

Micro Cap Multibagger



Kovilpatti Lakshmi Roller Flour Mills Ltd.

Inside the report

1. KLRFM: Growing with legacy
2. Company Snapshot
3. Industry Overview
4. Journey so far
5. Company Overview
6. Business overview
7. Awards & Certifications
8. Investment Rationale
9. Amalgamation with Raya Foods Ltd.
10. Comparison with MFL
11. Financial Analysis
12. Management Analysis
13. Risk & concern
14. Future Outlook
15. Statutory Disclosure



KLRFM: Growing with legacy

There are many companies which starts and ends with miserable results. It is **very hard to find gems out of harsh stones**. But gems always shines brighter with polish and time. In stock market also it is very difficult to find the right **company which will sustain and will give sustainable return** over a period of time. If it ends miserably, mind it, investors investment will also fall miserably. **It would always be advisable to bet on the business with valuable management. It assures returns in long term.**

Here, one such company is **Kovilpatti Laxmi Roller Flour Mills Ltd. They have started the business back in 1961**. Today it is in a leadership position in South India. The company has also forayed into engineering division which diversifies business of the company. Over the period of time the company has evolved and progressed in such a manner that it encourages investment to be part of upcoming growth of the company.

Recently, the company has announced amalgamation scheme with Raya Foods Pvt. Ltd. It will give strategic benefits to the company. The management of the company is also encourages confidence over the company. New generation have joined the company. New ideas, decision, mindsets will affect the future of the company. But here, **under the leadership of Sarath Jagannathan, it seems that the future of the company is very bright and investors should consider KLRFML for investment for long term.**

01

Kuthu
Vilakku

DID YOU KNOW?

Kuthuvilakku is a product of KLRF (Kovilpatti Lakshmi Roller Flour mill) the first in the country to send their Technical Head, all the way back in 1961, to train him in the famous Swiss School of Milling in St.Gallen, Switzerland.



Company Snapshot

- **Single Phase Buying Strategy = Buy between INR 134-150 (CMP = 137-138 as on 25th May'23).**
- **Price Target = INR 300+ in next 12 months & INR 1500+ in next 5 years. It can deliver ~50-60% CAGR over the period of next 5 years.**

- **Kovilpatti Lakshmi Roller Flour Mills Limited (formerly KLRF Limited) was established in 1964, and is one of the pioneers of post-independence industrialization in India. Today, they serve millions of customers across the states of Tamil Nadu and Kerala.**
- **The Company has two main business divisions viz., Food division and Engineering Division.**
- **Sri. Suresh Jagannathan (DIN: 00011326) is one of the Promoters of the Company and he is the father of Mr. Sharath Jagannathan (DIN: 07298941), Managing Director of the Company.**
- **The company got listed on BSE in the year 2005.**



| | | |
|----------------------------|---------------------------|------------------------------|
| Market Cap : 74 Cr. | Current Price : ₹ 138 | 52 weeks high/low : 177/61.2 |
| ROE : 12.8% | Stock P/E : 5.65 | Dividend Yield : 1.30% |
| ROCE : 15.1% | Debt to Equity : 1.04 | Dividend Payout: 13.2% |
| Face Value : ₹10 | Promoter Holding : 57.2% | Pledged Percentage : 0.00% |
| Sales growth (1Y) : 22.07% | Profit Growth (1Y) : 183% | Cash Conversion Cycle : 87.9 |
| Market Cap to sales : 0.25 | Asset Turnover : 2.57 | Enterprise Value : 135 Cr. |
| Debt : 58.9 Cr. | Book Value : ₹103 | Price to book value : 1.36 |

Industry Overview

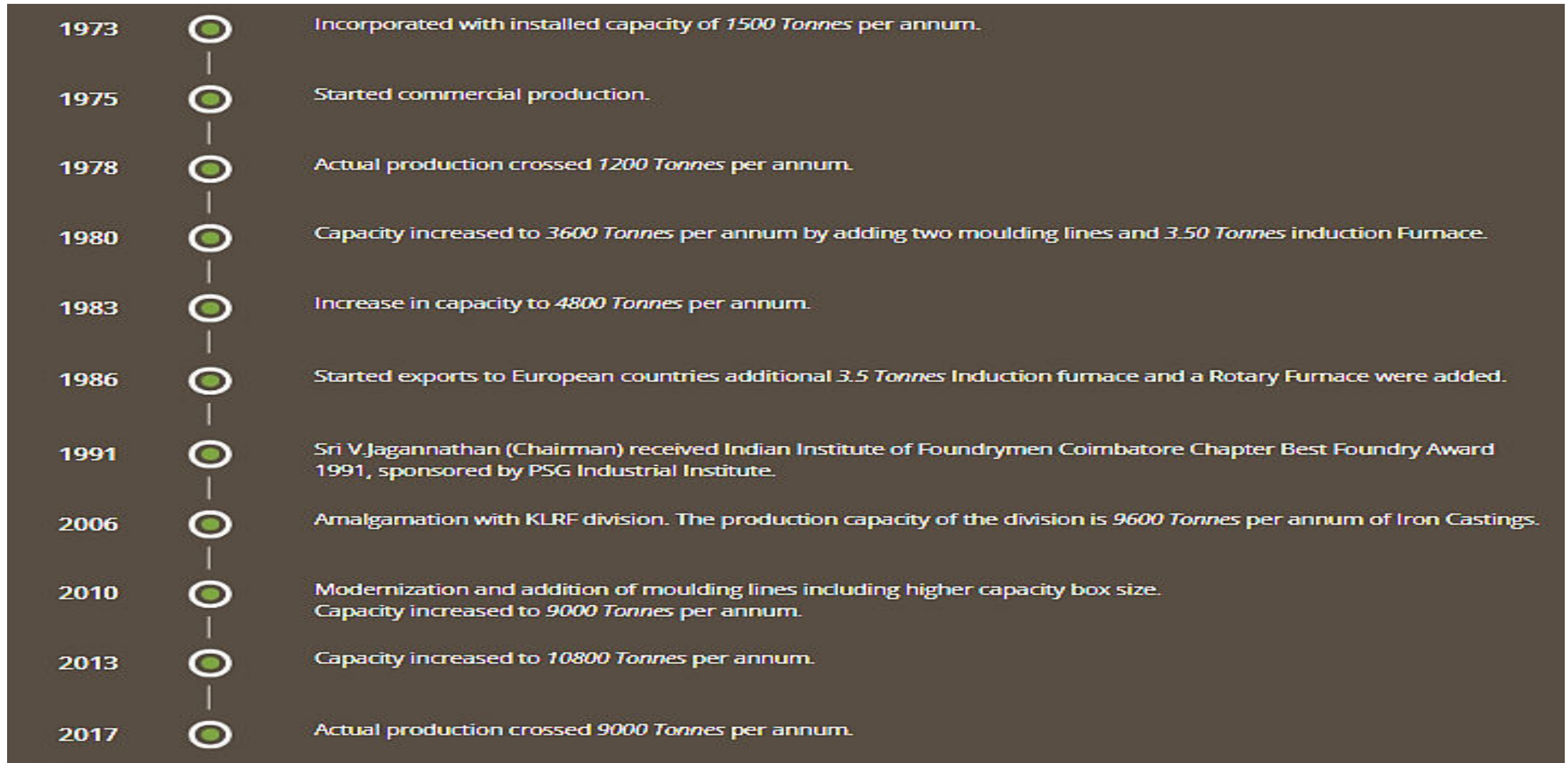
- IKON predicts that the market for bagged wheat flour in India would expand at a compound annual growth rate (CAGR) of over 21% between 2016 and 2027. **In 2022, the worldwide wheat flour industry was worth US\$ 241.0 billion.** If the market continues to expand at its current rate, it might reach a new peak of Rs 25,000 Cr by the conclusion of the current fiscal year (2022-23).
- **Wheat output in India during the year 2021-22 is expected to shrink 3% to 106 million tons as against 109 million tons in 2020-21 due to the adverse weather which has also affected the quality of wheat.** International wheat prices have soared due to the lower output in India and some other countries along with global supply crunch due to the war at Ukraine. India has exported 7.2 million tons of wheat in 2021-22. FCI has changed their pan India policy resulting in huge increase in wheat cost for South Indian millers. Wheat prices are expected to be volatile during the year 2022-23.
- **Although local chakki mills in India control a sizable portion of the wheat flour business,** branded bagged wheat flour has been quickly expanding in the country over the past five years, disrupting established norms. **The national and regional players are leveraging hygiene and convenience by introducing new product varieties including multi-grain atta and fortified atta.**
- **Indian foundry market is estimated to grow at CAGR of 10% during the period from 2022-2025.** Expansion of infrastructure by the government is expected to generate demand for a wide variety of machinery and equipment such as cranes, fans, motors, appliances, pumps, conveyor equipment, etc. which, in turn, will create fresh demand for metal castings. **The automotive sector which contributed nearly for 40% of casting requirement, is expected to grow rapidly with introduction of vehicle scrap policy by the Indian government.**



