

Monsanto India

BSE SENSEX	S&P CNX
23,554	7,163
Bloomberg	MCHM IN
Equity Shares (m)	17.3
M.Cap.(INRb)/(USDb)	34.4 / 0.5
52-Week Range (INR)	3540 / 1965
1, 6, 12 Rel. Per (%)	-11/-16/-22
Avg Val, INRm/ Vol m	75
Free float (%)	27.9

Financials & Valuations (INR b)

Y/E Mar	2016E	2017E	2018E
Net Sales	5.2	6.5	8.1
EBITDA	0.9	1.4	1.8
PAT	0.8	1.2	1.6
EPS (INR)	47.1	72.0	90.3
Gr. (%)	-23.6	53.1	25.4
BV/Sh (INR)	203.8	203.8	222.0
RoE (%)	22.4	35.3	42.4
RoCE (%)	26.0	41.1	49.3
P/E (x)	42.3	27.6	22.0
P/BV (x)	9.8	9.8	9.0

Estimate change



TP change



Rating change


CMP: INR1,991 TP: INR2,350(+18%)
Buy

Results above estimates; FY17 to see rebound led by favorable crop shift

- Results above estimates led by strong growth in corn:** Revenue grew 14.8% YoY to INR1.5b (est. INR1.4b) due to strong growth in corn business where volumes grew in double digits (led by double digit acreages growth in rabi) while pricing saw low single digit growth. Realizations have also been strong given that final commodity prices have corn have been on the higher side. Corn prices have been INR14-15/kg as against INR12.5/kg which was prevalent during the kharif season. Growth has been strong in states like Bihar which are Monsanto strongholds, compensating the subdued growth in southern part – states like Andhra Pradesh and Telangana, which has been relatively low due to poor monsoon.
- Margin growth stunted by continued lower glyphosate prices:** EBITDA came in at INR466m (est. INR376m) in 3QFY16 while margins stood at 30.3% (est. 27%) as against 34.2% in 3QFY15. Margin contraction is due to the benign prices of glyphosate since Monsanto procures it based on a cost plus 2-3% formula. Glyphosate selling prices have declined 30-35% on YTD basis. Exceptional items included an expense of INR56m towards employee severance cost. Consequently, Adjusted PAT stood at INR463m in 3QFY16 (est. INR365m) as against a profit of INR483m in 3QFY15.
- Valuation and view:** Two years back to back have been marked by low corn acreages. We believe with normal monsoon expected in FY17 and considering the increase in prices of corn seen recently, conditions are apt for a crop shift to be seen in favour of corn, which should benefit Monsanto strongly given its market leadership in corn. 3QFY16 was the last quarter of glyphosate prices de-growth and 4QFY16 should see base effect kicking in, aiding margin expansion in view of higher volumes and lower base. Our estimates remain unchanged. Maintain Buy with a TP of INR2,350, 26x FY18E EPS (rolled over to FY18).

Quarterly performance

Y/E March (Rs mn)	FY15				FY16				FY15	FY16E	FY16	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	2,648	904	1,339	674	2,633	378	1,537	688	5,564	5,233	1,392	10
YoY Change (%)	16.3	-7.7	-26.6	-10.2	-0.6	-58.2	14.8	2.0	-4.6	-5.9	4.0	
Total Expenditure	1,820	925	881	778	1,921	634	1,071	653	4,404	4,292	1,016	
EBITDA	828	-21	458	-104	712	-256	466	34	1,160	942	376	24
Margins (%)	31.3	-2.4	34.2	-15.4	27.0	-67.7	30.3	5.0	20.9	18.0	27.0	
Depreciation	28	30	22	0	21	22	29	30	79	108	22	
Interest	1	1	1	1	3	1	1	0	4	0	0	
Other Income	18	112	49	40	27	22	28	30	213	110	30	
PBT before EO expense	818	60	484	-65	716	-257	464	34	1,290	944	384	21
Extra-Ord expense	0	0	0	0	0	0	56	0	0	0	0	
PBT	818	60	484	-65	716	-257	408	34	1,290	944	384	
Tax	107	108	1	11	88	6	1	2	227	132	19	
Rate (%)	13.1	180.0	0.1	-16.5	12.3	-2.5	0.2	5.0	17.6	14.0	5.0	
Reported PAT	710	-48	483	-75	628	-264	407	33	1,063	812	365	12
Adj PAT	710	-48	483	-75	628	-264	463	33	1,063	812	365	27
YoY Change (%)	26.3	NM	-25.8	NM	-11.6	NM	-4.3	NM	-17.7	-23.6	-24.5	
Margins (%)	26.8	-5.3	36.1	-11.2	23.8	-69.8	30.1	4.8	19.1	15.5	26.2	

