

BSE SENSEX  
31,924

S&P CNX  
10,017

**CMP: INR532**

**TP: INR738(+39%)**

**Buy**



**Stock Info**

Bloomberg	KSCL IN
Equity Shares (m)	69
52-Week Range (INR)	708/358
1, 6, 12 Rel. Per (%)	-9/-11/11
M.Cap. (INR b)	36.7
M.Cap. (USD b)	0.6
Avg Val, INRm	426.0
Free float (%)	45.6

**Financials Snapshot (INR b)**

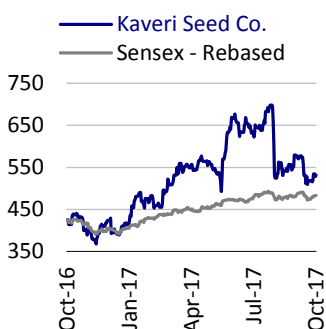
Y/E Mar	2017	2018E	2019E
Net Sales	7.0	8.1	9.2
EBITDA	1.4	2.3	2.7
PAT	0.8	2.3	2.7
EPS (INR)	19.1	34.1	41.0
Gr. (%)	-21.4	78.9	20.2
BV/Sh (INR)	146.8	139.3	159.9
RoE (%)	13.6	23.3	27.4
RoCE (%)	16.0	25.2	29.6
P/E (x)	27.9	15.6	13.0
P/BV (x)	3.6	3.8	3.3

**Shareholding pattern (%)**

As On	Jun-17	Mar-17	Jun-16
Promoter	54.4	54.4	57.5
DII	6.8	7.3	17.4
FII	21.3	20.9	8.9
Others	17.5	17.4	16.2

FII Includes depository receipts

**Stock Performance (1-year)**



**Holistic growth on the cards**

**Attractive play of balanced growth in Cotton and Non-cotton businesses**

**Non-cotton business to flourish driven by Vegetables**

- Kaveri Seed (KSCL) is highly dependent on the Cotton business, which contributes ~60% of its overall revenues. However, of late, management has increasingly shifted its focus toward the higher-margin Non-cotton business (target to take its share to 50% of overall revenues over FY18-20), especially the less-penetrated Vegetables segment.
- Vegetables business is poised for strong growth of ~200%, with revenues expected to increase from INR60m in FY17 to ~INR180m in FY18 (much of this growth is likely to materialize in 2HFY18). The company plans to introduce nearly 50 products in Vegetables over the next 2-3 years, taking the total tally of products in this segment to 65. Notably, margins in Vegetables are significantly higher at ~50% versus the company's blended margin of ~20%.
- Both the Cotton and Non-cotton businesses would be ramped-up by strengthening the distribution network (from 15,000 now to 20,000 by FY20).

**Strong foothold in cotton seeds owing to high acreages**

- Although the overall area sown for Kharif crops declined slightly by 0.8% YoY to 104.1m ha in 2017-18 (as of 8 September 2017), we note that cotton acreage increased significantly by ~19% YoY to 12.1m during the same period. The effect of better acreage was partly witnessed in 1QFY18, when KSCL sold 6.5m packets of cotton seeds – 19% more than those sold in FY17. Despite being a seasonally weak quarter, 2QFY18 witnessed better traction, as delayed monsoon in parts of Karnataka and other southern regions led to a rise in cotton seed sales. Overall, the number of packets of cotton seeds sold is expected to increase 28.4% YoY to 7m in FY18.
- The company is set to recover from the impact of heavy inventory write-offs in FY17 (INR660m, primarily driven by higher sales return). However, given the strong cotton seed sales so far in FY18, we expect annual inventory write-off to be INR250-300m in FY18, implying a reduction of over 60% YoY.
- KSCL's cotton market share has expanded 3% so far in 1HFY18 on account of increased penetration in Maharashtra and Gujarat, and also its foray into the newer markets of Orissa, Chhattisgarh and MP. We note that the industry had witnessed a decline of 17% YoY in corn acreage in 1QFY18, impacting KSCL's corn performance. However, the Rabi season going forward is expected to register a rise in corn acreage. The company has already launched three products in the Kharif season, three more launches are expected in Rabi and additional six products will be rolled out in FY19, helping it garner more market share.

