



Kaveri Seed Company Ltd. Q1 FY19 Quarterly Update

MARKET DATA

NSE TICKER	KSCL
Networth FY18 (Rs in Crs)	1004
P/BV Ratio (FY18) (x)	4.1X
EPS (FY18)(Rs.)	32
Market Price (Rs.)	624
P/E Ratio (FY18E) (x)	19.6
52 Week High(Rs)	637.5
52 Week Low (Rs)	433
Market Capitalisation (rs. Cr)	4751

AVERAGE MONTHLY VOLUME ('000)

BSE	35
NSE	536

SHARE HOLDING PATTERN

Promoter	54.8
FII	15.2
DII	14
Public	16

RETURN (%)

	3M	6M	1 Yr
Kaveri	26.6	30.5	17.3
Nifty	6.7	9.3	16.4

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Financial performance:

Kaveri Seed operates in a very cyclical business where most of the sales and profits are concentrated in Q1. Q1 sales accounted for over 75% of KSCL's FY18 annual sales. In Q1 FY19 sales declined by 1.5% to 582cr, EBITDA decreased by 1.6% to 203cr, and PAT increased by 4% to 211cr. The decline in revenue and EBITDA was largely because of reduced cotton sales (volume dropped by 9% and price by 3%) which was partially offset by a huge growth (25%) of non-cotton seeds. PAT increased in spite of a declining EBITDA largely due to increase in other income to 16cr as certain long term profitable instruments matured.

Reduction in Cotton Realization

Government of India has reduced the selling price of cotton seeds from Rs800 to Rs740 per packet and reduced the royalties from Rs49 to Rs39 per packet. Hence, the net impact to KSCL should have been Rs50 per packet. However, the average realization per cotton packet for KSCL declined by Rs18 (3%) to Rs640/packet. The impact to KSCL was not as sharp as the government reduction as KSCL reduced the discounts offered to dealers. The dealers in turn increased the price charged to customers; earlier the dealers used to pass on entire discount offered by KSCL to farmers and after the government action, the dealers passed only a portion of the discount to the farmers. The new law had a top line impact of 35cr and a bottom-line impact of 12-13cr.

Reduction in Cotton Volumes

Delayed rains in South India impacted Kharif sowing. This was exacerbated by change in product mix from cotton to rice in AP, Telangana, and Maharashtra due to pink bollworm attack last year. In some parts of India, to reduce the incidence of pink bollworm, the space between plants has been increased. This has reduced the demand for cotton seeds by 10-12 lac packets. The average consumption in those areas reduced from 2 packets per acre to 1.75 packets per acre. Also, illegal seed market has grown from 8% last year to 12% especially in AP, Maharashtra, Telangana, and Karnataka. KSCL hopes that illegal sales will reduce next year due to strict government action such as arrests for the offenders.

Cotton packet sales declined from 47 lac packets pan India last year to 42 lac packets this year. Cotton volume for KSCL was down by 9% compared to a market decline of 10.5%. In Maharashtra, (a major market for KSCL accounting for 32% of FY18 cotton sales) cotton volumes declined by 10% while KSCL was down by 4%.

Quarterly Performance:

Particulars (RS in crs)	Q1 FY19	Q1 FY18	YoY (%)	FY18	FY17	Y-o-Y
Net Sales	581.9	590.6	-1.5	819.4	706.4	16.0
RM Cost	311.4	307.1	1.40	397.3	391.2	1.6
RM Cost as % of Sales	53.5	52.0	NM	48%	55%	NM
Employee Cost	11.7	11.8	-1.3	54.4	39.9	36.3
Other Operating Expenses	55.3	64.7	-14.6	124.8	116.2	7.38
EBITDA	203.5	206.9	-1.6	221.8	139.6	59.0
EBITDA Margin	35.0	35.0	NM	27%	20%	368%
Interest	0.0	0.2	-92.5	0.6	0.2	150.0
PBT	215.0	204.6	5.1	219.8	84.3	160.9
Tax	4.4	2.3	95.7	8.4	7.0	20.7
PAT	210.6	202.4	4.1	211.4	77.3	173.5
EPS	31.9	29.3	8.7	30.5	19.6	54%



Valuation & View:

