

# Kaveri Seed Company Ltd

**BUY**

Sector: Agri-input /Small Cap | Earnings Update – 1QFY21

20 August 2020

**Background:** Kaveri Seed Company 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. 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.

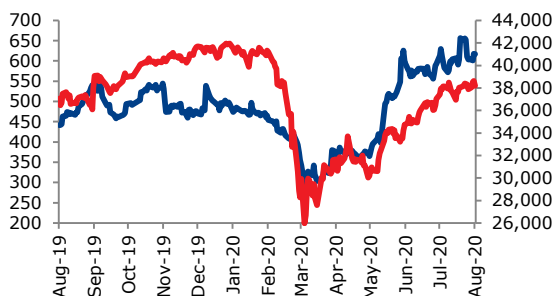
Sensex	38,615
Nifty	11,408
Price	₹ 618
Target Price (12 months)	₹ 706
Recommendation	BUY

52 Week High/Low	₹682/274
Bloomberg / Reuters	KSCL IN /KVRI.BO
Equity (shares in mn)	63
Mkt. Cap in mn	₹ 3640/ \$500
Avg. Daily Vol. ('000)	224.45
Avg. Daily Vol. (mn)	₹ 405.6 /\$ 5.7

Shareholding	Jun 18	Mar 20	Jun 20
Promoters (%)	55.1	55.5	55.5
FII (%)	20.0	21.0	20.2
DII (%)	9.7	10.7	10.8
Others (%)	15.3	12.7	13.5
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	8.8	10.2	11.2
EBITDA	2.4	2.9	3.2
Adj PAT	2.5	3.0	3.2
Adj EPS	39.8	46.9	50.4
% growth	17.0	17.8	7.5
P/E	15.5	13.2	12.3
P/BV	4.0	2.6	2.2
EV/EBITDA	16.3	13.2	7.4
EV/Sales	4.4	3.8	2.1
Div Yield (%)	0.6	0.8	0.8
ROE (%)	25.2	23.9	19.5

Performance(%)	1M	3M	12M
KSCL	0.7	64.6	39.8
SENSEX	2.1	24.0	3.1



— KAVERI SEED CO LTD — SENSEX

## Strong quarter; driven by healthy growth in non-cotton segment. We expect the earnings momentum to continue on the back of new product launches and higher crop acreage

- In 1QFY21, revenue increased markedly by 114% YoY to ₹7.4bn. Cotton seed volumes grew 5% despite challenges faced by the industry due to illegal sale of cotton seeds in the market. EBITDA was up 20% YoY to ₹2.8bn. EBITDA margin expanded 170bp YoY to 37.3%, mainly due to savings on royalty payment of ₹140m and savings on travel costs. This was partially offset by contraction in gross margin.
- The growth in Cotton sales was mainly driven by early sowing this year. The company reported higher volumes in India's North/West markets. However cotton production was down in key states (Maharashtra and Gujarat) due to price decline and adequate stock in the market. This has discouraged farmers from shifting to Soybean in Maharashtra and groundnut in Gujarat.
- Maize volumes increased 7% with revenue increase of 9%. Despite negative markets in Telangana, volume increased in all other states. Increase in value was driven by the premium segment product portfolio contribution.
- Hybrid rice volumes increased 44% and revenue surged 53% in 1QFY21. Hybrid Paddy 'KPH 468' helped translate to strong growth and introduction of 2 New Hybrids 'KPH 471' and 'KPH 7299', which also helped strengthen future growth prospects.
- Selection Rice volumes grew 23%, whereas revenue increased 28% in 1QFY21. In selection rice, performance was consistent across geographies. Timely placement and rains have helped the segment grow across markets. Revenue growth was majorly driven by premium products, which reported higher growth compared to general product segments.
- Vegetables saw 250%+ growth in both volume and revenue. Revenue and volumes were driven by three major crops, namely i.e. Hot Pepper, Okra and Tomato. Three new Hybrids in hot pepper 'KHPH 1213', 'KHPH 1225' and 'KHPH 1217' helped the robust growth in vegetables. New Hybrids 'Kaveri 055' in Tomato also helped strengthen future growth prospects
- COVID-19 impact: KSCL was running and operational even during the pandemic as the company is classified as an essential services' entity. Supply chain was smooth and there were no issues with respect to labor; however, sowing of millet crops was delayed due to intermittent rains.

**Valuation:** Government support schemes such as 'Rythu Bandhu', market share gains and good monsoon likely to support sales growth for FY21. The optimistic guidance from the management on delivering healthy growth across segments adds credence to value the stock at 14.0x FY22E EPS to arrive at our target price of ₹618, maintaining our **BUY** rating on the stock.

**Risks:** Kaveri has high concentration risk as it derives ~50% of its revenue from cotton seeds and lint; Decline in cotton acreage; Delayed/deficit monsoon.

## Results Summary 1QFY21

Y/E March (INR bn)	1QFY21	1QFY20	YoY Growth	4QFY20	QoQ Growth
Revenue	7,485	6,555	114%	519	-
EBITDA	2,793	2,333	120%	-117	-
Depreciation	52	59	89%	64	-
Other Income	241	43	557%	315	-
PBT	2,982	2,317	129%	132	-
Tax	72	28	259%	39	-
PAT	2,910	2,289	127%	94	-
Adjusted PAT	2,910	2,289	127%	94	-
EBITDA Margin	37	36	-23	-	-
Tax Incidence	2	1	29	-	-
Adj PAT Margin	39	35	18	-	-

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