E: MOSL Estimates

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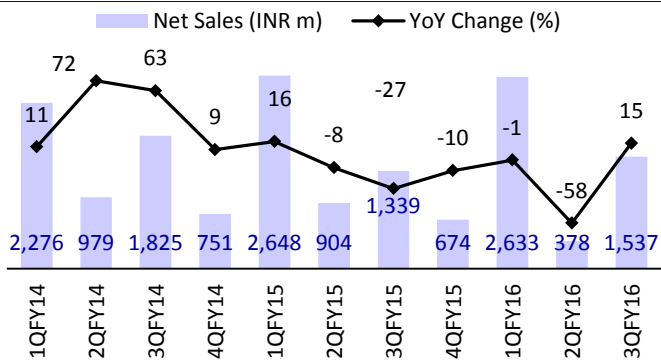
Results above expectations

- Revenue grew 14.8% YoY to INR1.5b (est. INR1.4b) due to strong growth in corn business where volumes grew in double digits (led by double digit acreages growth in rabi) while pricing saw low single digit growth.
- Realizations have also been strong given that final commodity prices have corn have been on the higher side.
- Corn prices have been INR14-15/kg as against INR12.5/kg which was prevalent during the kharif season.
- Growth has been strong in states like Bihar which are Monsanto strongholds, compensating the subdued growth in southern part – states like Andhra Pradesh and Telangana, which has been relatively low due to poor monsoon.

Margin growth stunted by continued lower glyphosate prices

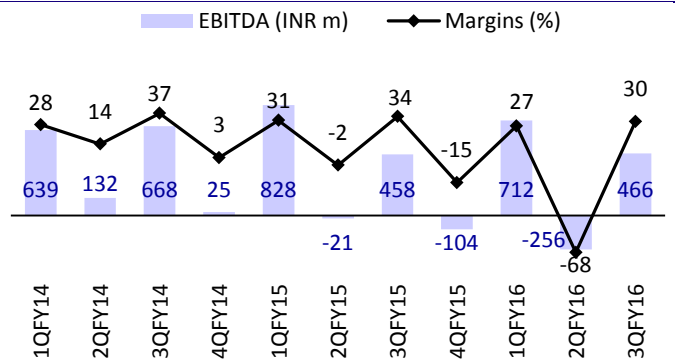
- EBITDA came in at INR466m (est. INR376m) in 3QFY16 while margins stood at 30.3% (est. 27%) as against 34.2% in 3QFY15.
- Margin contraction is due to the benign prices of glyphosate since Monsanto procures it based on a cost plus 2-3% formula. Glyphosate selling prices have declined 30-35% on YTD basis.
- Exceptional items included an expense of INR56m towards employee severance cost.
- Consequently, Adjusted PAT stood at INR463m in 3QFY16 (est. INR365m) as against a profit of INR483m in 3QFY15.