Journey so far...KLRFM Timeline...



Journey so far...KLRF Engineering Timeline...(Contd.)



Company Overview

- The Company has **two main business divisions viz., Food division and Engineering Division.**
- Food division is engaged in the **manufacturing of wheat flour and other related food products and the**
- Engineering division is engaged in the **manufacturing of casting components for automobiles, earth movers, agricultural machineries, textile machineries, pumps and general engineering industries.**
- **Present Capacity of KLRFM is 6160 tonnes per month.**
- **Eltex Super Castings and KLRF Sheet Metal Industries - together have a capacity to produce over 15,000 MT of precision-engineered parts.**

Businesses:

Kovilpatti Lakshmi Roller Flour Mills

KLRF Sheet Metal Industries

ELTEX Super Castings

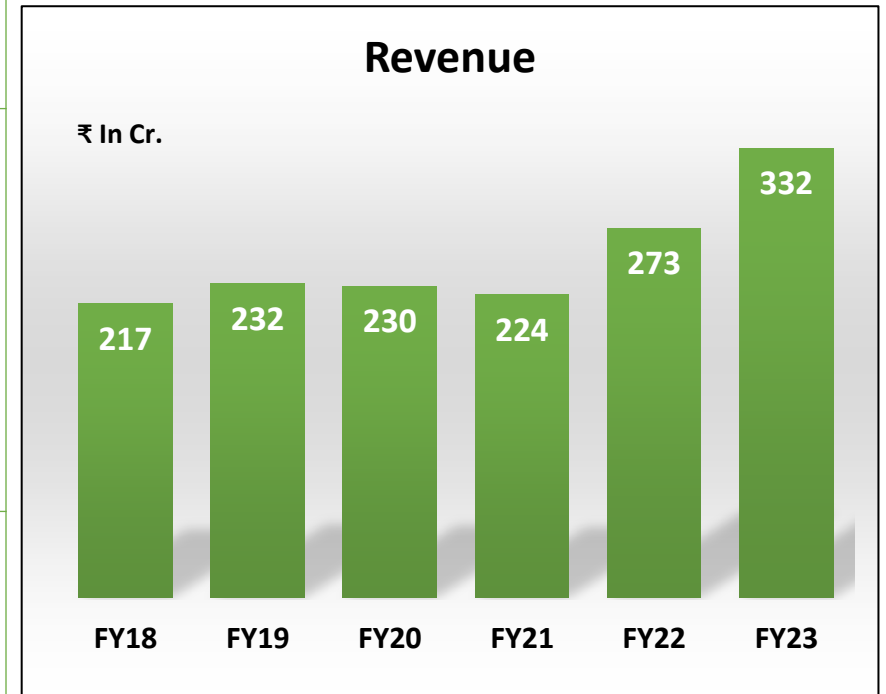
KLRF Windmills



Business Overview

| Businesses | Products |
|--|--|
| Kovilpatti Lakshmi Roller Flour Mills | Produces Wheat flour, maida, sooji, etc. first choice for top domestic brands (Britannia, Parle & ITC), large international chains (Domino's Pizza & McDonald's) , and for many small & medium sized local businesses that have grown with us over the decades. |
| KLRF Sheet Metal Industries | Founded in 1978 , KLRF Sheet Metal Industries is a precision sheet metal production company. We design and fabricate high-precision products for several industries like Coffee, Flour, Rice, and Textiles. <u>Customers:</u> M/s. Lakshmi Machine Works Ltd. (unit1 & unit2), M/s. Larsen & Toubro Ltd., M/s. Elgi Ultra Industries Ltd. |
| ELTEX Super Castings | Established in 1974 in the industrial hub of Coimbatore, Eltex Super Castings is a pioneering foundry in South India. Our products include precision metal casting components for Automobiles, Earth Movers, Agriculture Machinery, Tractors, Textile Machinery, Valves, Pumps and General Engineering. <u>Customers:</u> Daeseung Autoparts India Pvt. Ltd., Kirloskar Toyota Textile Machinery India Pvt. Ltd., Saint Gobain India Pvt. Ltd., Kirloskar Brothers Ltd. |
| KLRF Windmills | The Wind power generation efforts began over 20 years ago, in 1995. They leverage power generated from their own wind mills to offset a substantial portion of the power consumed by their businesses. |

- In FY22, food division has shown revenue growth of 8% whereas, engineering division has shown revenue growth of 61%.
- In Q3FY23, food division has shown growth of 120% and engineering division has shown growth of 113%.



