



Kaveri Seed Company Ltd. Q2 FY19 Quarterly Update

MARKET DATA

NSE TICKER	KSCL
Networth FY18 (Rs in Crs)	1004
P/BV Ratio (FY18) (x)	3.4X
EPS (FY18)(Rs.)	32
Market Price (Rs.)	511
P/E Ratio (FY18E) (x)	16
52 Week High(Rs)	660
52 Week Low (Rs)	433
Market Capitalisation (rs. Cr)	3246

AVERAGE MONTHLY VOLUME ('000)

BSE	48
NSE	627

SHARE HOLDING PATTERN

Promoter	55
FII	19
DII	11
Public	15

RETURN (%)

	3M	6M	1 Yr
Kaveri	-16	1.9	0.1
Nifty	-6.2	-0.5	4.6

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Financial performance:

Kaveri Seed operates in a very seasonal 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 Q2 FY19, sales increased by 8% to 75cr, EBITDA decreased by 47% to 8cr, and PAT declined by 43% to 12cr. The decline in EBITDA in spite of increasing sales was largely because of a lower gross margin; gross margin reduced due to government imposed reduction in the price of cotton seed packets (from Rs800 to Rs740 per packet), and due to reduced cotton recovery because of unseasonal rains

Poor cotton performance partially offset by improved non cotton business:

Kaveri experienced a degrowth of 10% in cotton seed packet volume and a 14% decline in cotton revenue in H1FY19 compared to the previous year. Volume was impacted due to pink boll worm issues as well as due to the sale of illegal HT (Herbicide Tolerant) cotton in several important cotton growing states. Government is taking efforts to curb the sale of illegal cotton seeds. Also, small brands in South India aggressively priced cotton seed packets and this resulted in loss of market share in an area where Kaveri has traditionally been very strong. Small players have a market share of 15% in South India. The realization was impacted by government mandate to reduce price of cotton seed packets. The loss in cotton revenue was exacerbated by the declining gross margin in this business. The recovery of cotton declined by 8-9% to 66-67% due to unseasonal rains last year-normal recovery of cotton seeds is around 75%. However, due to heavy rainfall in certain cotton growing belts and a deficit in others, there was a dramatic reduction in the cotton recovered. The reduced recovery combined with lower price realization due to government imposed price cap severely impacted gross margin- gross margin in Q2FY19 declined to 51% from 64.5% in Q2FY18.

The good performance of non-cotton business partially offset disappointing results from the cotton business. New product contribution grew from 15% last year to 25% this quarter. This was achieved due to increased sales of new hybrids as well as due to price hikes. Unlike the cotton business, the company was able to maintain margins in the non-cotton business; EBITDA margin this quarter was 32-34% similar to last year.

Performance during the quarter

In Q2FY19, employee costs declined by 14% YoY due to the reduction of performance linked incentives (in line with lower cotton sales) and due to reduction in employee strength (certain employees quit).

This was partially offset by lower royalty expense due to reduced volume of cotton seed packets sold as well as government reducing royalty per packet by Rs10.

In H1 sales return were 16-17% compared to the industry benchmark of 20-22%.

Other income declined due to a changing maturity schedule of investments; the company is now parking more of its surplus cash in longer maturity funds.

Quarterly Performance:

Particulars (RS in crs)	Q2 FY19	Q2 FY18	YoY (%)	FY18	FY17	Y-o-Y
Net Sales	75	70	8%	819	706	16%
RM Cost	37	25	49%	397	391	2%
RM Cost as % of Sales	49.0%	35.5%	NM	48.0%	55.0%	NM
Employee Cost	10	12	-14%	54	40	36%
Other Operating Expenses	20	18	10%	125	116	7%
EBITDA	8	15	-47%	222	140	59%
EBITDA Margin	10.5%	21.2%	NM	27.0%	20.0%	NM
Interest	0	0	-71%	1	0	200%
PBT	16	25	-35%	220	84	161%
Tax	4	4	4%	8	7	20%
PAT	12	21	-43%	211	77	173%
EPS	2.65	3.98	-33%	30.5	19.6	56%

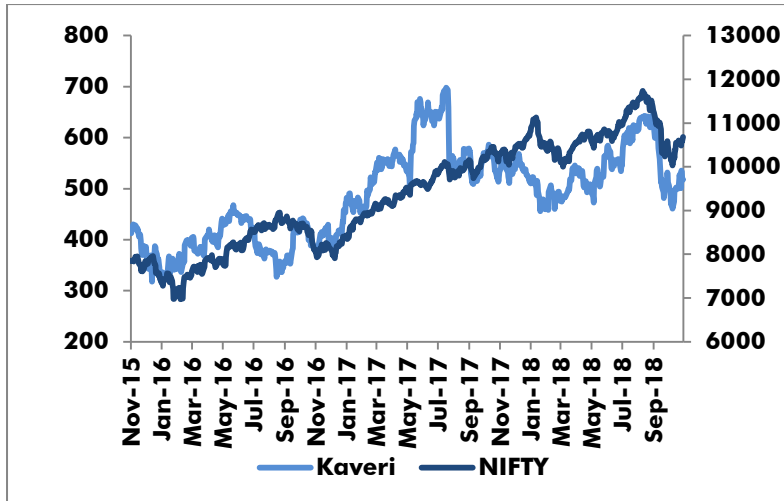


Valuation & View:

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 (large cultivated area over 50,000 acres), 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. 595 using a PE multiple of 16x based on FY20E EPS of 37.2. The calculated intrinsic value implies an upside of 16%. The forecasted EPS has decreased primarily because of reduction in the gross margin due to unseasonal rain impacting cotton recovery. This was partially offset by reduced employee cost in line with current results.

