

Kaveri Seed Co.

Estimate change

TP change

Rating change

CMP: INR473
TP: INR561 (+19%)
Buy
Operating performance under pressure in Q4; revenue above est.
However, strong outlook for FY21

- Kaveri Seeds (KSCL) closed FY20 on a strong note, with 15%/20%/20% revenue/EBITDA/PAT growth.
- We have increased our earnings estimates by 25%/31% in FY21/FY22 on the 10–15% volume growth guidance in the Cotton Seed segment and 20–25% growth in the Non-Cotton segment. However, we have assumed 7m packet (in FY21) sales of cotton seeds (lower by 3% YoY) on lower cotton price due to subdued domestic as well as export demand.
- Earnings revision is despite lower-than-expected operating performance in 4QFY20 as a mere 6% of the revenue contribution comes from the 4Q of the financial year.

Cotton and hybrid rice drive performance in FY20

- KSCL's revenue (standalone) stood at INR519m (est.: INR471m) in 4QFY20, up 16% YoY. EBITDA loss stood at INR118m in 4QFY20 v/s loss of INR59m in the previous year (est.: loss of INR45m).
- Adj. PAT stood at INR94m v/s loss of INR114m last year (est.: loss of INR103m), primarily on account of higher other income (up 13x YoY to INR315m).
- KSCL's revenue grew 15% to INR9.3b in FY20, driven by 12% revenue growth in cotton seeds (to INR4.5b), 66% growth in hybrid rice seed sales (to INR850m), and 10% growth in maize seed sales (to INR1.7b).
- 12% revenue growth in FY20 in cotton seeds was driven by 17% volume growth (to 7.23m packets). Additionally, the contribution of new products rose from 15% to 23% of the total volume.
- Hybrid paddy reported 66% revenue growth in FY20 on 60% volume growth; growth was driven by the launch of the new Hybrid Paddy KPH 468. The contribution of new products rose from 26% to 51% of volumes.
- Maize seed revenue grew 10% in FY20, largely owing to a change in the product mix and a price hike taken.
- EBITDA per packet for cotton seeds was INR110 for FY20 and is likely to increase to INR121 per packet as no royalty payment (of INR20/packet) is now required to be made.

Highlights from management commentary

- The Telangana government has advised farmers to grow cotton in order to receive the Rythu Bandhu installment, which would benefit cotton acreage. Also, the government has advised to grow maize in the rabi season as the state has an abundant supply of water.
- The company expects 10–15% volume growth in the Cotton Seed segment and 20–25% volume growth in the Non-Cotton segment; combined overall growth is expected to be 15–20% in FY21.
- Capex of INR200–300m is expected for FY21.

	KSCL IN
Bloomberg	KSCL IN
Equity Shares (m)	63
M.Cap.(INRb)/(USD\$)	28.5 / 0.3
52-Week Range (INR)	576 / 274
1, 6, 12 Rel. Per (%)	28/15/2
12M Avg Val (INR M)	85

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	9.3	9.6	10.5
EBITDA	2.5	2.7	3.0
PAT	2.6	2.6	2.8
EBITDA (%)	27.2	28.1	28.5
EPS (INR)	43.1	42.5	46.8
EPS Gr. (%)	19.5	(1.3)	10.0
BV/Sh. (INR)	159	173	188

Ratios

Net D/E	(0.4)	(0.5)	(0.5)
RoE (%)	26.4	25.7	25.9
RoCE (%)	28.9	28.8	29.1
Payout (%)	-	67.7	66.7

Valuations

P/E (x)	11.0	11.1	10.1
EV/EBITDA (x)	3.0	2.7	2.5
Div Yield (%)	-	4.5	4.8
FCF Yield (%)	6.2	10.2	8.5

*Consol

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	55.5	55.1	55.1
DII	10.7	6.6	6.7
FII	21.0	24.8	21.8
Others	12.7	13.5	16.4

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- Revenue from the Vegetable Seed segment grew 30% to INR200m in FY20, and the company is confident of achieving 30% growth in the Vegetable Seed segment for the next four to five years.