Kovilpatti Laxmi Roller Flour Mills Ltd.

| | |
|--|--|
| 1990 - 91 Roller Flour Millers Federation Award for the Best Performance in R & D | 1993-94 Roller Flour Millers Federation Award for the Best Performance in Pollution Control |
| 1995-1996 Roller Flour Millers Federation Award for Best Export (South Zone) Roller Flour Millers Federation Award for Best Innovative Efforts | 1999-2000 One of the first Roller Flour Mill in India to be awarded the coveted ISO-9002 Certification (Per Certificate No. 12 100 12692 TMS / Munich 2000-07-19 Awarded by TUV / Germany) B. P. Gupta Award for Adoption of International Standards (ISO-9002) for Exports by the Roller Flour Millers Federation National Productivity Council Award for Best Productivity Performance In Cereal (Flour Milling) Processing Industry (2 nd place) Incorporated a new Whole Wheat Atta (WWA) production facility. |
| 2003-2004 Certificate of Merit from National Productivity Council of India Upgradation to ISO 9001:2000 Standard (Certificate Number 1210023183TMS) | 2009 Coveted certificate ISO 22000:2005 (FSMS, Awarded by TUV SUD South Asia Pvt. Ltd.) |
| 2011 Parle Agro Industries Certificate of Merit for Consistent & Quality Supplier | 2012 Coveted Certificate ISO 27001 for Information Security (Awarded by TUV SUD South Asia Pvt. Ltd.) |
| 2015 Coveted Certificate ISO 27001 : 2013 (ISMS, awarded by TUV SUD South Asia Pvt. Ltd.) | 2016 Parle Agro Industries Certificate of Excellence for Consistent & Quality Supplier. ICSI award (Madurai Chapter) for the theme "More Governance, Less Government |

Awards & Certifications (Contd.)

ELTEX Super Castings

2008

Best Performance Award from Brakes India Ltd.

2009

Certificate of Merit Award from Indian Institute of Foundry Men
Best Supplier Award from Elgi Equipments Ltd.

2010

Coveted ISO 9001:2008 Certification (Awarded by TUV SUD)
Coveted ISO/TS 16949:2009 Certification (Awarded by TUV SUD)

2011

Retained Best Supplier Award from Rane TRW

2012

Awarded the prestigious SQ MARK Certification from Hyundai Corporation, India
Excellent Support and Performance Award from Rane TRW

2012

Coveted Certificate ISO 27001 for Information Security
(Awarded by TUV SUD South Asia Pvt. Ltd.)

2014

Best Performance Award from Brakes India Ltd.

2015

Best Support For New Product Development Award from Rane TRW

2017

Coveted ISO 14001:2004 Certification of Environmental Management System (Awarded by TUV SUD)
Coveted ISO 18001:2007 Certification of Occupational Health & Safety Management System (Awarded by TUV SUD)

Investment Rationale

3C Capitals

Amalgamation with Raya foods

On 22nd of August 2022, the board of directors of Kovilpatti Lakshmi Roller Flour Mills Limited (KLRFML, Transferee Company) has proposed approval for an amalgamation with Raya Foods Private Limited (Transferor Company).

Second generation is taking the charge

Sharath Jagannathan joined in 2019 and became CEO in 2021. Currently he is a managing director of the company. His decisions in the company are leading the company towards growth.

Set up a Solar Power Plant

The company established a 5MW solar power plant for captive usage, which will help reduce power cost. The company have invested around 29 Cr. to set up this solar power plant.

Better Growth opportunities than competitors

The company's valuation is much cheaper than its competitor. One of the competitor is Megastar Foods Ltd. MFL's financials are almost same as KLRFM and it needs to be noted that KLRFM is doing much better than MFL so it is worth investing in KLRFM where growth opportunities are clearly visible.



Amalgamation with Raya Foods Pvt. Ltd. (1/4)

- **Raya Foods was incorporated on 22nd October, 2021. Promoters of the company are Mr. Suresh Jagannathan, Mr. Sarath Jaganathan and Mrs. Kavya Jagannathan.** Raya Foods has began operations in Pondicherry with a **production capacity of 250 tons before 1 year.** Raya foods has state of the art technology for processing, raw material handling and storage. The design and development enable the latest techniques.
- On 22nd of August 2022, the board of directors of Kovilpatti Lakshmi Roller Flour Mills Limited (KLRFML, Transferee Company) has proposed approval for an amalgamation with Raya Foods Private Limited (Transferor Company). **Raya Foods will get merged from FY24.**
- **This amalgamation enables consolidation of flour mills business of both the companies into one entity which will facilitate economies of scale, focused growth, business synergies and better supervision of the business of the group and is expected to further support the Company to expand the footprint of the flour mills division by catering to the markets across India resulting in regional diversification.**

▪ **Rationale & Benefits for the Scheme of Amalgamation:**

1. Enable **consolidation of flour mills business of both the companies into one entity** which will facilitate economies of scale, focused growth, business synergies and better supervision of the business of the group.
2. Enable the **Company to expand the footprint of the flour mills division** by catering to the markets across India resulting in regional diversification.
3. **Pooling of resources** (including manpower, management, administration, financial and marketing resources) of both companies resulting in, synergies of operations and optimisation of logistics, resulting in more productive utilisation of said resources, savings in cost and operational efficiencies.
4. **Enable optimization of the capital allocation and availability of funds** which can be deployed more efficiently to pursue growth opportunities.
5. **Strengthen the financial position** resulting in increased leverage capacity of the merged entity.
6. **Create long term value to the shareholders** by unlocking value since the business and profits will accrue to a single entity.
7. Result in **reduction in the multiplicity of legal and regulatory compliances.**



Amalgamation with Raya Foods Pvt. Ltd. (2/4)