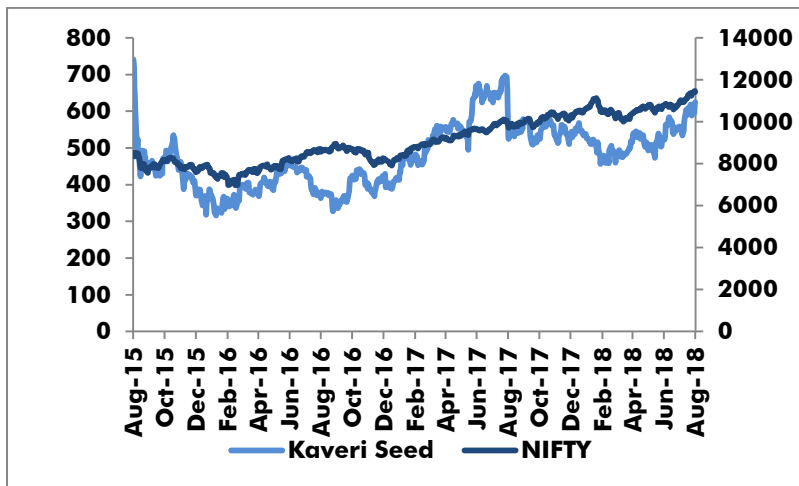
KSCL commands a strong brand value in the seeds industry built over a period of four decades and is trusted by the farmers. We like KSCL due to its leadership position in terms of size, strong R&D capabilities and wide distribution network.

We are valuing KSCL on a PE multiple basis. We value the company with a price objective of Rs.640 using a PE multiple of 16x based on FY20E EPS of 40. The forecasted EPS has increased due to better than expected growth and margins of non-cotton seeds and due to company's plan of launching 2 new cotton and 2 more non-cotton seeds. KSCL plans to launch cotton seeds for the North Indian market (8 million cotton packets market) where it has traditionally been weak. We have reduced the P/E multiple from 17 to 16 to account for increased risk of government intervention in this business and due to aggressive targets set by management.

Risks

- Government caps price of other seeds made by KSCL such as maize and rice
- If KSCL is unable to gain significant market share in North India; if its new cotton seed launches for North India fail to gain traction
- If KSCL fails in non-cotton seeds. However, the success of its non-cotton products this quarter somewhat alleviates this concern

3-Yr Price comparison



Conference Call Highlights

- Guidance for FY19- 7 to 7.5 million cotton packets to be sold. KSCL expects revenue and bottom-line growth of around 15%
- Rumours of UPL acquisition of KSCL have no basis
- Pink bollworm affliction has been noticed in Maharashtra in the last 2 weeks. The government has asked seed makers to pay 93cr as fines but KSCL will not be affected by these measures and it will not have to pay fines
- KSCL expects employee expense to grow by 10-15% in FY19
- KSCL has a market share of 15% and is the number 1 player in cotton excluding North India
- Cash of 679cr sits on books. Of this 200cr will be used to pay dividends
- Commodity prices are depressed but cotton is still the most profitable crop
- Vegetable seeds accounted for 6.9cr in sales in Q1. Firm expects full year sales to be around 24-25cr. Q1 and Q4 are best quarters for vegetable seeds
- Other expense declined by 9cr as royalty decreased by Rs10 per packet due to government action of reducing royalty per packet from 49 to 39; also the volume of sales reduced. In addition, provision for bad debt reduced but this is a minor portion of other expenses
- COGS/cotton packet increased (gross margin reduced) as last year there were heavy rains from September end to October end in South India. This affected quality and output of produce. This increased cost of production by 2.5%
- Credit period is less than 36 days for private sales and 3 months for government sales
- Seed cost is 4-6% of cost of production for farmer. So, company does not see government capping seed prices for crops other than cotton. A lot of R&D efforts are required for making seeds resistant to pests and weather and those R&D expenses will decline if the selling price of seeds is capped
- Capex for FY19 40-45cr, FY20 and FY21 30-35cr