Exhibit 1: Quarterly sales trend



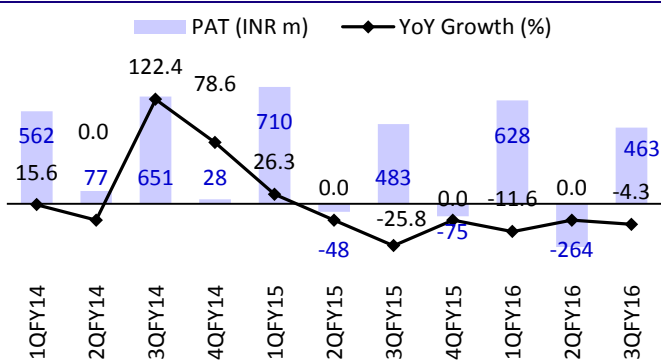
Source: Company, MOSL

Exhibit 2: Quarterly EBITDA trend



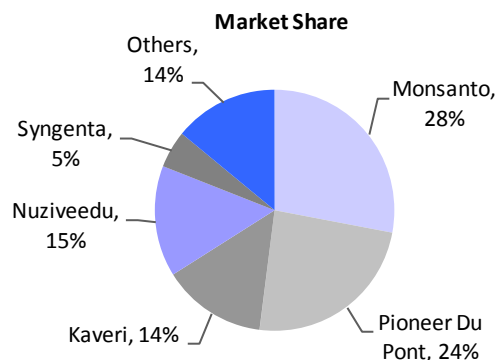
Source: Company, MOSL

Exhibit 3: Quarterly PAT trend



Source: Company, MOSL

Exhibit 4: Market share in corn



Source: Company, MOSL

FY17 to see rebound led by expected crop shift and glyphosate bottoming out

- Two years back to back have been marked by low corn acreages.
- We believe with normal monsoon expected in FY17 and considering the increase in prices of corn seen recently, conditions are apt for a crop shift to be seen in favour of corn, which should benefit Monsanto strongly given its market leadership in corn.
- 3QFY16 was the last quarter of glyphosate prices de-growth and 4QFY16 should see base effect kicking in, aiding margin expansion in view of higher volumes and lower base.

Exhibit 5: Revenues to post 13% CAGR over FY15-18

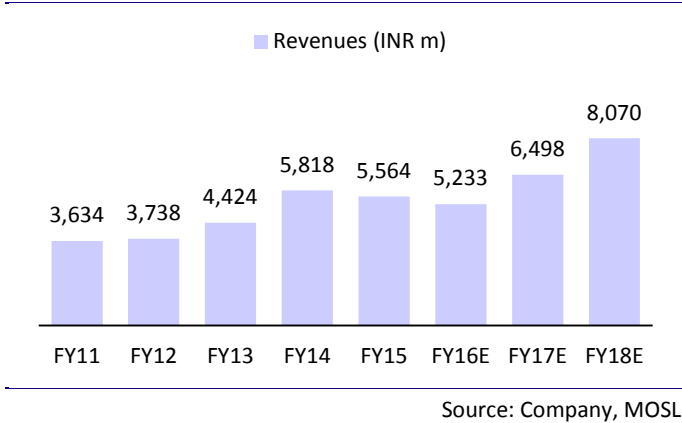
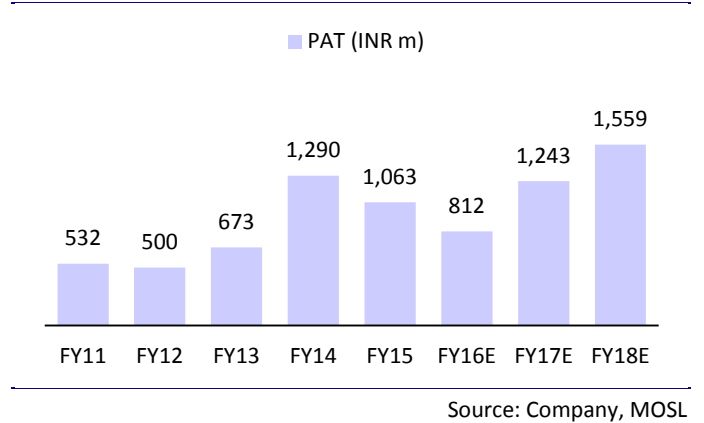


Exhibit 6: PAT to post 14% CAGR over FY15-18



Valuation and view

We value MCHM at 26x FY18 EPS of INR90.3 (rolled over to FY18) and arrive at a price target of INR2,350.