- The Transferee Company (KLRFM) shall issue and allot to the equity shareholders of the Transferor Company (Raya Foods), 14 (Fourteen) fully paid equity shares of Rs. 10/- each in the Transferee Company for every 10 (Ten) fully paid equity shares of Rs. 10/- each in the Transferor Company.
- It seems for every 10 shares in Raya Foods they will get 14 shares of Kovalpatti, i.e.
- As of now Kovalpatti has 6 Cr shares, they will be adding new shares allocated to Raya Foods, post which share capital will be 9 Cr, here promoter holding will change from 3.42 Cr + 3.2 Cr = 6.6 Cr (73%) and public holding will be 2.58 Cr.
- At present sales is 320 Cr for FY23, next year combined sales will be 600 to 700 Cr including Raya Foods. Cost saving due to solar will be huge in combined capacity.
- Post issue scheme KLRFM's promoter & promoter group's shareholding will increase to 73.76% from 57.18% pre issue scheme. Public shareholding will decrease from 42.82% to 26.24%.
- Revenue of RAYA FOODS is 58.41 Cr. on 31st Dec. 22. (for first half year). It also have approximately 30 Cr. of fixed assets which will be transferred to KLRFM. Raya foods have total assets of 142 Cr.

| Category | Pre-Amalgamation | | Post-Amalgamation | |
|---------------------------|------------------|---------------|-------------------|---------------|
| | No. of shares | % of holding | No. of shares | % of holding |
| Promoter & Promoter Group | 31,68,685 | 57.18 | 66,68,685 | 73.76 |
| Public | 23,72,791 | 42.82 | 23,72,791 | 26.24 |
| Total | 55,41,476 | 100.00 | 90,41,476 | 100.00 |



Amalgamation with Raya Foods Pvt. Ltd. (3/4)

Statement of Unaudited Interim Profit and Loss for the year Upto 31st December 2022

| | Particulars | Note No. | (in Rupees) | |
|-------|---|----------|--|---|
| | | | Figures for the current reporting period | Figures for the Previous reporting period |
| | | | 31-12-2022 | 31-03-2022 |
| | Revenue : | | | |
| I. | Revenue from operations | 13 | 58,41,67,257 | 13,47,10,840 |
| II. | Other income | 14 | 13,21,957 | 21,12,802 |
| III. | Total Revenue (I + II) | | 58,54,89,214 | 13,68,23,642 |
| IV. | Expenses: | | | |
| a) | Cost of Raw materials consumed and sold | 15 | 49,33,47,366 | 10,61,07,810 |
| b) | Purchases of Stock-in-Trade | 16 | 2,54,89,221 | 3,35,61,620 |
| c) | Changes in inventories of finished goods | | | |
| | work-in-progress and Stock-in-Trade | 17 | (63,03,882) | (1,84,42,465) |
| d) | Employee benefits expense | 18 | 82,18,653 | 20,92,706 |
| e) | Finance costs | 19 | 2,02,04,770 | 66,97,847 |
| f) | Depreciation and amortization expense | 20 | 94,09,983 | 27,30,807 |
| g) | Other expenses | 21 | 3,44,38,651 | 1,43,91,366 |
| | Total Expense | | 58,48,04,762 | 14,71,39,691 |
| V. | Profit before exceptional and extraordinary items and tax (III - IV) | | 6,84,452 | (1,03,16,049) |
| VI. | Exceptional items | | - | - |
| VII. | Profit before extraordinary items and tax (V - VI) | | 6,84,452 | (1,03,16,049) |
| VIII. | Extraordinary Items | | - | - |
| IX. | Profit before tax (VII - VIII) | | 6,84,452 | (1,03,16,049) |
| X. | Tax expense: | | | |
| | (1). Current tax | | - | - |
| | (2). Deferred tax | | 1,85,757 | 26,89,973 |
| XI. | Profit (Loss) for the period from continuing operations (IX - X) | | 8,70,209 | (76,26,076) |
| XII. | Profit / (Loss) from discontinuing operations | | - | - |
| XIII. | Tax expense of discontinuing operations | | - | - |
| XIV. | Profit / (Loss) from Discontinuing operations (after tax) (XII - XIII) | | - | - |
| XV. | Profit (Loss) for the period (XI + XIV) | | 8,70,209 | (76,26,076) |
| XVI. | Earnings per equity share: | | | |
| | (1). Basic | | 0.35 | (3.43) |
| | (2). Diluted | | 0.35 | (3.43) |

- **RFL's revenue was 13.45 Cr. in FY22** as the company have started operations in November, 2021. it indicates that the company's revenue is generated from 4 months of operations.
- **Revenue of 9MFY23 is 58.41 Cr. revenue is increased at the rate of 100% (on the basis of avg. monthly revenue).** It indicates that the company have huge potential to grow once its capacity utilization will increase in upcoming years. **It is expected that the revenue will close at 80 Cr. approximately by the end of FY23.**
- Finance cost of the company is approximately 2 Cr. in 9MFY23. it is due to its long term borrowed capital. The company may have high finance cost until it repays the borrowed capital.
- Increase in depreciation cost indicates that installed fixed asset of the company is now in use in the FY23.it also indicates increase in capacity utilization of the company which will ultimately transform into increased revenue.
- The company had made losses in FY22 as they have small time frame of operations and high employee cost. But in FY23 they have started generating profits.
- **PAT is 8.7 Cr. which leads to NPM of 0.15%. It is expected to increase in upcoming years when revenue will increase and finance cost will decrease.**
- EPS is 0.35 which is expected to increase once the revenue will increase. Also it will change after an amalgamation with KLRFM.

Amalgamation with Raya Foods Pvt. Ltd. (4/4)

