

Kaveri Seed Company Ltd

BUY

Sector: Agri-input /Small Cap | Earnings Update – 4QFY20

9 June 2020

Background: Kaveri Seed Company is the largest producer of hybrid cotton seeds in India with a market share of ~15%. The company 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	34,618
Nifty	10,239
Price	₹ 514
Target Price (12 months)	₹ 601
Recommendation	BUY

52 Week High/Low	₹ 575.8/274.1
Bloomberg / Reuters	KSCL IN /KVRI.BO
Equity (shares in mn)	60.3
Mkt. Cap in bn	₹ 31.1/ \$ 0.4
Avg. Daily Vol. ('000)	139.9
Avg. Daily Vol. (mn)	₹ 72.1 / \$ 0.9

Shareholding	Mar-19	Dec-19	Mar-20
Promoters (%)	55.1	55.1	55.1
FII (%)	20.0	20.4	21.0
DII (%)	8.5	10.2	10.4
Others (%)	16.4	14.3	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	2.8	3.0
PAT	2.5	2.8	3.0
EPS	39.8	43.8	48.1
% growth	17.0	10.0	9.9
P/E	12.9	11.7	10.7
P/ BV	3.3	2.2	1.9
EV/EBITDA	13.5	11.5	5.6
EV/Sales	3.7	3.2	1.5
Div Yield (%)	0.8	0.9	0.9
ROE (%)	25.2	22.5	18.9

Performance(%)	1M	3M	12M
KSCL	37.0	18.9	-3.7
SENSEX	7.1	-11.5	-15.2

Higher cotton volumes & market share gains drive growth in Q4'FY20; Remain upbeat on Management's growth guidance for FY21

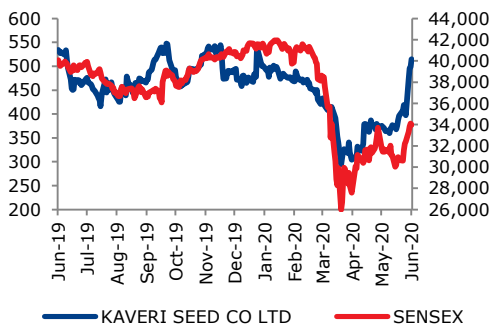
- In 4QFY20, Standalone revenues increased substantially by 16.1% YoY to ₹519.2mn. The company's business was marginally impacted by the pandemic as the company's business activity is listed as 'Essential Services'. The management guided for 15-20% overall growth for FY21 on the back of normal monsoon and incentives allocated to farmers by the government.
- For the FY20 Cotton volumes were up by 17% YoY to 7.23mn in packets in while revenues from cotton increased by 12.6% YoY to ₹450.2mn (vs ₹399.6mn in FY19). The Contribution from new products increased to 23.1% of total volume (up 826 bps YoY) from 14.8% in FY19.
- Overall the cotton market remained stable with a growth of 6.5%, the management expects the FY21 outlook to remain similar to FY20. In terms of cotton segment growth management guides for 10-15% for FY21 to be largely driven by market share gains. This guidance factors the government supported increase in cotton acreage in Telangana of 15 lakh acres. In addition, cotton being a six month crop faces limited impact from the pandemic.
- Maize acreage increased by 5% YoY in FY20 however the volume growth was muted resulting in a sales volume of 9,213 MT. The sales increased by 10% YoY on account of product mix and market share gains.
- Non-cotton segment constituting ~50% of sales and higher margins in the range of 30-35% compared to the cotton segment (15-20%). The margins in Cotton segment are lower as the prices are regulated by government leaving little scope for margin improvement. The management guided for 20-25% growth in Non-cotton segment for FY21.
- Hybrid Rice volume increased by 60% in FY20 to 3831mn packets on account of higher market share which boosted the segment's revenue growth by 65.5% to reach ₹850mn. The company expects a growth of more than 25-30% for FY21.
- For 4QFY20 the company reported EBITDA of ₹197mn (vs ₹144mn in 3QFY20) registering an increase of 37% QoQ. EBITDA margins for the quarter stood at 38% driven by 4.0x QoQ increase in other income to ₹315mn. The income generated by investment activity consisting of ~₹4bn boosted other income during the quarter.
- Commodity prices are expected to be stable on the back of normal monsoon. New Hybrids and scale up in hybrid paddy, cotton and maize are expected to aid Kaveri in maintaining growth trajectory.

Valuation: Government support schemes such 'Rythu Bandhu', increase in market share and good monsoon likely to support sales growth for FY21. With optimistic guidance from the management on delivering healthy growth across segments adds credence to value the stock at 12.5x FY22E EPS to arrive at our target price of ₹601, maintaining 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 4QFY20

Y/E March (₹ mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	519.2	447.2	16.1%	984.4	-47.3%
EBITDA	197.6	-35.6	NA	144.4	36.9%
Depreciation	64.1	58.7	9.3%	61.8	3.7%
Other Income	315.1	23.7	1227.9%	77.2	308.0%
PBT	132.3	-94.6	NA	82.0	61.4%
Tax	38.8	19.8	96.0%	21.5	80.2%
PAT	93.5	-114.4	NA	60.5	54.7%
Adjusted PAT	93.5	-114.4	NA	60.5	54.7%
EBITDA Margin	38.1	-8.0	NA	14.7	NA
Tax Incidence	29.3	-20.9	NA	26.3	NA
Adj PAT Margin	18.0	-25.6	NA	6.1	NA



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