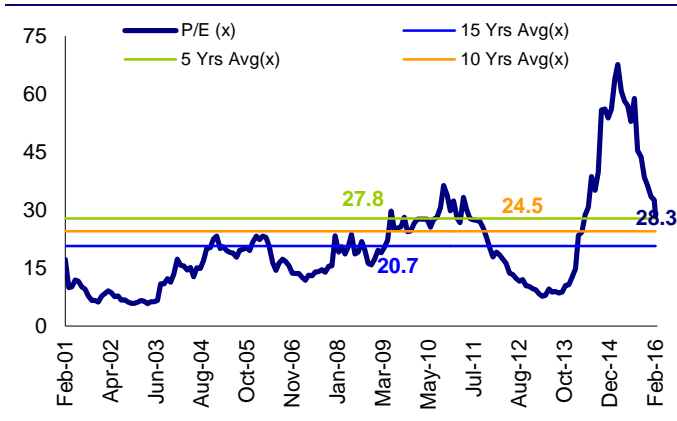
We believe our target multiple is justified, given the following:

- Continued leadership in corn segment, with 28% market share.
- New product launches, which have reduced age of portfolio to below 8 years.
- Increasing hybrid penetration in corn (from 60% to 80% in the next five years).
- Pending approval for GM crop, if received, can improve yields by 20-40% over existing crops, which will drive up profitability.
- Differentiated offering in terms of providing Monsanto Farm Advisory Services (MFAS) to the farmer free of cost, which improves the brand loyalty.

We believe the following factors pose risks to our assumptions:

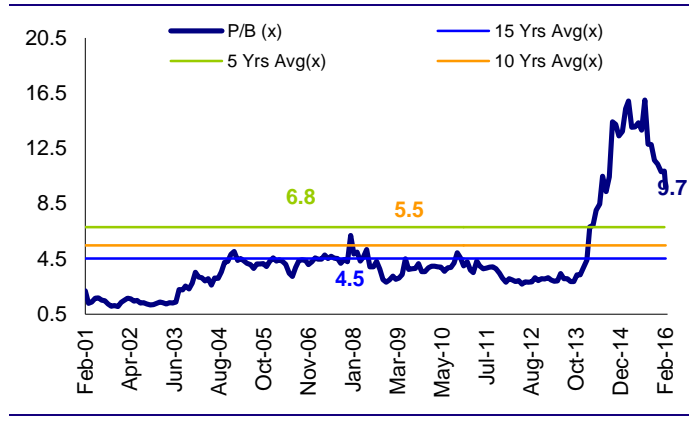
- Irregularities in rainfall can change the cropping pattern.
- Newly launched hybrids yielding lower than expected yields.
- Delay in GM crop launch due to regulatory issues.

Exhibit 7: 10-years P/E chart



Source: Company, MOSL

Exhibit 8: 10-year P/BV chart



Source: Company, MOSL

Operating metrics

Exhibit 9: Volume growth

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Glyphosate Volume (MT) growth (%)	-11.9	-15.5	8.0	34.0	20.0	-10.0	15.0	15.0	15.0
Seed Volume (MT) growth (%)	10.3	21.7	-4.6	7.0	8.8	-13.5	-6.0	10.0	10.0

Exhibit 10: Revenue Mix

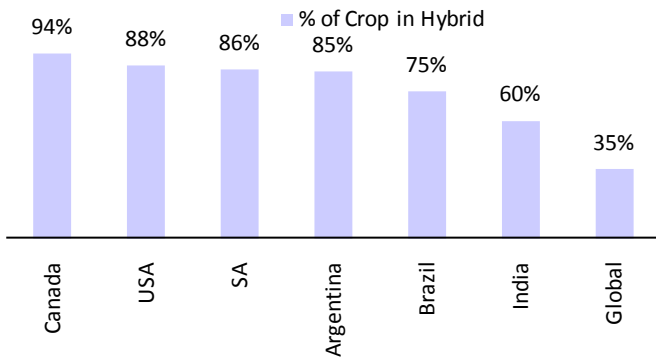
Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Seed business	65%	72%	69%	65%	63%	63%	71%	70%	70%
Agro Chemical business	35%	28%	31%	35%	37%	37%	29%	30%	30%

Exhibit 11: Revenue Growth

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Seed business (%)	19.1	-1.1	-0.7	11.3	30.0	-4.8	5.3	23.2	23.2
Agro Chemical business (%)	-24.9	-16.6	12.5	38.4	39.4	-1.0	-25.3	26.5	26.5