Valuation and view

- In our view, maize and cotton acreage in India is likely to witness some pressure on account of lower prices. This would thereby impact KSCL's seed sales in FY21. However, we expect paddy seed sales to maintain growth momentum in FY21 as well, and expect its revenue to grow 27%.
- Additionally, we have assumed an increase in cotton seed EBITDA/packet by INR11/packet to INR121, factoring the benefit of INR20/packet on cotton seed sales as KSCL is now not required to pay royalty.
- We have thus increased our earnings estimates by 25%/31% for FY21/FY22.
- We value the company at 12x FY22E EPS (~20% discount to three-year average PE). The discount is primarily on account of uncertainty in cotton/maize seed demand in FY21 due to lower price, which could impact acreage. We arrive at TP of INR561. Maintain Buy.

Quarterly - Standalone

Y/E March	(INR m)											
	FY19				FY20				FY19	FY20	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	5,819	752	672	447	6,555	774	984	519	7,690	8,832	471	10
YoY Change (%)	-1.5	8.0	-4.9	7.5	12.6	3.0	46.5	16.1	-0.4	14.9	5.2	
Total Expenditure	3,784	673	671	507	4,222	661	917	637	5,634	6,437	515	
EBITDA	2,035	79	1	-59	2,333	113	67	-118	2,056	2,395	-45	NA
Margins (%)	35.0	10.5	0.2	-13.3	35.6	14.6	6.8	-22.6	26.7	27.1	-9.5	
Depreciation	53	47	53	59	59	59	62	64	212	243	67	
Interest	0	0	1	0	0	0	1	1	1	2	1	
Other Income	168	131	106	24	43	30	77	315	429	466	27	
PBT before EO expense	2,150	162	54	-95	2,317	84	82	132	2,271	2,616	-86	
PBT	2,150	162	54	-95	2,317	84	82	132	2,271	2,616	-86	
Tax	44	43	18	20	28	15	22	39	124	103	17	
Rate (%)	2.0	26.4	32.5	-20.9	1.2	17.5	26.2	29.3	5.5	3.9	-20	
Reported PAT	2,106	119	36	-114	2,289	69	60	94	2,147	2,513	-103	NA
Adj PAT	2,106	119	36	-114	2,289	69	60	94	2,147	2,513	-103	NA
YoY Change (%)	4.1	-42.9	-32.9	NA	8.7	-42.0	65.8	NA	2.1	17.0	NA	
Margins (%)	36.2	15.9	5.4	-25.6	34.9	8.9	6.1	18.0	27.9	28.4	-21.9	

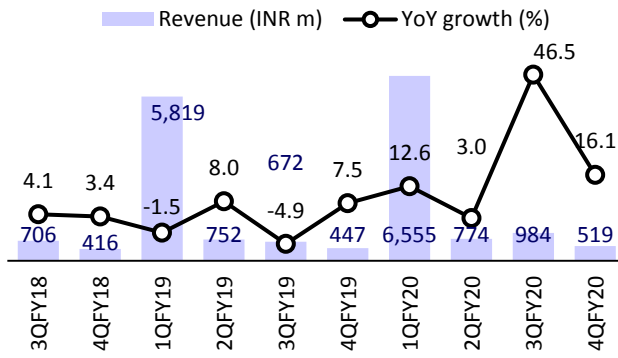
*Quarterly numbers are standalone and annual numbers are consol.

