

27 Jun 2016

Initiating Coverage (BUY)

KAVERI SEEDS COMPANY

CMP

INR 433

Target Price

INR 535

Stock Details

Industry	Other Agricultural Products
Bloomberg Code	KSCL:IN
BSE Code	532899
Face Value (Rs.)	2.00
Market Cap. (Rs. Mn)	29,832.1
52wk. High/Low (Adjusted) ((Rs.)	788.00 / 300.00

Shareholding Pattern Jun '15

Promoter (%)	57.49
FII (%)	28.95
DII (%)	0.00
Public - Other (%)	13.56
No. of Share Outstanding (mn)	69.06

Valuation Summary

	FY 15A	FY 16E	FY 17P	FY 18P
P/E (x)*	8.61	17.32	13.30	12.50
EV/EBITDA (x)	8.35	13.43	11.01	10.22
P/BV (x)	3.44	3.30	3.15	2.78

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for FY15

Key Financial

Rs. Mn	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	11,612	8,928	10,400	12,070
EBITDA	3,097	2,060	3,013	3,405
Net Profit	3,010	1,727	2,644	3,022
EPS (Rs.)*	43.7	25.0	38.4	43.9

*Un adjusted

Key Ratios

	FY 15A	FY 16E	FY 17P	FY 18P
EBITDA Margin (%)	26.7	23.1	29.0	28.2
EBIT Margin (%)	25.4	20.0	26.3	25.9
Net Pro. Margin (%)	25.9	19.3	25.4	25.0
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	47.4	20.8	26.2	24.5
RoCE (%)	46.9	20.6	26.0	24.3

One Year Price / Volume



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We recommend 'BUY' on Kaveri Seeds Company for a target of INR 535 - valuing the company at P/E of 12.5x FY18E Earning.

INVESTMENT RATIONALE:

- Currently, Kaveri Seeds has a volume of 5.7 million packets for cotton seeds and is targeting a 20 percent growth at about 6.5-7 million packets in FY17.
- Leadership in key crops: Top 5 Rank
- Diverse Product portfolio addressing crop rotation
- Strong P&L record, Cash rich, consistent dividend paying
- Strong Brand Equity in farming community
- Amongst The Largest Processing Capacities
- Pan India Presence
- Temporary pause in FY16 – seed industry bottoming out
- As per IMD, the FY2017 Kharif season is likely to receive normal or above normal level rainfall. Improved monsoons to drive higher demand for premium seeds

VALUATIONS AND VIEW:

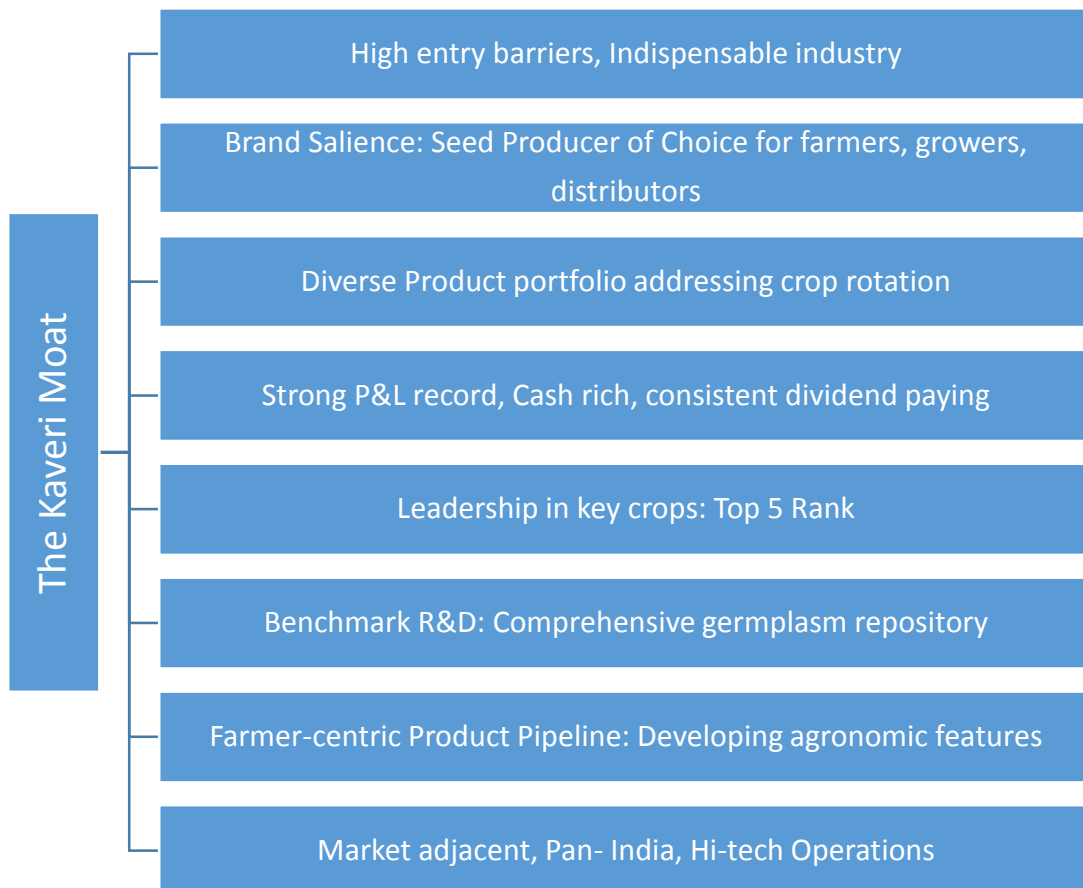
Deficient rainfall - another drought year, consecutive weak monsoon in the past two Kharif seasons, Rabi Season impacted by moisture condition & extended Kharif. Despite marginal increase in revenues in FY16, Profitability impacted by higher employee cost and other expenses which we expect to normalize over the coming years. Also a good monsoon as predicted for this year will help to boost the revenue and profit for kaveri seeds. We value the business at 12.5x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 535 per share.

