



Sandip Jhunjhunwala
Managing Director
 REI Agro

REI's vision

Basmati in every Kitchen

Japanese *Sushi*. Spanish *paella*. Italian *risotto*.
 Indian *biryani*. Rice migrates beyond boundaries. But only a handful of rice varieties among the 14,000 in existence migrate tastes. India's basmati rice is one among them. REI Agro is the largest provider of this 'Champagne' to Indians and the world

Rice being the staple food of the world, Basmati reigns as the champagne of this staple food segment and REI's vision is to evolve the recall of basmati from 'expensive' to 'affordable'; To extent its impact from 'classes' to 'masses' and redefine its application from 'someday' to 'everyday'. Sandip Jhunjhunwala, Managing Director REI Agro Ltd, the man primarily responsible

for the company's purchase of state-of-the-art processing equipment and under whose leadership, REI Agro is continuously expanding and upgrading its processing facilities shares his views and vision about this fastest growing rice processing companies in the country. *Excerpts:*

What is innovative about your company?

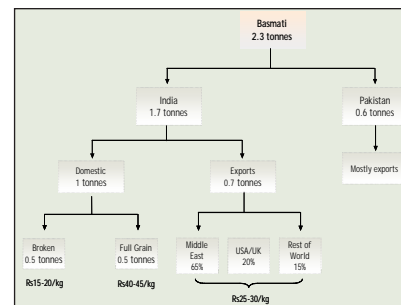
In a short span of 9 years, the company has emerged as the largest processor of basmati rice in the world. It is the leader in term of the turnover, profitability, etc. The company has achieved this by reaching all the segments of the basmati market i.e. branded premium, branded mass, branded broken, exports, bulk, etc.

REI is the only large corporate player focused on basmati rice. Basmati market being fragmented and about 60-70% is controlled by the unorganized sector presents immense potential for large focused corporate players.

The company was the first to capitalize on the fragmented nature of the market with products in all the segments. REI realized the potential in this fragmented market for serious corporate players who would remain focused on basmati, be present in all the segments of the market, improve efficiencies in the milling process, develop the ability to invest in the ageing of the stock so that the company is able to deliver pre aged (matured) rice.

With the promoters being first generation entrepreneurs, the company have had launched new and innovative products in the market. The company was the first to develop a new market segment with the branding of broken basmati rice.

Innovative Marketing: Though a late entrant in the branding of head rice, the company has managed to establish its products by strengthening its distribution network and offering various schemes (one for one free, scratch cards etc.). This strategy has helped in developing the market for Branded Basmati products by passing on maximum benefit to the customer, in contrast to our competition who spends on advertisement etc.



How were your second quarter financial results?

The company has strengthened its leadership in an otherwise fragmented market. REI has taken the lead in consolidating the market. Organized players now control an estimate of about 30 % of the market.

Turnover : The company has recorded a turnover of Rs. 577 crores in HY 06 compared to Rs 381 in the corresponding period last year thereby recording a growth rate of 51%. During the year the company has maintained its dominant position in the branding of broken basmati rice. Though a late entrant in the branding of whole grain the company's brands are establishing themselves in the market.

Operational efficiency: The company has managed to increase its operational efficiency which is reflected in the increased EBIDTA margin of 12 % the highest among competitors.

Profitability: The company has a net profit of Rs. 33 crores in the half year ended September 2005 compared to Rs. 22 crores in September 2004. The net profit margin of the company is also one of the highest in the industry due to the operational efficiency with the reduction of breakage of rice in the milling process, increasing share of branded sale and higher export sale fueled by the par boiling facility.

Other highlights: The company has been listed on the Singapore Stock Exchange and London Stock Exchange with the successful issue of USD 32 million FCCB's and USD 30 million GDR's in June and November 2005 respectively. The issues have been subscribed by some of the top FII's.