Key Performance Indicators

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Segment Revenue Growth (%)										
Cotton seed	(11.7)	(44.1)	(390.0)	(262.7)	7.2	87.3	(195.5)	(55.7)	(12.7)	12.5
Hybrid Rice	34.4	(600.0)	10.0	17.3	73.2	12.0	50.0	39.1	51.1	65.5
Maize Seeds	17.6	54.2	(23.5)	(50.5)	5.0	(29.1)	75.4	(4.3)	4.2	10.2
Cotton Seed Vol (mn packets)	5.9	0.3	(0.1)	0.1	6.7	0.5	0.0	0.0	6.2	7.2
Cotton Seed Realization (INR packets)	641	633	580	821	609	684	2,770	1,000	644	623
Cost Break-up										
RM Cost (% of sales)	53.5	49.0	58.3	53.9	53.6	45.3	52.5	57.2	53.5	52.9
Staff Cost (% of sales)	2.0	13.4	17.3	27.1	1.8	15.6	19.8	26.8	5.9	6.5
Other Cost (% of sales)	9.5	27.1	24.3	32.2	9.0	24.5	20.9	38.7	13.8	13.5
Gross Margins (%)	46.5	51.0	41.7	46.1	46.4	54.7	47.5	42.8	46.5	47.1
EBITDA Margins (%)	35.0	10.5	0.2	-13.3	35.6	14.6	6.8	-22.6	26.7	27.1
EBIT Margins (%)	34.1	4.2	-7.7	-26.4	34.7	7.0	0.5	-35.0	24.0	24.4