Kaveri Seeds Company Ltd.- Statement of Profit & Loss				
Description	FY17	FY18	FY19E	FY20E
Net Sales	705.0	819.3	826.2	937.9
Expenditure:				
COGS	347.1	401.6	398.2	451.3
Power and fuel cost	7.8	12.3	12.4	14.1
Employee cost	39.9	41.9	46.1	48.4
Other operating expenses	170.7	143.8	146.2	169.9
EBITDA excluding OI	139.5	219.7	223.3	254.2
EBITDA margin	19.8%	26.8%	27.0%	27.1%
Depreciation	30.2	26.4	26.9	27.4
EBIT	109.3	193.4	196.4	226.7
OI	34.4	24.0	32.2	32.2
Interest	0.2	0.4	0.4	0.4
PBT before exceptional item	143.5	217.0	228.2	258.6
Exceptional item	-59.2	0.0	0.0	0.0
PBT	84.3	217.0	228.2	258.6
Provision for tax	7.0	4.9	6.6	6.6
Minority interest	0.5	0.6	0.6	0.7
PAT	77.8	212.7	222.3	252.7
EPS	11.3	32.2	35.2	40.0

Kaveri Seeds Company Ltd.- Balance Sheet				
Description	FY17	FY18	FY19E	FY20E
Equity Share Capital	13.8	13.2	12.6	12.6
Total Reserves	1000.5	990.6	991.3	1221.9
Shareholder's Funds	1014.3	1003.8	1004.0	1234.5
Minority Interest	-0.7	-1.4	-2.0	-2.7
Total Borrowings	4.6	4.6	4.6	4.6
Other Long Term Liabilities	7.8	7.8	7.8	7.8
Total Non-Current Liabilities	12.5	12.5	12.5	12.5
Trade Payables	281.6	240.1	238.0	269.8
Other Current Liabilities	218.6	250.5	252.4	283.6
Total Current Liabilities	500.2	490.6	490.4	553.4
Total Liabilities	1526.3	1505.5	1504.9	1797.7
Fixed Assets	233.6	251.4	254.3	257.3
Other Non Current Assets	9.1	9.1	9.1	9.1
Total Non-Current Assets	242.6	260.5	263.4	266.4
Current Investments	654.5	512.5	512.9	718.1
Inventories	447.8	550.8	546.2	619.1
Sundry Debtors	85.4	85.7	86.4	98.1
Cash and Bank	21.0	21.0	21.0	21.0
Other Current Assets	75.0	75.0	75.0	75.0
Total Current Assets	1283.7	1245.0	1241.5	1531.3
Total Assets	1526.3	1505.5	1504.9	1797.7



Kaveri Seeds Company Ltd.- Cash flow statement			
Description	Mar-18	Mar-19 E	Mar-20 E
PAT	212.1	221.7	252.0
Changes in WC	-113.0	3.8	-21.7
Depreciation	26.4	26.9	27.4
Cash flow from operations	125.5	252.4	257.8
Cash flow from investment	-44.2	-29.8	-30.4
Dividend and dividend tax	-23.2	-22.2	-22.2
Share buy back	-200.0	-200.0	0.0
Free cash flow	-141.9	0.4	205.2
Change in current investments	-141.9	0.4	205.2
Opening investments	654.5	512.5	512.9
Closing investments	512.5	512.9	718.1

Kaveri Seeds Operation Ratios				
DESCRIPTION	FY17	FY18	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share- Normalised (Rs)	19.85	32.18	35.21	40.03
Book Value (Rs)	146.89	151.89	159.04	195.56
Margin Ratios				
PBIDTM (%)	19.8%	26.8%	27.0%	27.1%
EBITM (%)	15.5%	11.7%	12.7%	14.0%
PATM (%)	19.4%	26.0%	26.9%	26.9%
Performance Ratios				
ROA (%)	9.5%	14.0%	14.8%	15.3%
ROE (%)	14.3%	21.1%	22.1%	22.6%
ROCE (%)	10.7%	19.2%	19.5%	18.3%
ROCE excluding current investments (%)	30.0%	39.1%	39.8%	43.7%
Asset Turnover(x)	0.46	0.54	0.55	0.52
Inventory Turnover(x)	0.73	0.73	0.73	0.73
Debtors Turnover(x)	8.51	9.56	9.56	9.56
Fixed Asset Turnover (x)	2.91	3.15	3.14	3.52
Efficiency Ratios				
Receivable days	42.91	38.18	38.18	38.18
Inventory Days	500.67	500.67	500.67	500.67
Payable days	261.71	218.22	218.22	218.22



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