The company has undertaken an expansion of facilities that will be online before the end of the current fiscal. The company will have a capacity of 450912 MT up from the present 310464 MT. The company has been registered as an export house.

Current industry scenario vis-à-vis your company's position?

Basmati rice is unique rice in term of aroma elongation and texture. It is also unique as it can be grown only in the four north Indian states of Haryana, Punjab, Uttaranchal and Western Uttar Pradesh. The only other country where basmati can be grown is Pakistan.

Production: It is estimated that India produces about 1.7 million MT of Basmati Rice out of the total production of 2.3 million Mt. Pakistan accounts for the balance 0.6 million MT. Out of the 1.7 million MT of basmati produced in India; we export about 0.7 million Mt and the balance 1.0 million MT is consumed domestically. The

diagrammatic representation of the market is as under:

Fragmented Market: The basmati rice market remains fragmented with the organized players controlling only about 30-35 % of the market. The balance is controlled by the small unorganized players.

Opportunity for large corporate players: When REI Agro was set up almost the entire basmati rice business was fragmented into small unorganized players. REI has managed to take the lead in consolidating the market yet the market remains fragmented. We believe that there is enough scope for all the organized players who can take away share from the unorganized players. Besides organised players who have the following inherent advantages like: Better processing technology; Economies of scale; Standardised quality; Cost efficient paddy procurement capability with a preferred buyer status in the Mandis and the ability to

supply pre- aged rice by ageing the paddy.

What is the range of Basmati rice brands that Rei Agro produces?

REI Agro Limited is the largest processor of Basmati rice in the country. REI Agro has strategically positioned itself to be present in all the segments in the market. The company has brands such as *Kasauti* and *Real Magic* in the premium segment, *Mr. Miller* and *Hungama* in the popular segment and *Hansraj Masti* and *Maaza* in the mass segment.

The Indian Basmati Rice market may be classified into three segments: Premium, Popular and Mass. The company brands are classified as under: The brands are sold in packages of 100 gm (Rs.5 pack), 1 kg, 5 kgs, 10 kgs; 25 kgs and 40 kgs.

The Company is actively pursuing ways to increase its sales of branded rice in the domestic as well as in the international market. Currently, the Company sells primarily through wholesalers and distributors that are the major distribution channels in India for basmati rice. Since the company has established a strong presence in the wholesale market, it plans to move up the value chain and enter into the premium segment by also marketing its products in consumer packs of 1kg and 5kg.

Although a later entrant to the branded basmati rice market, the response for the Company's products has been positive and sales of branded basmati have been constantly increasing, reaching 1892 million in Mar. 05 from 1623 Million in Mar. 04.

In an environment populated by brands, the company embarked on a low-cost approach focused on targeting the mass and popular segment. As a principal objective, the Company focused on encouraging customers to switch to or at least try, basmati through promotional schemes such as "buy one get one free", scratch cards and other promotional offers leading to the success of the Company's brands.

The Company has introduced brands at all the different price points from premium to mass brands. The Company began branding whole grain rice in July 2004. Mr. Miller, Al Tahhan, Real Magic, Hansraj and Hungama are the main brands. The Company pioneered branding of broken rice in 2001 and it maintains a dominant position in the branding of broken.

How many plants do you have and their production capacity as well as utilization?

REI is a single location unit with the processing plant located in the heart of the Basmati rice-producing belt in Bawal, District Rewari, Haryana. The company's

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lifestyle product
and an integral
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all our customers

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BRAND CLASSIFICATION					
Brand	Segment	Launched	Max. Retail Price Rs.	Sales (Rs. In Million)	
				2004-05	HY (Sept 05)
Kasauti	Premium Aged	Dec 2004	Rs. 77 per kg	22.7	79.6
Real Magic	Premium	Nov 2004	Rs. 70 per kg	26.4	114.7
Mr. Miller	Popular	Apr 2004	Rs. 62 per kg	547.7	482.6
Hungama	Popular	Apr 2004	Rs. 55 per kg	12.4	35.5
Hansraj	Mass	Dec 2004	Rs. 70/per kg	5.4	14.3
Masti	Mass (Broken)	Apr 2001	Rs. 7-25 per kg depending on grain size	372.1	269.9
Maaza	Mass (Broken)	Apr 2001	Rs. 7-25 per kg depending on grain size	436.6	212.2

current capacity is 273504 MT per annum.

