



Kaveri Seed Company Ltd. Q4 FY18 Quarterly Update

MARKET DATA

NSE TICKER	KSCL
Networth FY18 (Rs in Crs)	1002
P/BV Ratio (FY18) (x)	3.4X
EPS (FY18)(Rs.)	32
Market Price (Rs.)	518
P/E Ratio (FY18E) (x)	15.95
52 Week High(Rs)	708
52 Week Low (Rs)	433
Market Capitalisation (rs. Cr)	3387

AVERAGE MONTHLY VOLUME ('000)

BSE	178
NSE	2407

SHARE HOLDING PATTERN

Promoter	54.8
FII	18.3
DII	9.8
Public	17.1

RETURN (%)

	3M	6M	1 Yr
Kaveri	2.7	-9.3	2.9
Nifty	0.2	1.2	12.3

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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. Q4 sales accounted for less than 6% of KSCL's annual sales. In FY18 sales increased by 15.3% to 772cr, EBITDA increased by 40% to 242cr, and PAT increased by 168% to 210cr. The growth was driven by increased cotton sales (volume grew by 28%) and an increase in non-cotton revenues by 2%. The large jump in PAT was due to operational leverage as well as an optical increase as the previous year included a one-time payment to Monsanto of 59cr for past dues.

Reduction in Selling Price of Cotton seeds

Government of India has reduced the selling price of cotton seeds from Rs800 to Rs740 per packet. This change did not have any effect on FY18 sales but will hurt the firm in FY19. The royalties have been decreased from Rs49 to Rs39 per packet. Hence, the net impact to KSCL would be Rs50 per packet. However, even during normal operations, KSCL gives a discount of 150-160 to distributors and farmers get a benefit of 30-40. These benefits will now be reduced and KSCL should see decrease in realization of 15-20 Rs per packet and bottom-line impact of 9-10cr. To take this change into account, selling price and gross margin have both been reduced in the model.

Company initiatives

Firm has increased focus on non-cotton seeds and as a result this segment is expected to grow significantly in the coming years. The firm has a solid pipeline of products of different crops across diverse regions in India as well as in foreign countries.

KSCL is focusing on tighter supply chain management and growing crops across different geographic regions in India which will reduce sales returns and inventory write-offs.

KSCL has enhanced the training provided to field associates who in turn educate farmers about advanced agronomic practices and available products.

Firm has strengthened distribution network beyond AP, Karnataka, Telangana, and Maharashtra to other states in North and Eastern states. For instance, it grew by 140% in Jharkhand, 30% in Orissa, 45% in West Bengal, 50% in Gujarat, and more than doubled (on a small base) in Himachal Pradesh, Uttarakhand, and Haryana.

Quarterly Performance:

Particulars (RS in crs)	Q4 FY18	Q4 FY17	YoY (%)	Q3 FY18	QoQ (%)	FY18	FY17	Y-o-Y
Net Sales	41.6	40.2	3.4	70.6	3.4	819.4	706.4	16.0
RM Cost	26.1	44.2	-27.2	39.8	-40.9	397.3	391.2	1.6
RM Cost as % of Sales	62.8%	109.9%	NM	56.3%	NM	48%	55%	NM
Employee Cost	11.7	6.4	82.1	9.7	NM	54.4	39.9	36.3
Other Operating Expenses	17.1	16.7	2.23	11.5	NM	124.8	116.2	7.38
EBITDA	-13.3	-27.2	50.9	9.7	-50.9	221.8	139.6	59.0
EBITDA Margin	-32.1%	-67.5%	NM	13.8%	NM	27%	20%	368%
Interest	0.1	0.0	9.3	0.1	0	0.6	0.2	150.0
PBT	-17.3	-91.2	81.1	5.6	-410	219.8	84.3	160.9
Tax	1.1	-4.0	127.9	0.1	769	8.4	7.0	20.7
PAT	-18.4	-87.2	78.9	5.4	-438	211.4	77.3	173.5
EPS	-2.7	-12.6	78.3	0.8	-438	30.5	19.6	54%

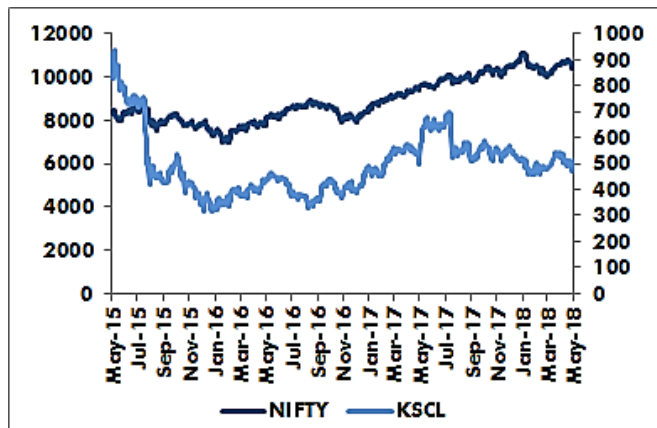


Valuation & View:

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.521 using a PE multiple of 17x based on FY19E EPS of 28.01. The EPS has increased due to good growth of non-cotton seeds and due to reduction in shares outstanding as a result of the proposed 200cr share buyback plan of the company. We have reduced the P/E multiple from 18 to 17 to account for increased risk of government intervention in this business.

