

KAVERI SEED COMPANY LIMITED

Seeding Profitable Growth

LKP
Since 1948

Trust • Invest • Grow

Kaveri seeds Company Ltd (KSCL) is a four decade old agri-inputs company with strong brand equity among the Indian farmers. At present it is one of India's fastest growing seed companies with a wide portfolio, large network of distributors and dealers and a very wide customer base spanning the country. The company has a pan-India presence with a strong distribution network of ~60,000 distributors (direct & in-direct) and retailers across 29 product locations in distinct agro-climatic zones of India. KSCL has 1 million sq.ft state-of-the-art warehouse facilities at strategic locations across the country. The company has an extensive product portfolio encompassing a wide range of high-yielding seeds for field crops such as maize, cotton, rice, pearl millet, mustard, wheat, sorghum, sunflower, and various vegetable crops. With a strong local presence, the Company has also experienced remarkable growth in the international market, successfully exporting its products to countries such as Pakistan, Sri Lanka, Bangladesh and Vietnam.

The company had a significant exposure towards cotton seeds 6-7 years back (Over 60% of its revenues was coming from cotton seeds in FY15) but gradually KSCL with its extensive R&D investments diversified into other crops as the hybridization of cotton seeds gained traction. It is now contributing 35% to its overall seeds business and other crops like Maize, Rice and Vegetables have grown at a rapid pace. Revenue from cotton seeds between FY19-23 grew at a CAGR of -4% whereas Hybrid rice, Selection rice, Maize, Vegetables seeds revenue grew by 37%/16%/10%/36% CAGR which shows KSCL's impressive diversification from Cotton seeds owing to its robust R&D and comprehensive network that spans various agro climatic and soil conditions.

KSCL's R&D expenses have risen 300% in FY22 vs FY21 from ₹30 mn to ₹124 mn in FY22 moreover in FY23 R&D expenses were further higher by 38% to ₹172 mn (0.3% of sales in FY21 to 1.6% of sales in FY23), this shows the company is now aggressively focusing on introducing newer products. This robust R&D infrastructure has facilitated the development of superior products for diverse agricultural regions, covering approximately 1000 acres of land across 11 distinct agro-climatic zones. The Company's R&D endeavours are strengthened by the expertise of over 165 highly qualified scientists who employ cutting-edge biotechnological approaches to enhance crop yields and produce innovative hybrid seeds.

Key Financials	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E
Total Income (₹ mn)	9,303	10,363	9,700	10,704	11,774	13,187
EBITDA margins (%)	16.6%	14.3%	26.9%	25.1%	26.2%	27.6%
PAT margins (%)	17.3%	15.6%	27.9%	27.0%	27.6%	28.6%
EPS (₹)	43.1	51.6	36.5	48.8	56.1	65.0
P/E (x)	7.9	9.9	15.8	13.4	11.7	10.1
P/BV (x)	2.1	2.5	2.6	2.7	2.2	1.8
EV/EBITDA (x)	8.1	10.3	16.5	14.4	12.1	10.0
ROE (%)	27.1%	25.0%	16.6%	19.9%	18.7%	17.8%
ROCE (%)	16.5%	15.9%	11.3%	13.3%	13.6%	13.4%

Rating	BUY
Current Market Price (₹)	654
12 M Price Target (₹)	806
Potential upside (%)	23

Stock Data

Sector :	Hybrid Seeds
FV (₹) :	2
Total Market Cap (₹ bn) :	37
Free Float Market Cap (₹ bn) :	14
52-Week High / Low (₹)	692 / 467
12M Avg. Dly Traded Volume (in lakh)	2
BSE Code / NSE Symbol	532899 / KSCL
Bloomberg :	KSCL IN

Shareholding Pattern

(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	59.90	59.90	59.90	59.90
FPIs	16.29	16.29	16.55	16.44
Insurance	5.12	5.12	5.12	5.12
AIIF's	1.64	1.64	1.68	1.74
Bodies Corporate	1.41	1.41	1.41	1.35
Others	15.64	15.64	15.34	15.45

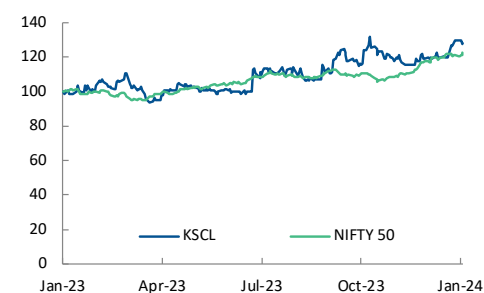
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
KSCL	7.8%	10.6%	16.8%	29.6%
Nifty 50	4.7%	10.6%	12.9%	22.6%