Unaudited Interim Balance Sheet as at 31st December 2022

| | Particulars | Note No. | (In Rupees) Figures as at the end of current reporting period 31.12.22 | (In Rupees) Figures as at the end of Previous reporting period 31.03.22 |
|-----|---|----------|--|---|
| I. | EQUITY AND LIABILITIES : | | | |
| [1] | Shareholders' funds : | | | |
| | (a) Share Capital | 1 | 2,50,00,000 | 2,50,00,000 |
| | (b) Reserves | 2 | (67,55,867) | (76,26,076) |
| | (c) Money received against share warrants | | | |
| [2] | Share application money pending allotment | | | |
| [3] | Non - Current liabilities : | | | |
| | (a) Long-term borrowings | 3 | 31,86,28,487 | 31,67,99,049 |
| [4] | Current Liabilities : | | | |
| | (a) Short-term borrowings | 4 | 13,00,73,761 | 11,25,49,772 |
| | (b) Trade payables | | | |
| | (A) total outstanding dues of micro enterprises and small enterprises; and | 5 | 15,34,889 | 18,93,919 |
| | (B) total outstanding dues of creditors other than micro enterprises and small enterprises. | | 14,47,790 | 11,79,295 |
| | (c) Other current liabilities | 6 | 13,68,514 | 17,79,068 |
| | (d) Short - term provisions | 7 | 32,14,967 | 45,78,731 |
| | Total | | 47,45,12,541 | 45,61,53,758 |
| II. | ASSETS : | | | |
| | Non - current assets : | | | |
| [1] | (a) Property, Plant and Equipment & Intangible Assets | | | |
| | (i) Property, Plant and Equipment | 20 | 29,56,76,989 | 30,44,21,479 |
| | (ii) Intangible assets | | 5,99,512 | - |
| | (iii) Capital work-in-progress | | - | - |
| | (iv) Intangible assets under development | | 2,36,000 | 6,63,013 |
| | (b) Non-current investments | | - | - |
| | (c) Deferred tax assets (net) | | 28,75,730 | 26,89,973 |
| | (d) Long-term loans and advances | 8 | 98,699 | 83,699 |
| | (e) Other non-current assets | | - | - |
| [2] | Current assets : | | | |
| | (a) Current investments | | | |
| | (b) Inventories | 9 | 14,88,82,976 | 11,54,43,888 |
| | (c) Trade receivables | 10 | 2,31,00,338 | 1,19,77,940 |
| | (d) Cash and cash equivalents | 11 | 1,32,669 | 20,005 |
| | (e) Short term loans and advances | | | |
| | (f) Other current assets | 12 | 29,09,630 | 2,08,53,761 |
| | Total | | 47,45,12,541 | 45,61,53,758 |

- Raya Foods Ltd.'s shareholders have 25 lakh shares of Rs 10 each which leads to 2.5 Cr. of share capital of the company.
- Long term borrowings of the company is around 31.8 Cr. in 9MFY23. it is almost equivalent to its fixed assets. The company had taken debt to start the operations.
- Short term borrowings is used to meet working capital requirements of the company.
- The company have approximately 30 lakhs of payables which are dues to small enterprises and medium enterprises.
- The company's fixed assets are worth of 30 Cr. KLRFM's fixed assets is 40 Cr. But here, if we consider fixed assets specific to food division of both the companies then RFL's fixed assets is 30 Cr. while KLRFM's fixed assets is approximately 10 to 15 Cr. [Total assets (40 Cr.) – Solar plant's assets (29 Cr.) – engineering division's FA (10 to 15 Cr. assumed as it requires heavy machineries) = Food division's FA (10 to 15 Cr.)].
- It indicates that RFL have more potential to grow then it is now. The revenue will increase in future as its business will operate on a higher capacity. As the company is new and not have established clients and market covered, the company is generating low revenue as compared KLRFM. But it is expected that the company will generate more revenue within two years after amalgamation. Also, total revenue of KLRFM is expected to grow at the rate of 100% in two years.
- Inventories of RFL is high and expected to remain high due to bulk buying of raw material during the season of wheat.

Set up a solar power plant

- Reducing the carbon footprint has been a top priority for the management and they have been focused on green initiatives. **As part of this move, KLRFM have initiated a 5 MW solar farm. Now more than ever, switching to renewable forms of energy is the way to go.** In addition to economical advantages, it helps in having consistent power and helps in greener environment.
- **The company have started the plant back in 2022.**
- **The Company has made a total capital investment of 29.47 Cr. The company established a 5MW solar power plant for captive usage, which will help reduce power cost.**
- Setting up of a solar power plant gives two way advantage to the company. **1. they will receive subsidy from government for installation of solar power plant. The company may receive up to 30% subsidy for installation of solar power plant. 2. it will reduce power cost for the company. It is a way for low maintenance power generation for long term. Cost saving due to solar will be huge in combined capacity.**
- **During FY22 power & fuel cost is 10.26 Cr out of 273 Cr sales which is 5% and in 9MFY23, power cost is 5.61 Cr. which is 37% reduction in power cost on avg monthly basis. It is 2% of sales of 9MFY23. It means from FY24 onward their operating margin should jump from 5-6% to minimum 10%.**

| | Before Solar Plant (FY22) | After Solar Plant (FY23) |
|------------------|---------------------------|--------------------------|
| Sales | 273 | 332 |
| Power cost | 10.26 (5% Of sales) | 7 (2% of sales) |
| Operating Profit | 15 | 19 |
| OPM % | 5% | 6% |



Megastar Foods Ltd.

- **The company's direct competitor is Megastar Foods Ltd.** Established in 2013, Megastar Foods Ltd is a prominent producer and supplier of wheat flour, organic wheat flour and allied products in India.
- For financial consideration it is observed that KLRFM and MFL have the same story. By looking at M cap to sales KLRFM is cheaper than MFL. Sales of **KLRFM is much better than MFL**. It can be expected that KLRFM's price will increase as per its progress.
- It is also observed that MFL's price is high due to an ace investor ashish kacholia investment in the company. **KLRFM is much better than MFL** as it also have diversified businesses like in engineering segment.
- Sarath Jagannathan's active decisions in KLRFM will lead the company to new growth opportunities in future. it is worth investing in KLRFM to get better returns as the company's future seems bright.

| Particulars | KLRFML | MFL |
|------------------|--------------------------------|------|
| M Cap | 78.6 | 279 |
| Current Price | 142 | 279 |
| Stock P/E | 5.78 | 29.0 |
| ROCE% | 20% | 22% |
| Promoter Holding | 57.2 (will be 73% after amlg.) | 68.4 |
| M. Cap to sales | 0.25 | 1.04 |
| Sales | 332 | 304 |
| OPM% (FY22) | 6% | 6% |
| NPM% (FY22) | 2.9% | 2.7% |



Better growth opportunity than Competitor

- The company's plant is located in Punjab for wheat processing, grading and packaging with **300 MT per day production capacity and 16000 MT storage capacity**. It also has **10, 000 MT wheat grains in house storage capacity, 200 MT wheat grains crushing capacity and 100 MT chakki plant capacity**.
- Mr. Vikas Goel aged 49 years, has been in this industry for more than 29 years. He is responsible for the expansion and overall management of the business of the Company. Mr. Vikas Goel is the father of Mr. Mudit Goyal, Whole Time Director of the Company. Mr. Mudit Goel is a whole time director in the company. He joined the company in 2018.

| Particulars | KLRFML | MFL |
|--------------------------|------------------|----------------|
| Installed Capacity | 74000 MTPA | 1,00,000 MTPA |
| Fixed Assets | 48 | 40 |
| Expected changes in FA | 78 (Post amalg.) | 56 (Post CWIP) |
| Revenue (FY23) | 332 | 304 |
| OPM % | 6% | 8% |
| Net profit | 10 | 10 |
| Estimated revenue (FY24) | 520 | 425 |

