(-11.88)	(-71.88)	(-15.88)	

One Year Price Chart



(Source: Company, HDFC sec)



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