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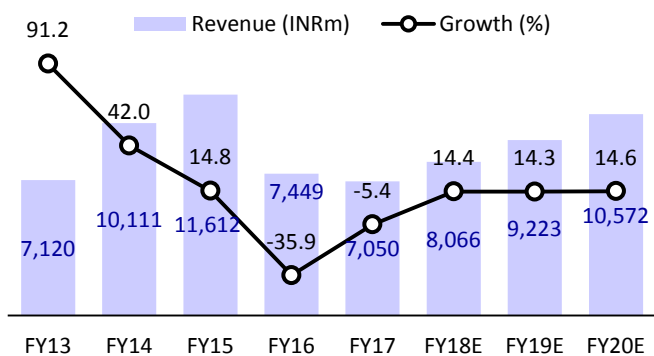
**Valuation and view****KSCL is collectively set to benefit from:**

- Increased cotton acreage, which has resulted in a significant rise in cotton seed packet sales in 1QFY18 – the impact of this is also likely to be felt in 2QFY18 on account of delayed monsoon in the southern region
- Huge growth potential in Vegetables, where margins (~50%) are relatively high, aiding overall margin expansion for the company
- Expected recovery in corn in Rabi post a decline in acreage in Kharif
- The company's foray into the new markets of Orissa, Chhattisgarh and MP, apart from the expanding market share in the already penetrated markets
- Significant growth in exports (expected at ~INR200m in FY18E)
- Focus on strengthening the leadership team – recruited R&D head from Monsanto; majority of breeders and markers recruited from leading MNCs

Over FY17-19E, we expect a CAGR of 14% in revenue and 43% in PAT. We value the stock at 18x FY19E EPS, arriving at a target price of INR738, 39% upside. Maintain **Buy**.