RISK & CONCERNS:

- **Lack of patent infrastructure:** The patenting process in India is not very robust, resulting in competitors and small time companies rushing to replicate popular seeds in the marketplace opportunistically.
- **Regulatory Challenges:** Cut in subsidies and/ or withdrawal of agriculture support schemes negatively impact the sector and consequently the seed business.
- **Climate risk:** Changing climate conditions such as continuous dry spell, or excessive rainfall may drastically impact the business.
- **Competition risk:** In business, competition from peers can impact the Company's trade.
- **Product life-cycle risk:** Accelerated product innovation & development through technology advances impacts the shelf life of a product. The Company's continuous investment in Research & Development and an array of new products in the assembly line helps to keep ahead of peers.

COMPANY BACKGROUND:

Kaveri Seeds Company Limited (KSCL) is engaged in the production and marketing of hybrid seeds. It is engaged in seed production of various agricultural crops, such as maize, rice and other vegetable crops. It owns approximately 600 acres of farmland. It offers products in two categories: field crops and vegetables. Its range of field crops includes corn, paddy, cotton, sunflower, mustard, sorghum, pulses, bajra and wheat. Its range of vegetables includes tomatoes, okra, chilies, watermelon, gourds and brinjal. It has a portfolio of approximately 30 corn hybrids and approximately 50% of them are of single cross. Its range of corn hybrids includes Ekka, K 50, Super 224, 244 and K55. It has a network of approximately 15,000 distributors and dealers spread across the country. Its subsidiaries include Kexveg India Pvt. Ltd., Aditya Agri Tech Pvt. Ltd., Genome Agritech Pvt. Ltd. and Kaveri Microteck Pvt. Ltd.



INDUSTRY OVERVIEW:

Agriculture remains at the core of the Indian economy with a meaningful contribution towards GDP, being the primary source of livelihood for about 58 per cent of India's population; and comprising a fifth of the total exports of the country.

Juxtaposed with the overall economic performance, the agricultural growth was muted in FY15 at 1.1% as against the 3.7% growth in FY14. Agricultural prospects were hampered by a combination of deficient monsoon, unsupportive climatic conditions and lower than expected MSP (Minimum Support Price) increase. While the Kharif crop was impacted by an erratic monsoon which was reported at 88% of the normal, unseasonal rains in February '15 and March '15 played the spoilsport for the Rabi crop. Prices decreased during the year, depressing farmer sentiments. Globally too commodity prices were soft for key crops like Cotton, Corn and Rice.

Specific to the seeds sector, which is the key to increasing agriculture productivity, extension of irrigation and improved soil health will pave the way for greater demand for quality seeds of high-yielding hybrids and varieties of three major food basket crops - rice, wheat and maize. In the coming year, the arrival, progress and departure of the monsoon as well as its geographical spread would be crucial in assessing the growth projections of the kharif crops.

According to CARE Research, the Indian seed industry is the fifth largest seed market in the world, accounting for 4.4% of global seed market after the U.S. (27%), China (20%), France (8%) and Brazil (6%).