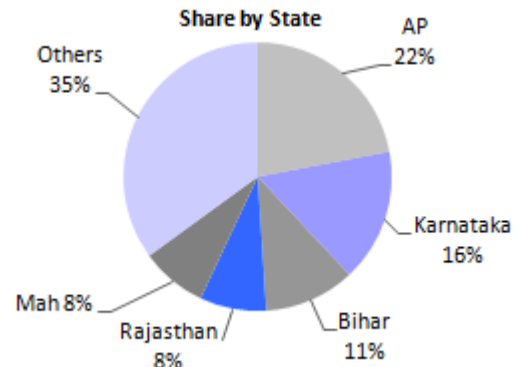
Story in charts

Exhibit 12: Corn hybridization still at nascent stage in India



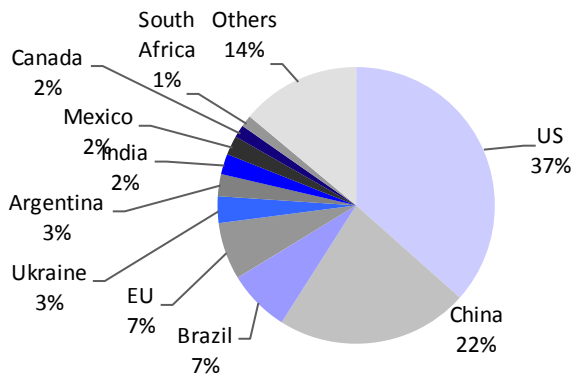
Source: Company, MOSL

Exhibit 13: Five states contribute 65% of total corn production in India



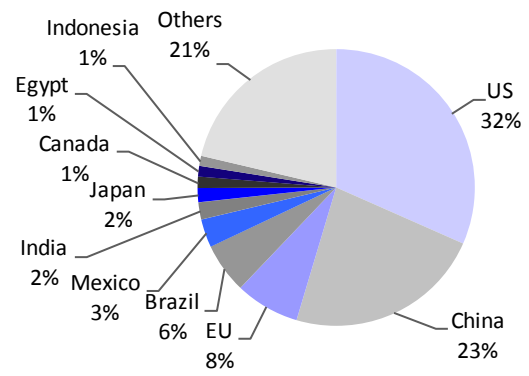
Source: Company, MOSL

Exhibit 14: Worldwide corn production (mt)



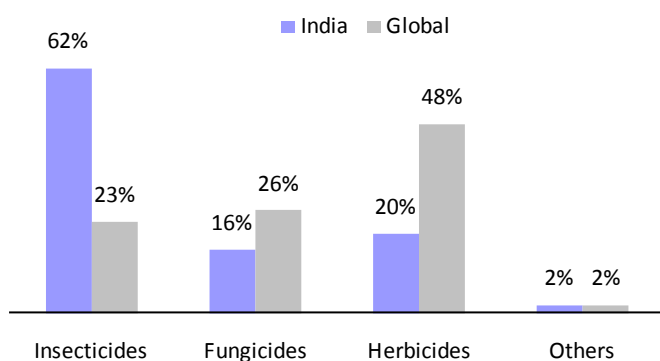
Source: Company, MOSL

Exhibit 15: Worldwide corn consumption (mt)



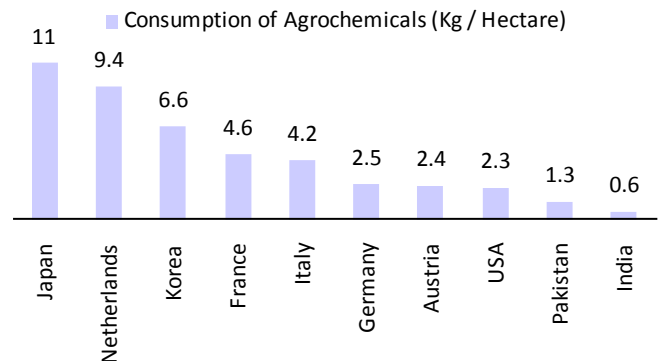
Source: Company, MOSL

Exhibit 16: Herbicide penetration (%)