We have recently set up one of the largest par boiling facilities in the country with a capacity of 236544 MT primarily for the export market as par boiled rice is in demand in the Gulf region. The gulf accounts for almost 65% of the entire basmati rice exports

The present capacity utilization is 87%.

The company has also set up wind farms for the generation of wind energy at Soda Moda in Rajasthan and in Dhulia in Maharashtra. The aggregate capacity for the generation of wind farms is 23.3 MW.

Expansion plans if any?

The company is in the final stages of the implementation of its project for capacity enhancement by almost 65%. The enhanced capacity will be 450912Mt per annum up from the present capacity of 273504 MT. The new facility will be on line before the end of the current financial year.

All the processing facilities are equipped with state of the art equipment supplied by Buhler and Satake from Germany and Japan respectively. Both the companies are leading players in rice milling technology.

How have you faired in the export front?

In January 2005, the company set up par boiling facilities with a view to the export market. About 65 % of Indian Basmati Rice exports are made to the Gulf, Saudi Arabia being the largest buyer. The demand in Saudi Arabia is primarily for Par Boiled Rice. The plant is expected to provide a boost to the exports of the company. Exports of the company have grown from 23 crores in March 2004 to 84 crores in March 2005 registering a growth of 245 %. During the current year, exports have shown an upward trend and we expect to have exports of 2000 million in the current year. The company has successfully penetrated new markets in Libya, Kuwait and Lebanon. Exports are expected to form a larger share of the turnover in the future. During the current season the company already has orders of 75000 MT.

What about competition?

REI is the leader in the basmati market in terms of volume, profitability and innovation.

The comparative scorecard with major competitors is as under:

COMPARATIVE SCORECARD				
FY2005	REI	Satnam	KRBL	
Turnover*	8450	5037	5027	
Profit after Tax*	379	180	163	
PAT Margin	4.5%	3.6%	3.2%	
EBITDA Margin	10.3%	7.2%	8.1%	
Contribution margin (Net sales less raw material consumed)	83.6%	86.9%	85.2%	
	*Rs. in Million			



What is your revenue forecast for the next three years?

We expect to continue to strengthen our leadership position by maintaining the past trend of growth in the turnover and profitability. We also expect to further improve our margins with a larger share coming from the higher margin branded and export sale.

What are the areas of risk and challenges that you face? How are you managing them?

The Company's operations, plans for

expansion and development may be impacted by the availability of paddy.

The companies business is dependent on the ability to procure large quantities of basmati paddy. Basmati season starts in the month of September and is available through to February. During this short period of 5 months the entire paddy requirement needs to be fulfilled as off season purchases from traders is comparatively expensive.

The company has invested heavily to emerge as the largest buyer of Basmati paddy in the country. The company has built the strongest network of Agents and covers 130 mandis and also makes upfront payment to ensure a preferred status with farmers.

The Company's success in Basmati Rice may induce others to get into Basmati rice and the company may face increased competition.

To get an advantage over the competition and new entrants who may enter the market REI has managed to built scales and has strategically positioned itself as an integrated player with strength in all the aspects of business including procuring, ageing, processing and distribution. By following the integrated approach REI has ensured that it will enjoy the first movers

over other large corporate players who will have strength only in one aspect of the business i.e. procurement / processing / distribution.

The REI mission statement

"REI Agro Limited aspires to make available Basmati in every Kitchen of India. We look for providing the ultimate satisfaction to our customers by making our Basmati a lifestyle product and an integral part of the life of all our customers".