3-Yr Price comparison:



Conference Call Highlights:

- Firm is focused on expanding cotton to Punjab, Haryana, and Rajasthan
- Kaveri exports to 8 other Asian countries other than Bangladesh
- The company is investing in a large scale cold storage facility that will reduce wastage and thus lower the cost of production
- There were rumours that Kaveri's income may be taxed. However, management believes that there is a low risk of Kaveri's income being taxed as it qualifies as agricultural income. As of date, there is no on-going litigation with the government regarding taxation. The last scrutiny was completed in FY15
- The company has a market share of 15% for cotton seeds, 11% for maize, and 9% for paddy
- Sales schemes vary from product to product and can range from 17% to 21-22% for cotton and non-cotton seeds. The firm gives a credit note and not extra volumes or discounts for purchases
- The company has clocked a decent volume growth of 35% in hybrid rice in H1FY19 compared to H1FY18. The greater volume is from government sales as well as due to new launches. Bihar, UP, Jharkand have done well in this product segment
- Firm has a capex target in the range of 30-40cr. The money will be used for adding some production lines, replacing some production lines, developing a cold storage facility, and for building a new corporate office. Company already purchased land in Q1 for the corporate office
- Kaveri had no developments to report on acquisition of an IP rich firm
- Registration is in process for 9 countries internationally- approvals are expected to be attained in Jan-Feb for Bangladesh and Pakistan. Other approvals will take 2-3 years. The crops for which registrations are being carried out are maize and paddy. Firm expects major export sales from FY20-21



Kaveri Seeds Company Ltd.- Statement of Profit & Loss				
Description	FY17	FY18	FY19E	FY20E
Net Sales	705.0	819.3	819.7	930.6
Expenditure:				
COGS	347.1	401.6	409.2	464.0
Power and fuel cost	7.8	12.3	12.3	14.0
Employee cost	39.9	41.9	44.0	46.2
Other operating expenses	170.7	143.8	145.5	169.0
EBITDA excluding OI	139.5	219.7	208.8	237.5
EBITDA margin	19.8%	26.8%	25.5%	25.5%
Depreciation	30.2	26.4	26.9	27.4
EBIT	109.3	193.4	181.9	210.1
OI	34.4	24.0	32.2	30.7
Interest	0.2	0.4	0.4	0.4
PBT before exceptional item	143.5	217.0	213.7	240.4
Exceptional item	-59.2	0.0	0.0	0.0
PBT	84.3	217.0	213.7	240.4
Provision for tax	7.0	4.9	6.6	6.3
Minority interest	0.5	0.6	0.6	0.7
PAT	77.8	212.7	207.7	234.8
EPS	11.3	32.2	32.9	37.2

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	976.8	1189.5
Shareholder's Funds	1014.3	1003.8	989.4	1202.1
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	244.6	277.4
Other Current Liabilities	218.6	250.5	250.6	281.5
Total Current Liabilities	500.2	490.6	495.2	558.9
Total Liabilities	1526.3	1505.5	1495.1	1770.8
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	488.7	674.7
Inventories	447.8	550.8	561.3	636.4
Sundry Debtors	85.4	85.7	85.8	97.4
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	1231.7	1504.4
Total Assets	1526.3	1505.5	1495.1	1770.8



Kaveri Seeds Company Ltd.- Cash flow statement			
Description	Mar-18	Mar-19 E	Mar-20 E
PAT	212.1	207.1	234.1
Changes in WC	-113.0	-5.8	-23.1
Depreciation	26.4	26.9	27.4
Cash flow from operations	125.5	228.2	238.5
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	-23.8	185.9
Change in current investments	-141.9	-23.8	185.9
Opening investments	654.5	512.5	488.7
Closing investments	512.5	488.7	674.7

Kaveri Seeds Operation Ratios				
DESCRIPTION	FY17	FY18	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share- Normalised (Rs)	19.85	32.18	32.91	37.20
Book Value (Rs)	146.89	151.89	156.73	190.42
Margin Ratios				
PBIDTM (%)	19.8%	26.8%	25.5%	25.5%
EBITM (%)	15.5%	11.7%	12.7%	14.0%
PATM (%)	19.4%	26.0%	25.3%	25.2%
Performance Ratios				
ROA (%)	9.5%	14.0%	13.8%	14.4%
ROE (%)	14.3%	21.1%	20.8%	21.4%
ROCE (%)	10.7%	19.2%	18.3%	17.4%
ROCE excluding current investments (%)	30.0%	39.1%	36.1%	39.7%
Asset Turnover(x)	0.46	0.54	0.55	0.53
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	3.11	3.49
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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