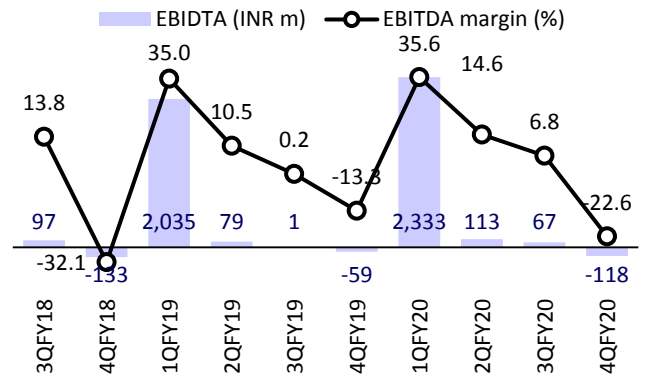
Key Exhibits

Exhibit 1: Revenue trend



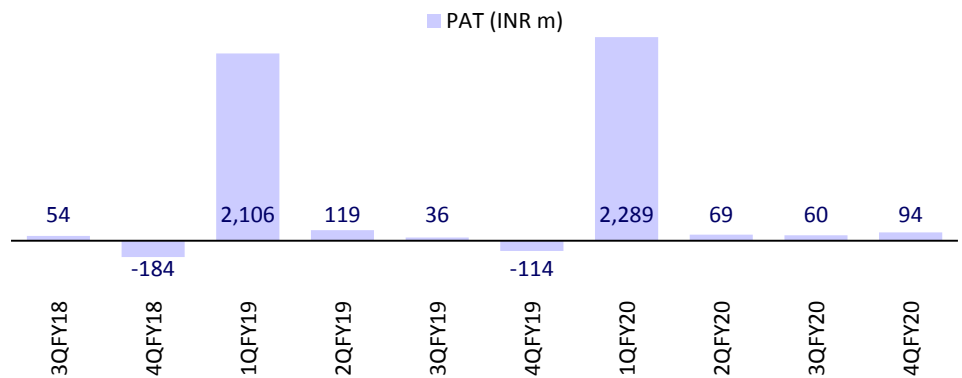
Source: Company, MOSL

Exhibit 2: EBITDA margin trend



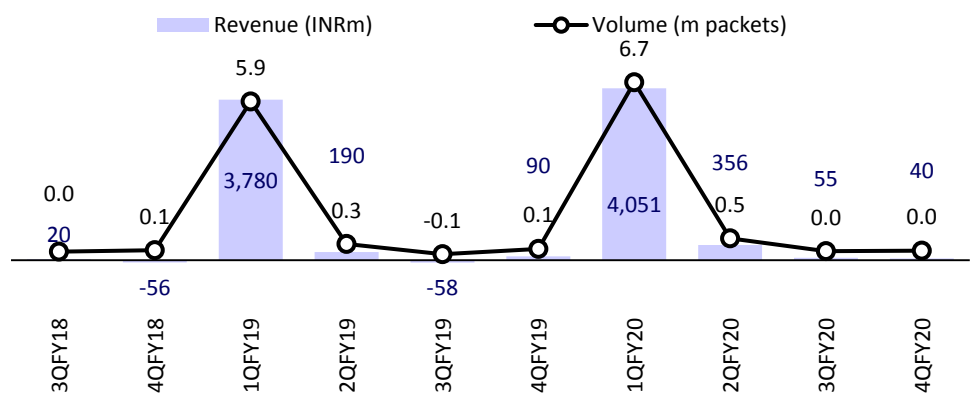
Source: Company, MOSL

Exhibit 3: Adj. PAT trend



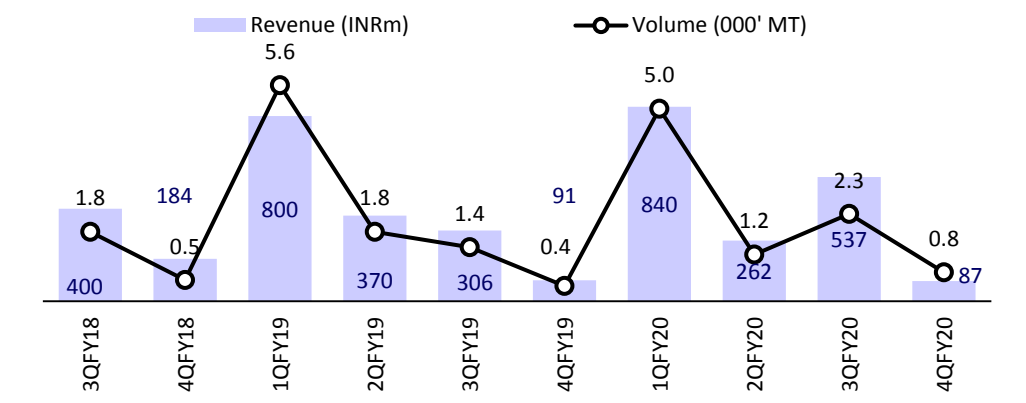
Source: Company, MOSL

Exhibit 4: Cotton revenue trend



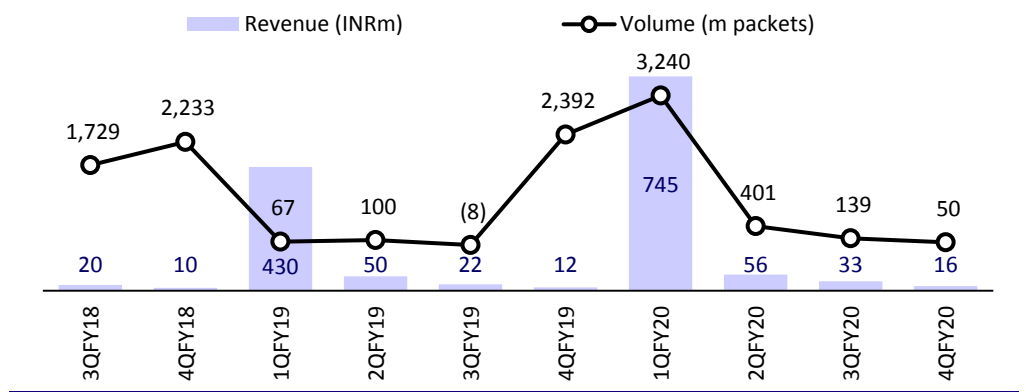
Source: Company, MOSL

Exhibit 5: Maize revenue trend



Source: Company, MOSL

Exhibit 6: Hybrid rice revenue trend



Source: Company, MOSL



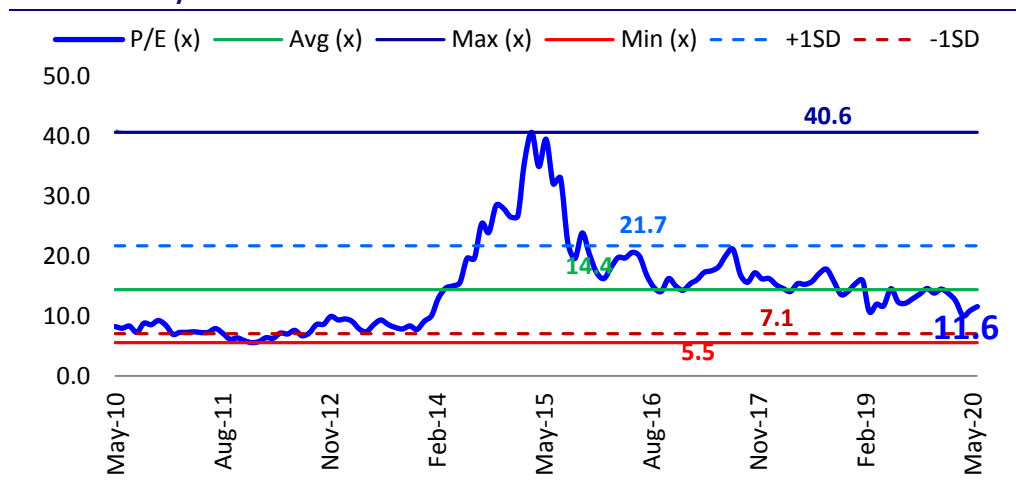
Conference call highlights

- **Cotton seed sales for KSCL:** Cotton volumes increased 17% in FY20. The contribution of new crops increased from ~15% to ~23% of the total volumes.
- **'Money Maker' cotton seed product:** The performance of 'Money Maker' was appreciated by farmers across sectors. Also, two new cotton hybrids were introduced during the quarter.
- **Maize:** Maize volumes were stagnant for the year, whereas revenue increased 10% owing to an improved product mix and price gains.
- **Hybrid rice:** Volumes increased 60% and revenue ~66% in FY20. The contribution of new products rose from 26% to 51% of volumes.
- **COVID-19:** The company has managed to overcome initial supply chain and labor problems, and operations are running smoothly. As the company is classified under the Essential category, its plants have been operational throughout the lockdown.
- EBITDA per packet for cotton seeds was INR110 for FY20 and is likely to increase to INR130 per packet as no royalty payment (of INR20/packet) is now required to be made.
- **Margins:** Margins of non-cotton crops are better than those of cotton crops.
