

Kaveri Seeds Ltd

Sector: Agri-Input /Small-Cap | Earnings Update – 4QFY19

BUY

26 June 2019

Background: Kaveri Seeds is the largest producer of hybrid cotton seeds in India with a market share of ~15%. Kaveri Seeds has access to 60,000 acres under seed production, with farms in Karnataka, Andhra Pradesh and across the country. In the last five years (FY13-18), company's standalone revenue and PAT have grown at a CAGR of 1.6% and 10.4% respectively. The company has a pan-India presence with a strong distribution network of ~15,000 distributors (direct & in-direct) and retailers across 15 key states in India (up from 11,000 - 4 years ago). Kaveri has 26 warehouses at strategic location with a combined storage space of ~600,000 sqft. The company has a marketing team of ~200 professionals.

| | |
|-------------------------|---------|
| Sensex | 39,590 |
| Nifty | 11,847 |
| Price | INR 462 |
| Target Price (12 Month) | INR 578 |
| Recommendation | BUY |

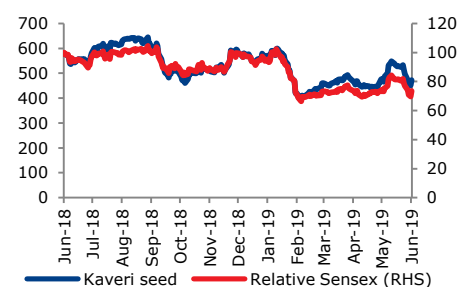
| | |
|------------------------|------------------|
| 52 Week High/Low | INR 660/376 |
| Bloomberg / Reuters | KSCL IN /KVRI.BO |
| Equity (shares in mn) | 63.13 |
| Mkt. Cap in bn | INR 29.2/\$ 0.4 |
| Avg. Daily Vol. ('000) | 1,037.96 |
| Avg. Daily Vol. (mn) | INR 479.5/\$ 6.9 |

| Shareholding | Dec 17 | Sep 18 | Dec 18 |
|--------------------------------|--------|--------|--------|
| Promoters (%) | 54.79 | 55.09 | 55.09 |
| FII (%) | 15.48 | 18.40 | 20.02 |
| DII (%) | 12.63 | 12.01 | 8.50 |
| Others (%) | 17.10 | 14.50 | 16.39 |
| Pledge (% of promoter holding) | 0.00 | 0.00 | 0.00 |

Valuation Summary (*INR bn)

| Y/E March | 2019 | 2020E | 2021E |
|---------------|------|-------|-------|
| Revenue* | 7.7 | 9.3 | 10.3 |
| EBITDA* | 2.1 | 2.4 | 2.7 |
| Adj PAT* | 2.1 | 2.4 | 2.6 |
| Adj EPS (INR) | 34.0 | 37.8 | 41.8 |
| % growth | 6.9 | 11.1 | 10.7 |
| PE (X) | 13.6 | 12.2 | 11.0 |
| P/ BV (X) | 2.9 | 2.4 | 2.0 |
| EV/EBITDA (X) | 14.2 | 12.0 | 10.7 |
| EV/Sales (X) | 3.8 | 3.1 | 2.8 |
| Div Yield (%) | 0.7 | 0.8 | 0.9 |
| ROE (%) | 21.1 | 21.3 | 19.7 |

| Performance % | 1M | 3M | 12M |
|---------------|-----|-----|-------|
| KSCL | 1.0 | 2.4 | -18.7 |
| Sensex | 0.6 | 2.1 | 10.6 |



Healthy guidance for FY20E

- In 4QFY19, Standalone Revenues grew by 8% YoY to INR 447mn. In FY19, Cotton volumes were down by 11% YoY to 6.21mn packets due to pink bollworm issues and illegal sale of HT cotton seed as well as delayed rainfall in some markets. Volume contribution of new products was up from 17% to 20% YoY and the company has gained market share in Gujarat, Maharashtra and other Northern Markets. Cotton revenue declined 13% YoY to INR 4bn.
- In FY19, Maize volume decreased 4% YoY to 9,195 tons, despite doubling of Government business. Maize revenue grew 4% YoY to INR 1,567mn. During the quarter, KSCL launched 2 new hybrids in Kharif. Hybrid Paddy volume grew 38% YoY to 2,392 tons and revenue was INR 514mn up 51% YoY, due to new product launches. Contribution of new product went up to 36% from 29% YoY. Selection paddy volumes grew 43% YoY and the contribution from new products went up from 13% to 20%.
- In 4QFY19, Company reported an EBITDA loss of INR 59mn vs a loss of INR 133mn in 4QFY18; while higher other income at INR 24mn, +72% YoY) partially mitigated the losses. Net loss stood at INR 114mn vs a loss of INR 184mn YoY.
- Management is optimistic of delivering good growth across all crops subject to a normal monsoon in FY20E. They expect high commodity prices to translate into increased acreages. The company intends to incur INR 300-400mn as capital expenditure and anticipates an overall revenue growth of 15-20% YoY in FY20E with a 100-200 bps margin expansion in PBT.

Valuation: At CMP of INR 462, the stock is trading at valuation of 12XFY20E and 11XFY21E earnings. We are valuing the company 14XFY21E EPS to maintain our target price of INR 578, maintaining **BUY** rating.

Risks: Kaveri has high concentration risk and derives ~60% of its revenue from cotton seeds and lint. Most seed companies including Kaveri report their earnings as agricultural income; hence they don't pay corporate tax. Any change in tax law could adversely affect the company's profitability and the return ratio.