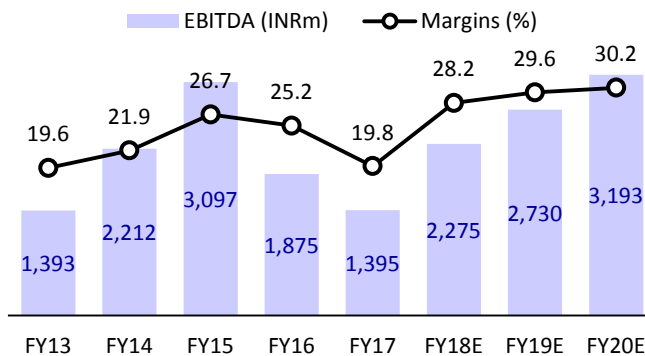
## Story in charts

**Exhibit 1: Revenues to post 14% CAGR over FY17–20E**



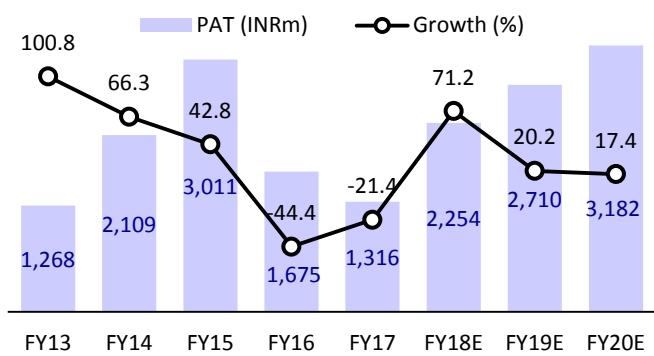
Source: MOSL, Company

**Exhibit 2: Margins to expand 1040bp over FY17–20E**



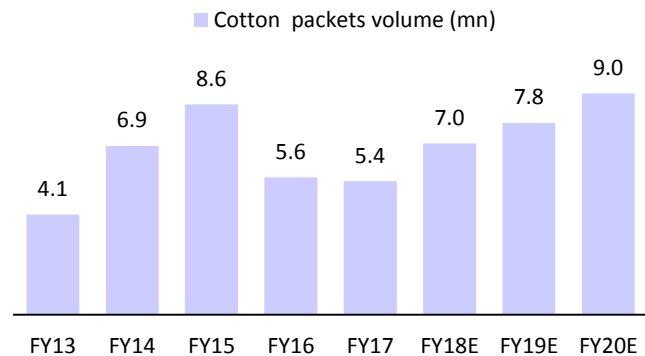
Source: MOSL, Company

**Exhibit 3: PAT to post 34% CAGR over FY17–20E**



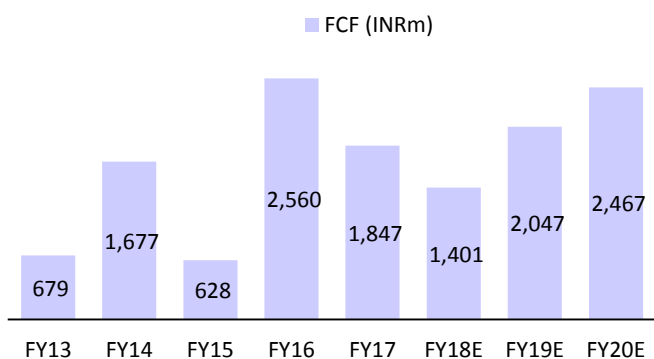
Source: MOSL, Company

**Exhibit 4: Cotton packets to post 18% CAGR over FY17–20E**



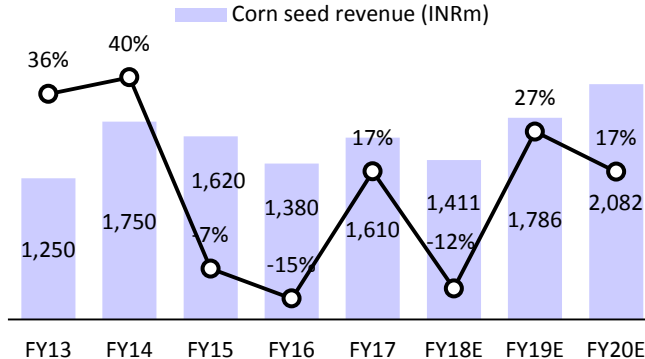
Source: MOSL, Company

**Exhibit 5: Strong FCF generation**



Source: MOSL, Company

**Exhibit 6: Corn seed revenue to bounce back from FY19E**



Source: MOSL, Company

## Financials and Valuations

### Standalone - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>7,120</b>	<b>10,111</b>	<b>11,612</b>	<b>7,449</b>	<b>7,050</b>	<b>8,066</b>	<b>9,223</b>	<b>10,572</b>
Change (%)	91.2	42.0	14.8	-35.9	-5.4	14.4	14.3	14.6
<b>EBITDA</b>	<b>1,393</b>	<b>2,212</b>	<b>3,097</b>	<b>1,875</b>	<b>1,395</b>	<b>2,275</b>	<b>2,730</b>	<b>3,193</b>
Margin (%)	19.6	21.9	26.7	25.2	19.8	28.2	29.6	30.2
Depreciation	122	164	149	274	302	284	318	351
<b>EBIT</b>	<b>1,271</b>	<b>2,048</b>	<b>2,948</b>	<b>1,601</b>	<b>1,093</b>	<b>1,991</b>	<b>2,412</b>	<b>2,841</b>
Int. and Finance Charges	15	2	2	2	2	5	5	5
Other Income - Rec.	49	97	157	131	344	361	415	478
<b>PBT after EO Exp.</b>	<b>1,319</b>	<b>2,143</b>	<b>3,107</b>	<b>1,729</b>	<b>843</b>	<b>2,348</b>	<b>2,823</b>	<b>3,314</b>
Current Tax	36	37	93	58	75	94	113	133
Deferred Tax	2	-2	-1	-3	-5	0	0	0
Tax Rate (%)	2.9	1.6	3.0	3.2	8.3	4.0	4.0	4.0
<b>Reported PAT</b>	<b>1,281</b>	<b>2,109</b>	<b>3,014</b>	<b>1,675</b>	<b>773</b>	<b>2,254</b>	<b>2,710</b>	<b>3,182</b>
<b>PAT Adj for EO items</b>	<b>1,268</b>	<b>2,109</b>	<b>3,011</b>	<b>1,675</b>	<b>1,316</b>	<b>2,254</b>	<b>2,710</b>	<b>3,182</b>
Change (%)	100.8	66.3	42.8	-44.4	-21.4	71.2	20.2	17.4
Margin (%)	17.8	20.9	25.9	22.5	18.7	27.9	29.4	30.1
<b>Net Profit</b>	<b>1,268</b>	<b>2,109</b>	<b>3,011</b>	<b>1,675</b>	<b>1,316</b>	<b>2,254</b>	<b>2,710</b>	<b>3,182</b>