3-Yr Price comparison



Conference Call Highlights

- Market share for cotton seeds in India excluding North India increased from 15% to 15.5%
- Other expenses increased due to higher royalty expense (associated with greater volume of cotton sold), increased sales force, higher marketing expenses, and expenses associated with share buyback
- The acquisition strategy is to acquire a firm with a good product portfolio developed via R&D (such as a rich germ plasm collection) rather than good sales. However, there are no such acquisitions in the process as of now
- Cotton sowing season has already started in Gujarat and the firm is seeing solid growth in the region of 25%
- Firm expects the revenue share of cotton to decline from current value of 58% to 40%. This decline will not be caused due to degrowth of the cotton business which is expected to perform well; rather the decline will be caused by increasing contribution from the non-cotton business
- Firm is aggressively targeting foreign markets for growth. Trials are going in several South East Asian and African countries such as Kenya and Nepal. These trials are expected to bear results from FY21
- There is no pending cash due or on-going litigation with Monsanto
- There is no update about the SEBI audit. However, SEBI has not requested any additional information from August 2016



Kaveri Seeds Company Ltd.- Statement of Profit & Loss				
Description	FY17	FY18	FY19E	FY20E
Net Sales	705.0	819.3	813.3	894.7
Expenditure:				
COGS	347.1	403.0	404.6	443.3
Power and fuel cost	7.8	12.3	12.2	13.4
Employee cost	39.9	41.9	44.0	46.2
Other operating expenses	170.7	156.0	156.6	168.5
EBITDA excluding OI	139.5	206.1	195.9	223.2
EBITDA margin	19.8%	25.2%	24.1%	24.9%
Depreciation	30.2	26.4	26.9	27.4
EBIT	109.3	179.7	169.0	195.7
OI	34.4	38.9	30.3	28.3
Interest	0.2	0.4	0.4	0.4
PBT before exceptional item	143.5	218.2	199.0	223.6
Exceptional item	-59.2	0.0	0.0	0.0
PBT	84.3	218.2	199.0	223.6
Provision for tax	7.0	8.0	6.2	5.8
Minority interest	0.5	0.6	0.6	0.7
PAT	77.8	210.9	193.4	218.5
EPS	11.3	31.9	30.6	34.6

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	988.8	960.6	1157.0
Shareholder's Funds	1014.3	1002.0	973.3	1169.6
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	241.0	241.9	265.1
Other Current Liabilities	218.6	250.5	248.8	271.5
Total Current Liabilities	500.2	491.4	490.7	536.6
Total Liabilities	1526.3	1504.6	1474.4	1716.0
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	509.6	475.0	651.9
Inventories	447.8	552.9	555.0	608.1
Sundry Debtors	85.4	85.7	85.1	93.6
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	1244.1	1211.0	1449.6
Total Assets	1526.3	1504.6	1474.4	1716.0



Kaveri Seeds Operation Ratios				
DESCRIPTION	FY17	FY18E	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share- Normalised (Rs)	19.85	30.54	28.01	31.65
Book Value (Rs)	146.89	151.61	154.17	185.28
Margin Ratios				
PBIDTM (%)	19.8%	25.2%	24.1%	24.9%
EBITM (%)	15.5%	11.7%	12.7%	14.0%
PATM (%)	19.4%	25.7%	23.8%	24.4%
Performance Ratios				
ROA (%)	9.5%	13.9%	13.0%	13.7%
ROE (%)	14.3%	20.9%	19.6%	20.4%
ROCE (%)	10.7%	17.9%	17.3%	16.7%
ROCE excluding current investments (%)	30.0%	36.3%	33.7%	37.7%
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	3.09	3.36
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

Kaveri Seeds Company Ltd.- Cash flow statement			
Description	Mar-18	Mar-19 E	Mar-20 E
PAT	210.3	192.8	217.8
Changes in WC	-114.1	-2.2	-15.8
Depreciation	26.4	26.9	27.4
Cash flow from operations	122.5	217.4	229.5
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	-144.9	-34.6	176.9
Change in current investments	-144.9	-34.6	176.9
Opening investments	654.5	509.6	475.0
Closing investments	509.6	475.0	651.9



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