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Advanta	563	51.5	5,900.7	-	(29.2)	(110.51)	361.7	16.61	7.03
L T Foods	166	20.3	659.0	0.82	5.6	98.43	806.1	12.71	5.24
Guj. Ambuja Exp	61	8.1	843.2	1.38	31.5	56.83	652.2	6.14	0.91
Chamanlal Setia	66	8.3	310.2	0.73	6.6	(13.22)	108.1	(10.56)	2.65
Kohinoor Foods	68	8.4	241.2	-	9.4	111.09	298.1	0.64	0.58
Usher Agro	23	3.3	85.6	2.22	1.2	(94.30)	402.4	(11.17)	0.20
Kaveri Seed Co.	433	17.3	29,832.1	1.73	(9.8)	(496.75)	32.2	10.32	3.44

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight								
(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)	
Revenue	29.17	659.30	83.81	73.74	32.18	10.32%	-56.36%	
Other Income	4.95	2.08	5.47	4.2	4.14			
Total Income	34.12	661.38	89.28	77.94	36.31	6.42%	-53.41%	
Expenditure	-22.42	-431.99	-128.99	-57.91	-38.09			
As a % of Sales	76.86%	65.52%	153.91%	78.53%	118.37%			
Interest	-0.05	-0.01	-0.08	-0.04	-0.04	-20.00%	0.00%	
PBDT	11.65	229.37	-39.79	19.99	-1.82			
As a % of Sales	39.94%	34.79%	-47.48%	27.11%	-5.66%			
Depreciation	-6.75	-5.19	-5.26	-7.54	-6.94			
PBT	4.91	224.18	-45.05	12.46	-8.76	-278.41%	-170.30%	
As a % of Sales	16.83%	34.00%	-53.75%	16.90%	-27.22%			
Tax	-2.6	-3	-1.7	--	-1	-61.54%	#VALUE!	
Net Profit	2.31	221.18	-46.75	12.46	-9.76	-522.51%	-178.33%	
As a % of Sales	7.92%	33.55%	-55.78%	16.90%	-30.33%			
Equity	13.78	13.81	13.81	13.81	13.81	0.22%	0.00%	
EPS (Rs)	0.34	32.03	-6.77	1.8	-1.41	-514.71%	-178.33%	
CEPS (Rs)	1.31	32.78	-6.01	2.9	-0.41			
OPM %	40.1	34.79	-47.38	27.16	-5.53			
NPM %	7.92	33.55	-55.78	16.89	-30.34			

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	3,724	7,120	10,111	11,612	8,928	10,400	12,070
Other Operating Income	-	-	-	-	-	-	-
Expenditure	2,955	5,727	7,899	8,516	7,042	7,516	8,831
EBITDA	770	1,393	2,212	3,097	1,886	2,884	3,239
Depreciation	100	122	164	149	274	309	343
EBIT	670	1,271	2,048	2,948	1,612	2,575	2,896
Interest Expenses	33	15	2	2	2	2	3
PBT	637	1,256	2,046	2,946	1,610	2,573	2,894
Tax	29	38	52	92	61	92	105
Other Income	26	49	97	157	174	129	166
Extraordinary Items	(53)	13	-	(3)	-	-	-
Net Income Before Adjustment	581	1,281	2,092	3,008	1,723	2,609	2,955
Minority Int./Income from Assoc.	-	-	2	(2)	(4)	-	-
Adjusted PAT	581	1,281	2,090	3,010	1,727	2,609	2,955

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	137	137	137	138	138	138	138
Reserves & surplus	2,277	3,303	5,013	7,405	8,900	10,971	13,317
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	2,414	3,440	5,150	7,542	9,039	11,109	13,455
Minority Interest	-	-	4	2	2	3	4
Share Application Money	-	8	5	5	5	5	5
Loan Funds	26	8	9	14	16	14	12
Net deferred tax liability	-	0	-	-	-	-	-
Other Long-term Liabilities	29	37	51	64	49	57	66
Long-term Provisions	-	-	-	-	-	-	-
Total Liabilities	2,469	3,494	5,220	7,630	9,112	11,191	13,545
Net block	1,074	1,455	1,553	2,225	2,269	2,450	2,649
Investment, Loan & Adv.	151	77	155	32	23	26	30
Total Current Assets	4,661	7,143	8,575	9,915	10,847	11,114	13,813
Current Liabilities & Provisions	3,417	5,182	5,064	4,544	4,028	2,401	2,948
Net Current Assets	1,244	1,961	3,511	5,371	6,819	8,713	10,865
Total Assets	2,469	3,494	5,220	7,630	9,112	11,191	13,545

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	1,447	2,339	289	1,653
Cash Flow from Investments	(836)	(208)	(377)	(416)
Cash Flow from Financing	(612)	(475)	(462)	(583)
Net Changes in Cash	(1)	1,656	(549)	654
Opening Cash	67	66	1,721	1,172
Closing Cash Balance	66	1,721	1,172	1,827

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