- Here, KLRFM's capacity is less than MFL's, still the company has shown better results than MFL. Revenue is better than MFL's revenue.
- **Both the companies will have some changes in fixed assets in upcoming years. KLRFM will amalgamate with RFL whereas MFL's balance sheet is showing 16 Cr. of CWIP which is expected to be converted into fixed assets in upcoming years.**
- OPM is also quite comparable and competitive. MFL is exporting its products which gives it better margins. But it is expected that after **proper utilization of solar power plant installed by KLRFM, there margins will also improve in upcoming years.**
- On the basis of upcoming changes in the companies it is expected that revenue of KLRFM will perform better than MFL.
- **It is observed that MFL's management is conservative in nature and sharing less information in public whereas KLRFM's management is quite enthusiastic, open to share what is happening in the company. It also gives more confidence over KLRFM for future investments.**

Financial Analysis

| Particulars | Annually | | | | | Quarterly | | | |
|----------------------------|----------|-------|-------|-------|------|-----------|---------|---------|---------|
| | FY19 | FY20 | FY21 | FY22 | FY23 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 |
| Revenue (INR Cr.) | 232 | 230 | 224 | 273 | 332 | 78.07 | 85.15 | 81.21 | 87.71 |
| Operating Profit (INR Cr.) | 8 | 12 | 13 | 15 | 19 | 6.32 | 5.48 | 4.06 | 3.01 |
| Operating Margin (%) | 3% | 5% | 6% | 5% | 6% | 8.10% | 6.44% | 5.00% | 3.43% |
| Net Profit (INR Cr.) | -1 | 4 | 4 | 8 | 10 | 3.05 | 5.89 | 0.60 | 0.76 |
| Net Profit Margin (%) | -0.43% | 1.74% | 1.78% | 2.93% | 3.3% | 3.9% | 6.92% | 0.73% | 0.85% |

- Revenue grew by 21% in FY23. Food division has shown growth rate of 25% and engineering division has shown growth of 16%. In FY22, food division has shown revenue growth of 8% whereas, engineering division has shown revenue growth of 61%.
- Operating profit margin is 6% whereas, net profit margin is 3.3%.
- Other income for the year ended March 31, 2023 includes Profit on sale of fixed assets of Rs.388.77 Lakhs
- Interest cost is increased as borrowed capital is increased. The same is with depreciation as fixed assets is increased in FY22.
- Net profit in FY22 is increased due to increase in other income and increased sales.

- In Q3FY23, food division has shown growth of 120% and engineering division has shown growth of 113%.
- Other income is increased due to sales of fixed assets worth 3.9 Cr. Other non-current assets include an amount of Rs.249.56 lakhs paid under protest against the demand from The Regional Commissioner of Employees Provident Fund. The company has filed an appeal against the said demand and is confident of succeeding in the appeal.
- Subsequent to the closure of interim period, i.e., 30.09.2022, the engineering division operations were temporarily suspended for a period of two weeks due to an unfortunate freak 5 accident that happened inside the foundry and to carry out all safety and precautionary measures in compliance with the protocols prescribed. The operations were resumed from 26th October, 2022.

Balance Sheet Analysis

| | Mar 2017 | Mar 2018 | Mar 2019 | Mar 2020 | Mar 2021 | Mar 2022 | Mar 2023 |
|--------------------------|------------|------------|-----------|-----------|-----------|------------|------------|
| Share Capital + | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| Reserves | 24 | 29 | 27 | 32 | 36 | 43 | 53 |
| Borrowings + | 61 | 61 | 44 | 28 | 25 | 45 | 40 |
| Other Liabilities + | 16 | 13 | 14 | 18 | 22 | 30 | 22 |
| Total Liabilities | 106 | 109 | 91 | 83 | 89 | 123 | 120 |
| Fixed Assets + | 29 | 27 | 34 | 27 | 26 | 51 | 48 |
| CWIP | 0 | 2 | 0 | 1 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Assets - | 77 | 81 | 56 | 54 | 62 | 71 | 72 |
| Inventories | 56.46 | 55.90 | 35.42 | 36.19 | 40.75 | 47.18 | 46.44 |
| Trade receivables | 14.70 | 13.98 | 15.69 | 11.53 | 15.73 | 16.30 | 15.74 |
| Cash Equivalents | 0.36 | 5.56 | 0.33 | 0.26 | 0.19 | 0.23 | 0.16 |
| Loans n Advances | 3.64 | 2.83 | 3.27 | 4.02 | 4.18 | 5.38 | 3.54 |
| Other asset items | 1.37 | 2.48 | 1.63 | 2.08 | 1.17 | 2.13 | 5.71 |
| Total Assets | 106 | 109 | 91 | 83 | 89 | 123 | 120 |

- **Promoter & promoter group holds 57% of shareholding in the company.** After the amalgamation with Raya foods Ltd. Shareholding of promoters and promoter group will increase to 73%.
- **The Company has made a total capital investment of ` 2,947 lakhs.** The company established a 5MW solar power plant for captive usage, which will help reduce power cost. This investment will help the company when both the entities will be combined and will reduce power cost to grater extent.
- Non-current investment made by the company are **in equity shares of the company.**
- In inventory major portion is of raw material. **It is because the company needs to stock up raw material during season that will run for the whole year.**
- **Trade receivable is generally for less than 6 months which also continuous cash flow in the company.**
- Company's fixed assets increased almost double due to its establishment of solar power plant in FY22. as the company have sold fixed assets worth of 3.8 CR. it is decreased slightly.

Cash Flow Analysis

| | Mar 2017 | Mar 2018 | Mar 2019 | Mar 2020 | Mar 2021 | Mar 2022 |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| Cash from Operating Activity - | -3 | 11 | 27 | 18 | 8 | 12 |
| Profit from operations | 13.60 | 12.09 | 7.61 | 12.61 | 13.91 | 15.95 |
| Receivables | 0.17 | 0.72 | -1.72 | 4.17 | -4.20 | -0.57 |
| Inventory | -17.70 | 0.55 | 20.48 | -0.77 | -4.56 | -6.43 |
| Payables | 0.79 | -0.88 | 1.00 | 2.85 | 1.99 | -0.19 |
| Other WC items | 1.04 | -0.19 | -0.09 | -0.30 | 3.12 | 5.38 |
| Working capital changes | -15.69 | 0.20 | 19.67 | 5.94 | -3.65 | -1.81 |
| Interest paid | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Direct taxes | -1.37 | -1.28 | 0.05 | -0.60 | -1.93 | -2.02 |
| Other operating items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Exceptional CF items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Investing Activity + | -6 | -3 | -9 | 4 | -2 | -27 |
| Cash from Financing Activity + | 10 | -3 | -23 | -22 | -6 | 15 |
| Net Cash Flow | 0 | 5 | -5 | -0 | -0 | 0 |