Source: Company, MOSL

Exhibit 17: Consumption of agrochemicals is lowest in India



Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Net Sales	3,634	3,738	4,424	5,818	5,564	5,076	6,304	7,831
Change (%)	-11.4	2.9	18.4	31.5	-4.4	-8.8	24.2	24.2
EBITDA	652	550	697	1,451	1,161	888	1,387	1,723
EBITDA Margin (%)	17.9	14.7	15.7	24.9	20.9	17.5	22.0	22.0
Depreciation	108	90	109	119	79	85	94	104
EBIT	544	460	588	1,332	1,081	804	1,293	1,619
Interest	3	13	7	5	4	0	0	0
Other Income	84	152	169	129	213	110	132	158
Extraordinary items	-122	3	0	-69	0	0	0	0
PBT	503	601	750	1,387	1,290	914	1,425	1,778
Tax	75	100	76	159	227	128	199	249
Tax Rate (%)	14.8	16.5	10.2	11.4	17.6	14.0	14.0	14.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	428	502	673	1,229	1,063	786	1,225	1,529
Adjusted PAT	532	500	673	1,290	1,063	786	1,225	1,529
Change (%)	-1.2	-6.1	34.8	91.6	-17.6	-26.1	56.0	24.8

Balance Sheet						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Share Capital	86	173	173	173	173	173	173	173
Reserves	3,657	3,671	3,902	3,272	3,571	3,319	3,300	3,583
Net Worth	3,743	3,844	4,074	3,445	3,743	3,492	3,472	3,756
Debt	0	0	0	0	0	0	0	0
Deferred Tax	-30	-27	-36	-37	-43	-43	-43	-43
Total Capital Employed	3,714	3,817	4,038	3,408	3,700	3,449	3,429	3,713
Gross Fixed Assets	1,395	1,380	1,541	1,656	1,692	1,892	2,092	2,292
Less: Acc Depreciation	518	571	674	773	821	905	1,000	1,103
Net Fixed Assets	876	809	868	883	871	987	1,092	1,189
Capital WIP	51	111	24	2	7	7	8	10
Investments	1,514	1,958	2,509	2,667	1,895	1,895	1,895	1,895
Current Assets	2,367	2,476	2,503	2,523	3,169	3,402	3,831	4,526
Inventory	1,303	1,297	1,394	1,692	2,551	2,484	2,916	3,622
Debtors	409	504	412	330	247	225	280	348
Cash & Bank	172	190	203	85	66	410	296	148
Loans & Adv, Others	484	485	494	416	305	282	339	409
Curr Liabs & Provsns	1,095	1,537	1,866	2,668	2,242	2,841	3,397	3,907
Curr. Liabilities	831	1,203	1,440	1,934	1,649	1,578	1,880	2,336
Provisions	264	334	427	734	593	1,263	1,516	1,571
Net Current Assets	1,273	939	637	-145	927	561	434	619
Total Assets	3,714	3,817	4,038	3,408	3,700	3,449	3,429	3,713

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)								
EPS	30.8	29.0	39.0	74.7	61.6	45.5	71.0	88.6
Cash EPS	37.1	34.2	45.3	81.6	66.2	50.4	76.4	94.6
Book Value	216.9	222.7	236.0	199.6	216.9	202.3	201.2	217.6
DPS	10.0	20.0	22.0	92.0	36.0	50.0	60.0	60.0
Payout (incl. Div. Tax.)	46.9	79.9	65.8	151.2	70.3	132.0	101.6	81.4
Valuation(x)								
P/E	67.9	72.2	53.6	28.0	34.0	46.0	29.5	23.6
Cash P/E	56.4	61.2	46.1	25.6	31.6	41.5	27.4	22.1
Price / Book Value	9.6	9.4	8.9	10.5	9.6	10.3	10.4	9.6
EV/Sales	9.9	9.6	8.1	6.2	6.5	7.0	5.7	4.6
EV/EBITDA	55.1	65.3	51.5	24.8	31.1	40.2	25.8	20.9
Dividend Yield (%)	0.5	1.0	1.1	4.4	1.7	2.4	2.9	2.9
Profitability Ratios (%)								
RoE	14.7	13.2	17.0	34.3	29.6	21.7	35.2	42.3
RoCE	17.3	16.1	19.1	38.9	36.0	25.2	40.9	49.2
Turnover Ratios (%)								
Asset Turnover (x)	1.0	1.0	1.1	1.7	1.5	1.5	1.8	2.1
Debtors (No. of Days)	40	48	33	20	15	15	15	15
Inventory (No. of Days)	131	127	115	106	167	179	169	169
Creditors (No. of Days)	54	70	86	87	78	83	79	79
Leverage Ratios (%)								
Net Debt/Equity (x)	-0.5	-0.6	-0.7	-0.8	-0.5	-0.7	-0.6	-0.5