Results Summary 4QFY19

| Y/E March (INR mn) | 4QFY19 | 4QFY18 | YoY Growth | 3QFY19 | QoQ Growth |
|----------------------|--------|--------|------------|--------|------------|
| Revenue | 447 | 416 | 7.5% | 672 | -33.4% |
| EBITDA | -59 | -133 | 55.5% | 1 | -5106.8% |
| Depreciation | 59 | 52 | 11.9% | 53 | 11.5% |
| Other Income | 24 | 14 | 71.7% | 106 | -77.6% |
| PBT | -95 | -172 | 45.2% | 54 | -275.0% |
| Tax | 20 | 11 | 75.8% | 18 | 12.7% |
| PAT | -114 | -184 | 37.7% | 36 | -413.5% |
| Adjusted PAT | -114 | -184 | 37.7% | 36 | -413.5% |
| EBITDA Margin | -13.3% | -32.1% | | 0.2% | |
| Tax Incidence | 20.9% | 6.5% | | 32.5% | |
| PAT Margin | -25.6% | -44.2% | | 5.4% | |

DISCLOSURES/ APPENDIX
I. ANALYST CERTIFICATION

I, **Sai Lavanya K** hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report, (2) No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by Cholamandalam Securities Limited or its Group/associates companies. (3) has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

| Disclosure of Interest Statement | Update |
|--|--------|
| Analyst holding in the stock | No |
| Served as an officer, director or employee | No |

II. ISSUER SPECIFIC REGULATORY DISCLOSURES, Unless specifically mentioned in Point No. 9 below:

1. The Research Analyst(s), Cholamandalam Securities Limited (CSL), Associate of Analyst or his relative does not have any financial interest in the company(ies) covered in this report.
2. The Research Analyst, CSL or its associates or relatives of the Research Analyst associates collectively do not hold more than 1% of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
3. The Research Analyst, his associate, his relative and CSL do not have any other material conflict of interest at the time of publication of this research report.
4. The Research Analyst, CSL and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.
5. The Research Analyst, CSL or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in this report. \
6. CSL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party, in connection with the research report.
7. The Research Analyst has not served as an Officer, Director or employee of the company (ies) covered in the Research report.
8. The Research Analyst and CSL has not been engaged in market making activity for the company(ies) covered in the Research report.
9. Details CSL, Research Analyst and its associates pertaining to the companies covered in the Research report:

| Sr.No. | Particulars | Yes/No |
|--------|---|--------|
| 1 | Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by CSL | No |
| 2 | Whether Research Analyst, CSL or its associates or relatives of the Research Analyst associates collectively hold more than 1% of the company(ies) covered in the Research report | No |
| 3 | Whether compensation has been received by CSL or its associates from the company(ies) covered in the Research report | No |
| 4 | CSL or its associates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report | No |
| 5 | Research Analyst, his associate, CSL or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve month | No |

10. There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities.

STOCK RATINGS

BUY : The stock's total return is expected to exceed 15 % over the next 12 months.

OUT PERFORMER: The stock's total return is expected to be within 5-15% over the next 12 months.

MARKET PERFORMER : The stock's total return is expected to be between -5% to +5% over the next 12 months.

UNDER PERFORMER: The stock's total return is expected to be between -15% to -5% over the next 12 months.

SELL: The stock's total return is expected to more than -15% over the next 12 months.

III. DISCLAIMER

The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness.

This document is for information purposes only. This report is based on information that we consider reliable, but we do not represent that it is accurate or complete, and one should exercise due caution while acting on it. Descriptions of any company or companies or their securities mentioned herein are not complete and this document is not, and should not be construed as an offer or solicitation of an offer to buy or sell any securities or other financial instruments.

Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject to CSL or its associates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof.

Any unauthorized use, duplication, redistribution or disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the Report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

CSL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, CSL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or associates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by CSL however, compensation may relate to the revenue of CSL, of which sales and trading are a part. Research analysts and sales persons of CSL may provide important inputs to its affiliated company(ies).

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. CSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report including but not restricted to fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc

CSL and its associates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential material conflict of interest with respect to any recommendation and related information and opinions. The views expressed are those of the analyst and the Company may or may not subscribe to the views expressed therein.

CSL, its associates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall CSL, any of its associates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The Company accepts no liability whatsoever for the actions of third parties.

The Report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Report refers to website material of the Company, the Company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the Company shall be at your own risk and the Company shall have no liability arising out of, or in connection with, any such referenced website

CSL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall the CSL be liable for any damages, including without limitation, direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by CSL through this presentation.

Neither CSL, nor any of its other group companies or associates, shall be responsible for any decisions taken on the basis of this report. Investors are advised to consult their Investment and Tax consultants before taking any investment decisions based on this report.

| RESEARCH | | | |
|----------------------------|---|--------------------|---------------------------------|
| Mugilan K | Technical Analyst | +91-44 - 4004 7353 | mugilank@chola.murugappa.com |
| Keerthi S | Fundamental Analyst | +91-44 - 4004 7363 | keerthi@chola.murugappa.com |
| Sai Lavanya K | Fundamental Analyst | +91-44 - 4004 7266 | sailk@chola.murugappa.com |
| Sahil Jain | Fundamental Associate | +91-44 - 4004 7360 | sahilj@chola.murugappa.com |
| | | | |
| INSTITUTIONAL SALES | | | |
| Venkat Chidambaram | Head of FII Business & Corporate Finance* | +91-44 - 24473310 | venkatc@chola.murugappa.com |
| Kishore K Ganti | Mumbai | +91-22-26597239 | kishorekg@chola.murugappa.com |
| Bhavesk Katariya | Mumbai | +91-9860297739 | bhaveskgk@chola.murugappa.com |
| Sudhanshu Kumar | Institutional Equities* | +91 - 9953175955 | sudhanshuk@chola1.murugappa.com |
| | | | |
| Balaji H | Compliance Officer | 044 – 4004 7226 | balajih@chola.murugappa.com |

*Employees of Business Partner - RCCR