* To date / current date : January 12, 2024

KSCL vs Nifty 50



KSCL's Revenue/EBITDA/PAT has grown at a CAGR of 5%/20%/22% between FY20-23 on the back of new products introduced in their Non-Cotton portfolio as the company continues to reduce its dependence on Cotton seeds. However the company is yet to reach peak Revenue/PAT levels of 2014-15 but we believe owing to its Non-cotton portfolio mainly Vegetables, Maize & Rice with tremendous potential to grow as far as Hybridization is concerned KSCL will continue to improve its realizations in its Non-cotton portfolio as hybridization gains pace. We expect KSCL to post a Revenue/EBITDA/PAT CAGR of 11%/16%/14% respectively over FY23-25E. We initiate coverage on KSCL with a BUY rating and a one-year TP of ₹806.

Diversified Product Basket
Field Crops


Cotton



Wheat



Maize

Cotton

Wheat

Maize



Paddy



Sunflower



Mustard

Paddy

Sunflower

Mustard



Sorghum



Pulses



Bajra

Sorghum

Pulses

Bajra

Vegetables


Tomato



Okra



Chillies

Tomato

Okra

Chillies



Gourds



Brinjal



Watermelon

Gourds

Brinjal

Watermelon

Source: KSCL Annual Report

Evolving in to Non cotton seed company

More than 60% of revenues and profits are expected to come from non cotton crops

1976 - 2021

- **Seed company with strong R&D**
- **Established and expanding crop portfolio**
 - From Cotton to Maize, vegetables and Hybrid Rice
- **Built large and diversified distribution and production capabilities**
 - Achieved leadership position in major crops in India and emerged as leading player in Indian Seed Industry and exploring exports
- **Generated great value for all stakeholders from farmers to investors and generated good free cash flows and distributed among investors year on year since listing of the company in 2007**
 - Distributed ₹920 crore in the form of dividend and buyback of shares since 2007(listing on the stock exchanges)
 - Distributed ₹619 crore in the form of dividends and buyback in the last five years

2022 and Beyond

- **Increase in acreage across non cotton crops and driving hybrids penetration across the crop segments to drive the growth**
 - Conversion from traditional seeds to hybrids in Rice, Maize and Vegetables and increased demand consumption of healthy foods like
- **Hybrid Rice, Maize and Vegetables are going to drive the growth in the next decade**
 - 60% of the revenues and profits are going to be from these three segments
- **Adding new crops like mustard and wheat which have great potential in the years' to come**
- **Utilize R&D engine to create new value through advanced technology and partnerships with leading technology companies**
 - Pathways include in-house development, license from third party technology developers, license from ICAR kind of institutes
- **Leverage large sales and field technical support staff**
 - Goal of helping customers deploy new technology in crop portfolio and increase value on the farm to push new seed technologies adoption

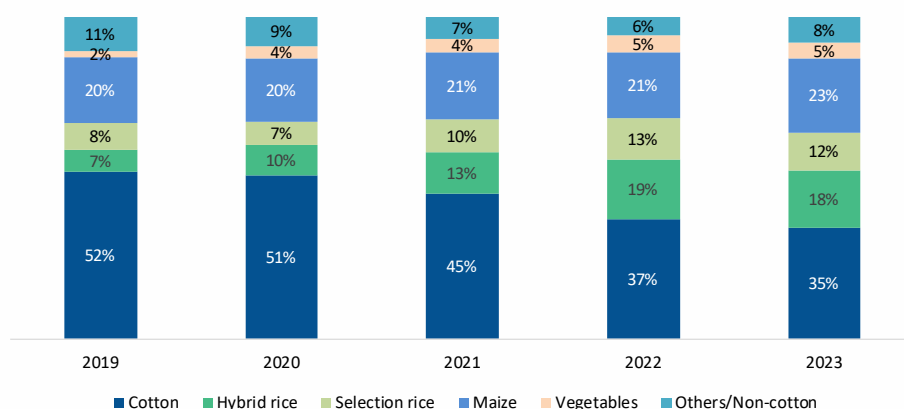
Source: KSCL, LKP Research

Investment Rationale

Diversification from cotton seeds remains well on track

The company had a significant exposure towards cotton seeds 6-7 years back (Over 60% of its revenues was coming from cotton seeds in FY15) but gradually KSCL with its extensive R&D investments diversified into other crops as the hybridization of cotton seeds gained traction. It is now contributing 35% to its overall seeds business and other crops like Maize, Rice and Vegetables have grown at a rapid pace. Revenue from cotton seeds between FY19-23 grew at a CAGR of -4% whereas Hybrid rice, Selection rice, Maize, Vegetables seeds revenue grew by 37%/16%/10%/36% CAGR which shows KSCL's impressive diversification from Cotton seeds owing to its robust R&D and comprehensive network that spans various agro climatic and soil conditions. This robust R&D infrastructure has facilitated the development of superior products for diverse agricultural regions, covering approximately 1000 acres of land across 11 distinct agro-climatic zones. The Company's R&D endeavours are strengthened by the expertise of over 165 highly qualified scientists who employ cutting-edge biotechnological approaches to enhance crop yields and produce innovative hybrid seeds.