- **Growth outlook:** The company expects 10–15% volume growth in the Cotton Seed segment and 20–25% volume growth in the Non-Cotton segment; combined overall growth is expected to be 15–20% in FY21.
- The Telangana government has advised farmers to grow cotton in order to receive the Rythu Bandhu installment, which would benefit cotton acreage. Also, the government has advised to grow maize in the rabi season as the state has an abundant supply of water.
- **Maize:** Even after the correction in maize prices, maize acreages are not expected to come down, except in the state of Karnataka. In northern India, the Punjab and Haryana governments have advised farmers to grow maize. Hence, overall maize acreages are not expected to come down significantly.
- The company has managed to collect money from dealers compared with last year and does not expect any default.
- Currently, the company deals directly/indirectly with more than 40,000 dealers in India.
- Usually, maize trades at INR12–15/kg, but went up to INR21/kg last year and has now declined to INR17/kg. This price is still remunerative for farmers compared with the price at which maize usually trades / other alternative crops are available to them. Thus, the management does not expect the maize average to decline materially.
- Capex of INR200–300m is expected for FY21.
- Revenue from the Vegetables Seed segment grew 30% in FY20 to INR200m, and the company is confident of achieving 30% growth in this segment for the next four to five years.
- Inventory write-offs of INR170–180m were reported for FY20.
- Advance bookings from dealers in FY21 to date stand at INR2.2b (50% from Cotton Seed and the balance from Non-Cotton) v/s INR2b in FY20 (70% from Cotton Seed and the balance from Non-Cotton).