### Standalone - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	137	137	138	138	138	132	132	132
Total Reserves	3,311	5,018	7,410	9,134	10,002	9,072	10,434	12,267
<b>Net Worth</b>	<b>3,448</b>	<b>5,155</b>	<b>7,548</b>	<b>9,272</b>	<b>10,140</b>	<b>9,204</b>	<b>10,566</b>	<b>12,399</b>
Minority Interest	0	4	2	-2	-7	-7	-7	-7
Deferred Liabilities	0	1	0	0	1	1	1	1
Total Loans	31	9	14	16	46	46	46	46
<b>Capital Employed</b>	<b>3,479</b>	<b>5,169</b>	<b>7,564</b>	<b>9,286</b>	<b>10,180</b>	<b>9,244</b>	<b>10,606</b>	<b>12,440</b>
Gross Block	1,813	2,033	2,351	3,033	3,335	3,935	4,435	4,935
Less: Accum. Deprn.	439	596	743	1,018	1,320	1,603	1,922	2,273
<b>Net Fixed Assets</b>	<b>1,374</b>	<b>1,436</b>	<b>1,608</b>	<b>2,015</b>	<b>2,015</b>	<b>2,332</b>	<b>2,514</b>	<b>2,662</b>
Capital WIP	81	117	617	197	327	0	0	0
<b>Total Investments</b>	<b>1,318</b>	<b>2,783</b>	<b>2,950</b>	<b>5,064</b>	<b>6,569</b>	<b>4,569</b>	<b>4,569</b>	<b>4,569</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,902</b>	<b>5,944</b>	<b>6,994</b>	<b>6,327</b>	<b>6,358</b>	<b>7,164</b>	<b>8,894</b>	<b>11,321</b>
Inventory	4,912	4,972	4,943	5,044	4,478	4,780	5,392	6,143
Account Receivables	686	653	1,768	804	854	906	1,011	1,159
Cash and Bank Balance	143	67	66	94	208	415	1,109	2,223
Loans and Advances	161	253	216	386	818	1,063	1,382	1,797
<b>Curr. Liability &amp; Prov.</b>	<b>5,196</b>	<b>5,114</b>	<b>4,608</b>	<b>4,320</b>	<b>5,095</b>	<b>4,826</b>	<b>5,376</b>	<b>6,119</b>
Account Payables	5,039	4,882	4,362	4,237	4,876	4,552	5,071	5,777
Provisions	157	233	245	83	219	274	306	342
<b>Net Current Assets</b>	<b>705</b>	<b>830</b>	<b>2,386</b>	<b>2,007</b>	<b>1,263</b>	<b>2,338</b>	<b>3,517</b>	<b>5,202</b>
<b>Appl. of Funds</b>	<b>3,479</b>	<b>5,169</b>	<b>7,564</b>	<b>9,286</b>	<b>10,180</b>	<b>9,244</b>	<b>10,606</b>	<b>12,441</b>