Non-Cotton seeds contribution to sales in FY23 stands at 65% vs 48% in FY19



Source: KSCL, LKP Research

Wide Product portfolio addressing crop rotation & reducing dependence on traditional market:

KSCL has focused consistently on building robust portfolio of field crops and vegetables to help enhance farm yield since its inception. Company is also engaging more with farmers and educating them about its products and handholding to implement agricultural best practices. Hybrid vegetable seed is one of the fastest-growing segments in India estimated to be around ₹2,000 crore. For vegetables, Company has built an exclusive sales team of more than 20 dedicated employees, launched new products, and built a focused distribution network and evaluating in-licensing opportunities. Company plans to expand its presence in other states rather than key markets like Andhra Pradesh, Telangana, and Karnataka. Lower acreages of Maize in Bihar and coastal Andhra Pradesh was compensated by higher acreage in Telangana, Maharashtra and Gujarat, leading to growth in the maize seed sales in FY23.

Major Crop Market and their sizes

Maize 94.70 lakh hectares	Rice 427.10 lakh hectares	Bajra 63.56 lakh hectares
<ul style="list-style-type: none"> Low yielding situation calls for adoption of hybrid varieties, which should happen in next 5 years With increasing consumption of protein and demand for green fuels, the acreage should increase in India like in Brazil and USA 	<ul style="list-style-type: none"> Hybrid rice is just 9% at million hectares 10% shift to hybrid is a huge opportunity, which is happening on the ground 	<ul style="list-style-type: none"> Strong product pipe line of Kaveri Seed to make the Co. winner in this segment Nutritional benefits are driving the growth of this crop, as the awareness increases the demand so as the acreage
Vegetables 103.50 lakh hectares	Cotton 120.69 lakh hectares	
<ul style="list-style-type: none"> Nutritional benefits, export potential, ever expanding egrocery channels, increasing consumption of health conscious consumers, Govt. focus on expanding horticulture crops are driving the growth of vegetables 	<ul style="list-style-type: none"> Increase in authentic seeds use and reducing counterfeit seeds by Gol and States will enhance the potential for organised players like Kaveri Seed 	

Aggressive focus on R&D provides huge tailwinds for growth ahead

In recent years, the Company has intensified its focus on R&D, recognising its pivotal role in driving innovation and growth. In line with this commitment, the Company is currently in the process of establishing a state-of-the-art R&D biotechnology plant. The projected capital expenditure (capex) for this venture is expected to range from ₹25 crore to ₹30 crore on a year-on-year basis. KSCL's R&D expenses have risen 300% in FY22 vs FY21 from ₹30 mn to ₹124 mn in FY22 moreover in FY23 R&D expenses were further higher by 38% to ₹172 mn (0.3% of sales in FY21 to 1.6% of sales in FY23), this shows the company is now aggressively focusing on introducing newer products

KSCL has implemented standardised breeding processes for various crops, which have helped acquire germplasm with disease and pest tolerance as well as stable yields. Multiple breeding locations are utilised to identify tolerant lines, resulting in the development of superior hybrids that can withstand diverse conditions. The Company has implemented standardised breeding processes for various crops, which have helped acquire germplasm with disease and pest tolerance as well as stable yields. Multiple breeding locations are utilised to identify tolerant lines, resulting in the development of superior hybrids that can withstand diverse conditions. Leveraging cutting-edge technologies, the Company creates value-added products to achieve cost reduction and quality enhancement. Genetic enhancement efforts focus on introducing elite recombinants and new products.

KSCL presents an extensive and diverse product range encompassing high yielding seeds in both the field crops and vegetable segments, with a strong focus on meeting the varied needs of farmers. In the field crops category, it offers a wide selection of hybrid and variety seeds tailored for maize, rice, cotton, sunflower, mustard, sorghum, legumes, bajra and wheat. Moreover, in the vegetable segment, the Company provides farmers with an array of options, including tomatoes, okra, chillies, watermelon, gourds and brinjal. By offering such a comprehensive range of seeds across multiple crop categories, the Company aims to address the diverse requirements of farmers, enabling them to maximise their yields and promote sustainable agricultural practices.