Valuation

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- Additionally, we have assumed an increase in cotton seed EBITDA/packet by INR11/packet to INR121, factoring the benefit of INR20/packet on cotton seed sales as KSCL is now not required to pay royalty.
- We have thus increased our earnings estimates by 25%/31% for FY21/FY22.
- We value the company at 12x FY22E EPS (~20% discount to three-year average PE). The discount is primarily on account of uncertainty in cotton/maize seed demand in FY21 due to lower price, which could impact acreage. We arrive at TP of INR561. Maintain Buy.

Exhibit 7: One-year fwd. PE



Source: MOFSL

Exhibit 8: Change in estimates

Earnings Change (INR m)	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	8,195	8,611	9,603	10,478	17%	22%
EBITDA	2,276	2,399	2,694	2,988	18%	25%
Adj. PAT	2,052	2,149	2,566	2,823	25%	31%

Source: MOFSL

Financials and valuations

Consolidated Income Statement

	(INR m)						
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	7,449	7,050	8,192	8,094	9,303	9,603	10,478
Change (%)	-35.9	-5.4	16.2	-1.2	14.9	3.2	9.1
EBITDA	1,875	1,395	2,218	2,116	2,532	2,694	2,988
Margin (%)	25.2	19.8	27.1	26.1	27.2	28.1	28.5
Depreciation	274	302	251	230	257	277	298
EBIT	1,601	1,093	1,967	1,887	2,275	2,417	2,690
Int. and Finance Charges	2	2	6	5	5	6	6
Other Income - Rec.	131	344	237	430	455	319	319
PBT bef. EO Exp.	1,729	1,435	2,198	2,311	2,726	2,730	3,003
EO Expense/(Income)	0	592	0	0	0	0	0
PBT after EO Exp.	1,729	843	2,198	2,311	2,726	2,730	3,003
Current Tax	58	75	87	117	118	164	180
Deferred Tax	-3	-5	-3	20	10	0	0
Tax Rate (%)	3.2	8.3	3.8	5.9	4.7	6.0	6.0
Reported PAT	1,675	773	2,114	2,174	2,599	2,566	2,823
PAT Adj for EO items	1,675	1,316	2,114	2,174	2,599	2,566	2,823
Change (%)	-44.4	-21.4	60.6	2.8	19.5	-1.3	10.0
Margin (%)	22.5	18.7	25.8	26.9	27.9	26.7	26.9

Consolidated Balance Sheet

	(INR m)						
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	138	138	132	126	121	121	121
Total Reserves	9,134	10,005	9,992	9,942	9,466	10,295	11,236
Net Worth	9,272	10,143	10,124	10,069	9,587	10,416	11,357
Minority Interest	-2	-7	-6	-6	2	2	2
Deferred Liabilities	0	0	168	202	182	181	181
Total Loans	16	46	29	68	58	58	58
Capital Employed	9,286	10,182	10,315	10,332	9,829	10,657	11,597
Gross Block	3,033	3,322	3,463	4,199	4,551	4,851	5,251
Less: Accum. Deprn.	1,018	1,320	1,571	1,800	2,057	2,334	2,632
Net Fixed Assets	2,015	2,002	1,892	2,399	2,494	2,517	2,619
Capital WIP	197	340	376	384	185	0	0
Total Investments	5,064	6,569	6,226	5,096	3,839	4,839	4,839
Curr. Assets, Loans&Adv.	6,327	6,358	6,153	7,626	9,255	9,168	10,570
Inventory	5,044	4,478	4,428	5,612	6,391	6,239	6,873
Account Receivables	804	854	859	846	1,180	1,052	1,148
Cash and Bank Balance	94	210	139	87	81	244	767
Loans and Advances	386	817	727	1,081	1,603	1,633	1,781
Curr. Liability & Prov.	4,320	5,095	4,340	5,180	5,957	5,880	6,443
Account Payables	4,237	3,026	2,202	2,411	2,669	2,640	2,909
Provisions	83	9	116	72	68	70	77
Other current liabilities	0	2,060	2,022	2,696	3,221	3,169	3,458
Net Current Assets	2,007	1,263	1,814	2,446	3,297	3,288	4,126
Appl. of Funds	9,286	10,182	10,315	10,332	9,829	10,657	11,597