- **Profit from operations increased as there is an increase in sales. Also margins improved from 5% to 7%. It will further increase after amalgamation of KLRFM with Raya foods ltd.**
- **The company have invested 29 to 30 Cr. in fixed assets for solar power plant in FY22.** such investment will reduce power cost of the company to grater extent. Currently power cost of the company is 5% of revenue of the company.
- **They have received 19.63 Cr. as borrowed capital in FY22.** The net cash flow is 0 as the company have invested in fixed assets.
- Receivables of the company is reduced to a great extent compared to previous year. It needs to be noted that the company receives payment from customers within 6 months period. It also helps to continue cash flow in the company.
- Cash flow position of the company is stable and it is considered that it will keep improving further.
- **Sound cash flow position provides cushion to growth of the company for further investment in fixed assets and expansion of the business in future.**

Ratio Analysis

| | Mar 2017 | Mar 2018 | Mar 2019 | Mar 2020 | Mar 2021 | Mar 2022 | Mar 2023 |
|------------------------------|------------|------------|-----------|-----------|-----------|-----------|-----------|
| Debtor Days | 25 | 23 | 25 | 18 | 26 | 22 | 17 |
| Inventory Days | 142 | 143 | 82 | 83 | 95 | 91 | 72 |
| Days Payable | 20 | 19 | 19 | 25 | 30 | 25 | 16 |
| Cash Conversion Cycle | 146 | 148 | 88 | 76 | 90 | 88 | 74 |
| Working Capital Days | 100 | 99 | 63 | 54 | 67 | 56 | 54 |
| ROCE % | 14% | 10% | 5% | 13% | 16% | 15% | 20% |

- Debtor days, inventory days and payable days are improved efficiently but it is expected to improve further. Cash conversion cycle is improved to 74 days as the company receives payment within 6 months.
- **ROCE was stable between the range of 14% to 16%. But in FY23, it is increased to 20% which is an impressive performance by the company.**
- **D/E ratio is increased to 0.68** as fresh term loan availed for 5 MW solar power plant and ECLGS loan to meet working capital requirement.
- **ROE is increased to 19.3, Increased profit from both food and engineering division on account of increased volume, cost control, power cost reduction from new solar power plant and reduction in rate of interest.**
- **Market cap to sales is 0.22** which indicates that shares of the company are available at cheaper rate. As the company is worth investing it is advisable to invest in the company before it crosses the heat.

Management Overview

Sri. Suresh Jagannathan, Executive Chairman

Suresh Jagannathan **aged 64 years**, have completed his Bachelor of Science from Rensselaer, Polytechnic Institute, New York, USA. He is having **wide knowledge and over 41 years of experience in food, textiles and engineering industries**. He is one of the Promoters of the Company and he is currently the Executive Chairman of the Company. Sri. Suresh Jagannathan (DIN: 00011326) is one of the Promoters of the Company and he is the father of Mr. Sharath Jagannathan (DIN: 07298941), Managing Director of the Company.

Mr. Sharath Jagannathan, Managing Director

Mr. Sharath Jagannathan (**age 30 years**) completed his Bachelor of Science in Business Administration from Bryant University, Smithfield, RI (USA) and he has good experience in the field of food industry, IT and marketing. **He joined the Company as Director-Operations (not on the Board of Directors) on 16/09/2019 to oversee the operations of the Food Division of the Company. He is currently heading the entire business activities of the Company as Managing Director.**

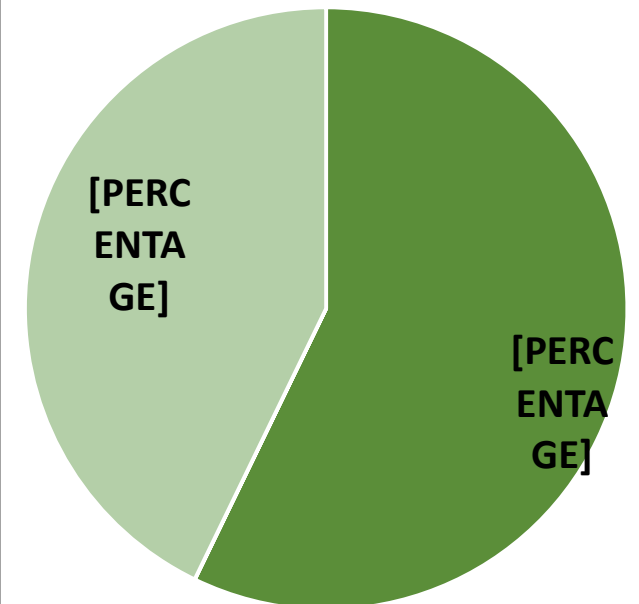
Mrs. Kaavya Sharath Jagannathan

Mrs. Kaavya Sharath Jagannathan, **aged about 30 years, wife of Mr. Sharath Jagannathan**. She completed her Bachelor of Science from Nanyang Technological University, Singapore. She also holds a Master of Science from Manonmaniam Sundaranar University, Tamil Nadu and a doctorate in Zoology from Avinash ilingam University. **She is presently a Whole-time Director in Cape Flour Mills Private Limited.**

Mr. Sudarsan Varadraj was appointed as Non executive director of the company in the year 2020. He is a promoter of Elgi equipments Ltd. After his appointment engineering division of KLRFM has shown notable growth which is expected to continue further.

Shareholding %

■ Promoters ■ Public



Sharath Jagannathan: Taking the charge of future

- Sharath Jagannathan, a new face of the company. He have experience from root level of the company. His father had started the business and now he have been handed over the legacy.
- If we go through his linked in profile, **he seems very generous, focused, dedicated and philosophical person. From his joining date he has posted on every small things on its linked in which indicates that he wants to join business people. He is trying to be active on social media which will ultimately help the business. It is a current way of doing the business.**
- His decisions proves that he wants to do things with a pace. His decision of amalgamation of KLRFM with Raya Foods will give a lot of strategic advantage to the company.
- **Also his decision of installation of solar power plant will also help the company to reduce its operating cost to a great extents.**
- Such steps indicates long term perspective of a management to conquer the leadership position in the market.
- **Some of his believes also indicates that his values will also help the business to grow further. His believes in reading books and adding more to life. It indicates that his values will help him to grow with excellence in upcoming years.**
- We believe that under his leadership the company will grow immensely and will grab considerable market share within noticeable time period. It is always a great decision to invest in a management with dedication, values and focused mindset.