Cash Flow Statement

(INR Million)

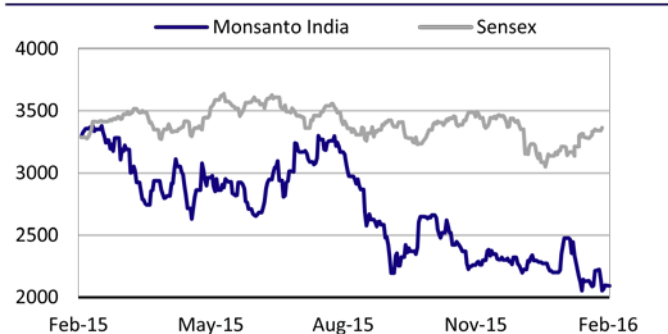
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Adjusted EBITDA	652	550	697	1,451	1,161	888	1,387	1,723
Non cash opr. exp (inc)	28	37	37	34	57	0	0	0
(Inc)/Dec in Wkg. Cap.	316	258	253	226	-891	710	13	-334
Tax Paid	-100	-125	-93	-176	-237	-128	-199	-249
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	896	721	894	1,534	90	1,470	1,201	1,140
(Inc)/Dec in FA & CWIP	-111	-96	-86	-114	-93	-199	-202	-202
Free cash flows	785	624	808	1,421	-3	1,271	999	938
(Pur)/Sale of Invt	-706	-421	-552	-158	-6,681	0	0	0
Others	67	118	161	116	7,544	110	132	158
CF from Inv. Activity	-750	-399	-476	-155	770	-89	-70	-44
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	0	0	0	0	0	0	0	0
Interest Paid	-6	-3	-3	-4	4	0	0	0
Divd Paid (incl Tax) & Others	-167	-291	-392	-1,470	-978	-1,037	-1,245	-1,245
CF from Fin. Activity	-173	-294	-395	-1,474	-974	-1,037	-1,245	-1,245
Inc/(Dec) in Cash	-27	27	23	-95	-114	344	-114	-149
Add: Opening Balance	198	163	180	180	180	66	410	296
Closing Balance	172	190	203	86	66	410	296	148

Corporate profile

Company description

Monsanto India (MCHM), the flagship company of Monsanto company, is a subsidiary and the only listed Monsanto entity outside the United States. MCHM has partnered with farmers for over four decades. In India, the Monsanto group operates through 3 entities i.e. (1) the listed entity Monsanto India Ltd (MCHM) which is primarily involved in Maize seeds and Herbicides; (2) 50:50 JV between Mahyco and Monsanto Holdings Pvt. Ltd known as Mahyco Monsanto Biotech (MMB) which is sub-licensed to distribute BT cotton technology in India; and (3) Monsanto Holding.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-15	Jun-15	Sep-14
Promoter	72.1	72.1	72.1
DII	3.3	3.7	2.6
FII	3.5	2.1	2.2
Others	21.1	22.0	23.1

Note: FII Includes depository receipts Source: Capitaline

Exhibit 4: Top management

Name	Designation
Sekhar Natarajan	Chairman
Shilpa Divekar Nirula	Managing Director
Chandana Dhar	Company Secretary

Source: Capitaline

Exhibit 6: Auditors

Name	Type
ABK & Associates	Cost Auditor
Deloitte Haskins & Sells LLP	Statutory

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
R C Khanna	2.3
Morgan Stanley Investment Funds Global Opportunity Fund	1.3
DSP Blackrock 3 Years Close Ended Equity Fund	1.1
NA	0.0
NA	0.0

Source: Capitaline

Exhibit 5: Directors

Name	Name
C Ravishankar	H C Asher
Pradeep Poddar	

*Independent

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	45.5	50.4	-9.7
FY17	71.0	71.3	-0.5
FY18	88.6	80.0	10.7

Source: Bloomberg

Disclosures

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