CHOLA SECURITIES

Kaveri Seeds Ltd

BUY

Sector: Agri-Input /Small-Cap | Earnings Update – 4QFY18

30 May 2018

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	34,906
Nifty	10,614
Price	INR 539
Target Price	INR 700
Recommendation	BUY

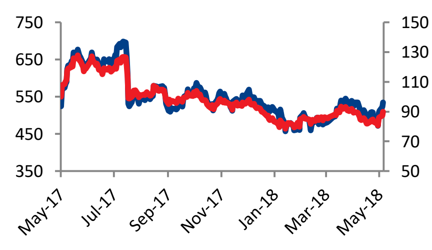
52 Week High/Low	INR 708/433
Bloomberg / Reuters	KSCL IN /KVRI.BO
Equity (shares in mn)	66.09
Mkt. Cap in bn	INR 35.6/$ 0.53
Avg. Daily Vol. ('000)	580.96
Avg. Daily Vol. (mn)	INR 313.1/$ 4.6

Shareholding	Mar 17	Dec 17	Mar 18
Promoters (%)	54.43	54.79	54.79
FII (%)	20.91	20.79	18.91
DII (%)	7.28	7.97	9.20
Others (%)	17.38	16.45	17.10
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (*INR bn)

Y/E March	2018	2019E	2020E
Revenue*	8.2	8.8	9.8
EBITDA*	2.5	2.7	3.0
Adj PAT*	2.1	2.5	2.8
Adj EPS (INR)	31.5	37.5	42.4
% growth	179.4	19.0	13.1
PE (X)	17.1	14.4	12.7
P/ BV (X)	3.5	3.3	3.0
EV/EBITDA (X)	12.1	11.2	10.1
EV/Sales (X)	3.7	3.4	3.1
Div Yield (%)	1.6	2.2	1.6
ROE (%)	20.9	22.7	23.9

Performance %	1M	3M	12M
KSCL	0.1	7.1	-6.8
Sensex	-0.1	2.2	12.3



A non-event quarter; Management has guided an optimistic outlook for Kharif season

- In 4QFY18, Standalone Revenues grew by 3.4% YoY to INR 416mn of which Maize accounts for INR 180mn. During the quarter, Maize volumes were impacted due to lower acreages in Telangana (-23%) and Karnataka (-12%). In FY18, Cotton volume grew by 28% YoY to 6.94mn packets and cotton revenue grew 28% YoY to INR 4.58bn (~59.3% of FY18 total Revenue) owing to higher cotton acreages in AP & Telangana. Although, cotton volume increased, it is still 18% below its peak sale of 8.5mn packets in FY15. In cotton, KSCL has gained market share in Maharashtra, Gujarat and Karnataka.
- In FY18, Maize revenue stood at INR 1,500mn down 6.8% YoY and volume dropped 12.9% YoY to 9,500 tons due to acreage drop in Key states such as Karnataka (-12% YoY) and Telangana (-23%) which accounts for 2/3rd of company's Maize seed sales. Hybrid Paddy revenue were INR 340mn up 21.4% YoY. Selection paddy volumes grew 50% YoY and the contribution from the new products for hybrid paddy and selection paddy went up from 1% to 17% and 3% to 10% respectively in FY18.
- In 4QFY18 / FY18, Company reported an EBITDA of INR -133mn / INR 2,180mn (+ 58% YoY); inventory write-off in 4QFY18 / FY18 stood at INR 105.1mn / INR 236mn, mostly in cotton seeds which did not meet the germination and trait purity standards. However, the inventory write-off in FY18 is 65% lower than FY17. Net Profit stood at INR -184mn / INR 2,103.4mn in 4QFY18 / FY18.
- Company is witnessing higher traction for its newly launched hybrids. Revenue contributions from new products have gone up across seed category. Management expects 15-20% volume growth aided by strong growth in non-cotton seeds in FY19. In FY19, management expects 5-10% growth in cotton seed volumes, 35-40% growth in selection rice, hybrid rice: 25%, maize 15-20% and vegetable seeds: 25-30%.
- Board has approved a buyback of 2.96mn equity shares at INR 675/share (25.2% premium to CMP) and promoter & promoter group has expressed their intension to participate in the buyback offer.

Valuation: At CMP of INR 539, the stock is trading at valuation of 14.4XFY19E and 12.7XFY20E earnings. We are valuing the company 16.5XFY20E EPS to arrive at a target price of INR 700 (earlier: INR 705) and maintain a **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 4QFY18

Y/E March (INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Revenue	416	402	3.4%	706	-41.1%
EBITDA	-133	-272	N/A	97	N/A
Depreciation	52	66	-20.0%	57	-8.8%
Other Income	14	18	-21.8%	16	-14.8%
PBT	-172	-912	N/A	56	N/A
Tax	11	-40	N/A	1	792.0%
PAT	-184	-872	N/A	54	N/A
Adjusted PAT	-184	-872	N/A	685	N/A
EBITDA Margin	-32.1%	-67.5%		13.8%	
Tax Incidence	-6.5%	4.4%		2.3%	
PAT Margin	-44.2%	-216.7%		97.0%	

Sathyanarayanan M +91-44-30007361 sathyanarayananm@chola.murugappa.com

DISCLOSURES/ APPENDIX
I. ANALYST CERTIFICATION

I, **Sathyanarayanan M** 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 send 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			
Sathyanarayanan M	Consumption	+91-44 - 3000 7361	sathyanarayananm@chola.murugappa.com
Mugilan K	Auto Ancillary, Technicals	+91-44 - 3000 7353	mugilank@chola.murugappa.com
Keerthi S	Banking & Financial Services	+91-44 - 3000 7363	keerthi@chola.murugappa.com
Ashish M	Associate - IT	+91-44 - 3000 7360	ashishm@chola.murugappa.com
Muthu Kumar J	Associate- Research	+91-44 - 3000 7360	muthukumarj@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Lakshmanan T S P	Chennai	+91-9840019701	lakshmanantsp@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesh Katariya	Mumbai	+91-9860297739	bhaveshgk@chola.murugappa.com
Sudhanshu Kumar	Institutional Equities*	+91 - 9953175955	sudhanshuk@chola1.murugappa.com
Balaji H	Compliance Officer	044 - 30007226	balajih@chola.murugappa.com

*Employees of Business Partner - RCCR