Risk and Concern

Geographical constraint

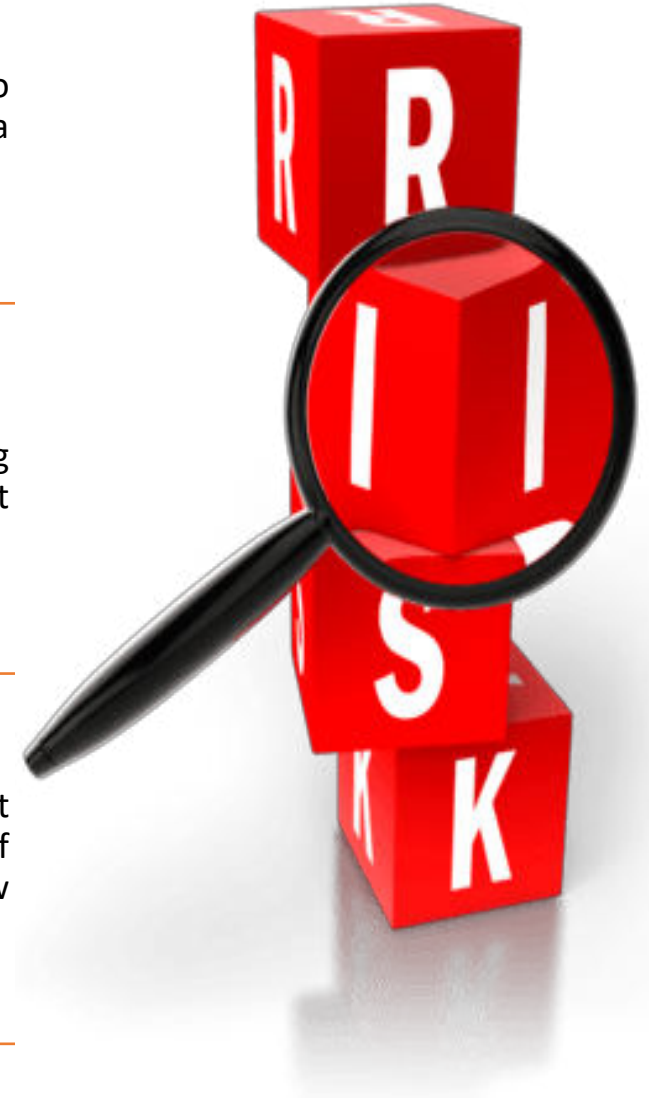
➤The company's major market is based in South India only. They are not serving to all the whole India. It may become difficult to grab market share out of South India for the company. It also restricts business growth of the company.

Revenue concentration

➤The major revenue of the company comes from Food division. Its engineering division is in operations since very long time. still it is not very popular and have not created specified space in the market in engineering division.

Raw material availability

KLRFML's business is highly dependent on wheat production in the country. Wheat production is again highly dependent on suitable weather condition for the crop. If the raw material supply gets disturbed due to bad weather condition price of raw material also goes high which will directly affect the profitability of the business.



Future Outlook

| Particulars | Actual | Projected | | |
|------------------------------|--------|-----------|------|------|
| | FY23 | FY24 | FY25 | FY26 |
| Fixed Assets (Food division) | 10 | 40 | 40 | 40 |
| Revenue (INR Cr.) | 332 | 520 | 900 | 1080 |
| Operating Profit (INR Cr.) | 19 | 36.4 | 72 | 97.2 |
| Operating Margin (%) | 6% | 7% | 8% | 9% |
| Net Profit (INR Cr.) | 10 | 20.8 | 45 | 64.8 |
| Net Profit Margin (%) | 3.3% | 4% | 5% | 6% |

- Here, it is fixed assets of food division is 10 Cr. which will become 40 Cr. post amalgamation. Total assets of KLRFM will be 88 Cr. in FY24, it is expected that revenue of food division will grow @ of 25% & 10% growth of engineering division of KLRFM. It is expected that RFL will generate revenue of 120 Cr. in FY24 which will be combined to 520 Cr. of revenue of KLRFM in FY24. in FY25, post amalgamation capacity utilization will increase and fixed assets of both the companies will generate equal revenue so it is expected that the revenue will increase to 900 Cr. in FY26, revenue will grow at the stable rate of 20%.
- The management is experienced and focused. Mr. Sarath Jagananath seems enthusiastic about the business. Its recent amalgamation indicates his actions in the company after becoming MD. It is worth investing in the company for long term.
- The company is available at a cheaper price than competitors and also financially much better than competitor. Its positive future growth prospects encourages investment in the company.

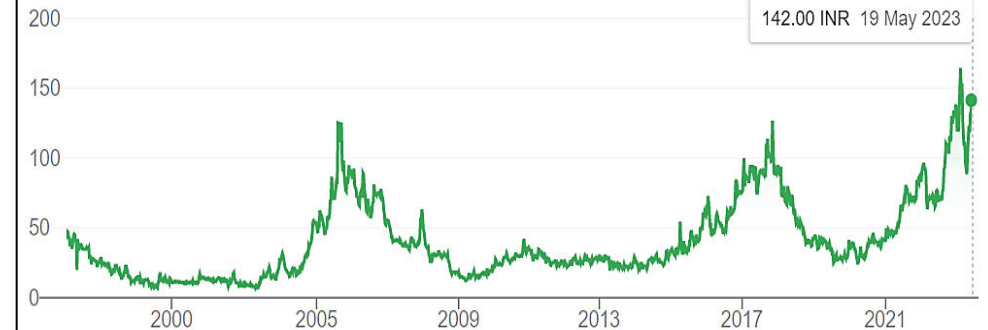
Market Summary > Kovilpatti Lakshmi Roller Flour Mills Ltd

142.00 INR

+100.00 (238.10%) ↑ all time

19 May, 3:30 pm IST • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



| | | | | | |
|------|--------|-----------|---------|------------|--------|
| Open | 146.80 | Mkt cap | 78.69Cr | 52-wk high | 176.90 |
| High | 149.00 | P/E ratio | 5.79 | 52-wk low | 61.20 |
| Low | 140.10 | Div yield | 1.27% | | |

Currently the stock is trading at P/E 5.78 and industry P/E is 40.8. The company have a strong market presence in south Indian market. New generation have taken the charge and his decisions indicates future growth of the company. It will be worth investing in the company for long period.

SEBI Research Analyst Registration No. : INH200006451

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2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
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