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	27.8	21.8	35.0	36.0	43.1	42.5	46.8
Cash EPS	32.3	26.8	39.2	39.8	47.3	47.1	51.7
BV/Share	153.7	168.1	167.8	166.9	158.9	172.7	188.2
DPS	5.0	3.0	14.5	15.7	0.0	21.1	22.9
Payout (%)	24.7	32.2	56.3	59.2	0.0	67.7	66.7
Valuation (x)							
P/E				13.1	11.0	11.1	10.1
Cash P/E				11.9	10.0	10.0	9.1
P/BV				2.8	3.0	2.7	2.5
EV/Sales				3.7	3.2	3.1	2.8
EV/EBITDA				14.1	11.8	11.0	9.8
Dividend Yield (%)				3.3	0.0	4.5	4.8
FCF per share				8.5	29.2	48.2	40.0
Return Ratios (%)							
EBITDA Margins (%)	25.2	19.8	27.1	26.1	27.2	28.1	28.5
Net Profit Margins (%)	22.5	18.7	25.8	26.9	27.9	26.7	26.9
RoE	19.9	13.6	20.9	21.5	26.4	25.7	25.9
RoCE	21.2	16.0	22.5	24.2	28.9	28.8	29.1
RoIC	42.0	33.8	61.5	47.9	45.4	45.3	49.3
Working Capital Ratios							
Fixed Asset Turnover (x)	2	2	2	2	2	2	2
Asset Turnover (x)	0.8	0.7	0.8	0.8	0.9	0.9	0.9
Inventory (Days)	247	232	197	253	251	237	239
Debtor (Days)	39	44	38	38	46	40	40
Creditor (Days)	208	157	98	109	105	100	101
Working Capital Turnover (Days)	94	55	75	106	126	116	117
Leverage Ratio (x)							
Current Ratio	1.5	1.2	1.4	1.5	1.6	1.6	1.6
Interest Cover Ratio	670	453	326	345	476	418	465
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net P / L Bef. Tax and Eo Items	1,729	1,435	2,198	2,311	2,726	2,730	3,003
Depreciation	274	302	251	230	257	277	298
Interest & Finance Charges	2	2	6	5	5	6	6
Direct Taxes Paid	58	75	87	117	118	164	180
(Inc)/Dec in WC	407	860	-621	-1,150	-952	173	-315
CF from Operations	2,355	2,525	1,747	1,279	1,917	3,022	2,811
EO Expense	467	-245	0	0	0	0	0
CF from Operating incl EO	2,822	2,280	1,747	1,279	1,917	3,022	2,811
(inc)/dec in FA	-262	-432	-177	-744	-153	-115	-400
Free Cash Flow	2,560	1,848	1,570	535	1,764	2,907	2,411
(Pur)/Sale of Investments	-2,114	-1,505	343	1,130	1,257	-1,000	0
Others	-4	-5	2	438	21	0	0
CF from Investments	-2,380	-1,943	168	824	1,125	-1,115	-400
Issue of Shares	0	0	-2,000	-2,000	-2,404	0	0
(Inc)/Dec in Debt	2	30	-18	39	-10	0	0
Interest Paid	-2	-2	-6	-5	-5	-6	-6
Dividend Paid	-414	-249	-1,190	-1,288	0	-1,737	-1,882
CF from Fin. Activity	-410	-221	-1,985	-2,156	-3,049	-1,743	-1,888
Inc/Dec of Cash	33	116	-71	-52	-6	163	523
Add: Beginning Balance	66	94	210	139	87	81	244
Closing Balance	98	210	139	87	81	244	767

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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