## Financials and Valuations

### Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>18.5</b>	<b>30.7</b>	<b>43.7</b>	<b>24.3</b>	<b>19.1</b>	<b>34.1</b>	<b>41.0</b>	<b>48.1</b>
Cash EPS	20.3	33.1	45.9	28.2	23.4	38.4	45.8	53.5
BV/Share	50.3	75.0	109.6	134.3	146.8	139.3	159.9	187.6
DPS	3.2	4.8	7.5	5.0	3.0	14.5	16.4	16.4
Payout (%)	20.0	18.3	20.6	24.7	32.2	52.8	49.8	42.4
<b>Valuation (x)</b>								
P/E				21.9	27.9	15.6	13.0	11.1
Cash P/E				18.8	22.7	13.9	11.6	10.0
P/BV				4.0	3.6	3.8	3.3	2.8
EV/Sales				4.9	5.2	4.5	3.9	3.3
EV/EBITDA				19.5	26.2	16.0	13.1	10.8
Dividend Yield (%)				0.9	0.6	2.7	3.1	3.1
<b>Return Ratios (%)</b>								
RoE	43.3	49.0	47.4	19.9	13.6	23.3	27.4	27.7
RoCE	44.2	50.5	50.2	21.2	16.0	25.2	29.6	29.9
RoIC	81.8	100.5	98.9	42.0	33.8	56.4	54.6	55.9
<b>Working Capital Ratios</b>								
Asset Turnover (x)	2.0	2.0	1.5	0.8	0.7	0.9	0.9	0.8
Inventory (Days)	252	179	155	247	232	216	213	212
Debtor (Days)	35	24	56	39	44	41	40	40
Creditor (Days)	258	176	137	208	252	206	201	199
Working Capital Turnover (Days)	29	28	73	94	55	87	95	103
<b>Leverage Ratio (x)</b>								
Current Ratio	1.1	1.2	1.5	1.5	1.2	1.5	1.7	1.9
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Standalone - Cash Flow Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net P / L Bef. Tax and Eo Items	1,319	2,143	3,100	1,729	1,435	2,348	2,823	3,314
Depreciation	122	164	149	274	302	284	318	351
Interest & Finance Charges	15	2	2	2	2	5	5	5
Direct Taxes Paid	36	54	93	58	75	94	113	133
(Inc)/Dec in WC	-262	-230	-1,561	407	859	-868	-485	-571
<b>CF from Operations</b>	<b>1,158</b>	<b>2,026</b>	<b>1,597</b>	<b>2,355</b>	<b>2,524</b>	<b>1,674</b>	<b>2,547</b>	<b>2,967</b>
EO Expense	-59	-94	-150	467	-245	0	0	0
<b>CF from Operating incl EO</b>	<b>1,099</b>	<b>1,932</b>	<b>1,447</b>	<b>2,822</b>	<b>2,279</b>	<b>1,674</b>	<b>2,547</b>	<b>2,967</b>
(inc)/dec in FA	-420	-255	-819	-262	-432	-273	-500	-500
<b>Free Cash Flow</b>	<b>679</b>	<b>1,677</b>	<b>628</b>	<b>2,560</b>	<b>1,847</b>	<b>1,401</b>	<b>2,047</b>	<b>2,467</b>
(Pur)/Sale of Investments	-207	-1,464	-33	-2,114	-1,505	2,000	0	0
Others	46	95	16	-4	-5	0	0	0
<b>CF from Investments</b>	<b>-582</b>	<b>-1,624</b>	<b>-836</b>	<b>-2,380</b>	<b>-1,943</b>	<b>1,727</b>	<b>-500</b>	<b>-500</b>
Issue of Shares	0	0	0	0	0	-2,000	0	0
(Inc)/Dec in Debt	-208	0	5	2	30	0	0	0
Interest Paid	-15	-2	-2	-2	-2	-5	-5	-5
Dividend Paid	-256	-387	-621	-414	-249	-1,190	-1,348	-1,348
Others	8	5	5		0	0	0	0
<b>CF from Fin. Activity</b>	<b>-471</b>	<b>-384</b>	<b>-613</b>	<b>-415</b>	<b>-221</b>	<b>-3,194</b>	<b>-1,353</b>	<b>-1,353</b>
<b>Inc/Dec of Cash</b>	<b>47</b>	<b>-76</b>	<b>-1</b>	<b>28</b>	<b>115</b>	<b>206</b>	<b>695</b>	<b>1,114</b>
Add: Beginning Balance	96	143	67	66	94	208	415	1,109
<b>Closing Balance</b>	<b>143</b>	<b>66</b>	<b>65</b>	<b>93</b>	<b>209</b>	<b>415</b>	<b>1,109</b>	<b>2,223</b>

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- Analyst ownership of the stock

**Kaveri Seed Co.**

No

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