High Entry Barriers

Seeds have been highly instrumental in supporting agricultural growth over the past 40-50 years, with productivity gains and the expansion of the domestic seed industry moving in tandem. Though seed constitutes a small proportion of the total input costs of crop production, it is a basic and critical input in increasing productivity. There are several barriers present making the foray into the seed business quite challenging. Firstly, the seed industry entails high investments in R&D where the average lead time from R&D to commercial introduction is 7-8 years. The process of developing an effective hybrid is a complex process – several high value skills required to choose the right kind of lines. Secondly, there is an inherent requirement of a wide distribution/production/marketing network across India for a diverse portfolio of seeds considering the varied agro-climatic conditions across India. Thirdly, and the most important barrier of them all, is the need for high degree of credibility with farmers, as farmers will not jeopardise their year's worth of income on un-established company seeds.

Key Government Initiatives to drive growth

India has the highest count of organic farmers globally, standing at 44.3 lakh. Also, an impressive 59.1 lakh hectares of land have been dedicated to organic farming as of FY21-22. The adoption of organic and natural farming practices ensures the production of food grains and crops free from chemical and pesticide residues. Additionally, it contributes to the enhancement of soil health and the mitigation of pollution. The Government has facilitated the advancement of organic farming through the implementation of two dedicated schemes, namely the Paramparagat Krishi Vikas Yojana (PKVY) and the Mission Organic Value Chain Development for North-eastern Region (MOVCDNER). Policies such as the implementation of Soil Health Cards, the establishment of the Micro Irrigation Fund and the promotion of organic and natural farming practices have proven effective in assisting farmers in optimising their use of resources and reducing cultivation costs. Additionally, the encouragement of Farmer Producer Organisations (FPOs) and the implementation of the National Agriculture Market (e-NAM) extension platform have empowered farmers, bolstered their resources and yielded favourable returns on their investments. In the April-July 2022-23 cycle of PM KISAN Scheme, a total of 11.3 crore farmers received income support from the Government. Over the course of the past three years, the scheme has provided assistance amounting to more than ₹2 lakh crore to farmers in need.

The upcoming Union Budget 2024-25 is expected to set aside over ₹2 trillion for the agriculture ministry to help it expand the government's flagship schemes on income support and crop insurance for farmers, this will be a 39% increase in allocation for the Agriculture ministry which in the last Budget received ₹1.44 trillion cheque, this whopping allocation may also help the ministry raise annual farmer income support from the current ₹6,000 to ₹9,000.

Key Strengths & Challenges

Strengths

**Research and Development**

The Company maintains a formidable emphasis on research and development, allocating substantial investments towards the advancement of high-yielding hybrid seeds. These seeds are meticulously customised to suit precise climatic conditions and fulfil the requirements of farmers. By placing significant emphasis on its research and development endeavours, the Company consistently fosters innovation and enhances its seed varieties, ensuring a continuous cycle of improvement.

**Product portfolio**

The Company has a diverse and expansive product portfolio that encompasses a broad spectrum of crops, including cotton, corn, rice, vegetables and various field crops. This comprehensive range enables the Company to effectively address the requirements of a wide-ranging customer base, while also mitigating the risks associated with relying solely on a single crop or market segment. By offering such a diverse array of products, the Company strategically positions itself to cater to a multitude of agricultural needs and foster sustainable growth.

**Quality control**

The Company upholds rigorous quality control protocols at every stage of the seed production process. With state-of-the-art testing facilities at its disposal, the Company diligently scrutinises its seeds to ensure adherence to exacting standards of purity, germination and genetic traits. By consistently delivering quality seeds, the Company has built a foundation of trust and fostered loyalty among farmers who rely on its products. This unwavering commitment to maintaining superior seed quality contributes to the Company's esteemed reputation within the agricultural industry.

**Distribution network**

The Company possesses a widespread distribution network that is available across the country. Through the cultivation of robust affiliations with distributors and retailers, the Company has successfully penetrated both rural and urban areas, effectively reaching a diverse range of farmers. This well-established distribution network serves as a crucial mechanism, guaranteeing the punctual accessibility of seeds to its esteemed customers. By forging enduring relationships and cultivating a broad reach, the Company ensures that its high-quality seeds are readily available, thus fulfilling the agricultural requirements of customers across the nation.

**Strong brand reputation**

Over the years, the Company has diligently cultivated a robust brand reputation within the agricultural industry. Renowned for its firm dedication to quality products, customercentric practices and sharp focus on innovation, the Company has established a positive brand image. This favourable perception considerably aids in its ability to attract and retain customers, even amid a highly competitive market landscape. The Company's brand reputation serves as a testament to its commitment to excellence and sets it apart as a trusted and preferred choice for discerning customers.

Source: KSCL Annual Report

Challenges**Competitive market**

The seed industry is highly competitive, with several established players and new entrants. The Company faces competition from both domestic and international seed companies. Staying ahead of competitors and continuously innovating to meet evolving customer demands can be a significant challenge.

**Regulatory environment**

The seed industry is subject to various regulations and policies related to seed certification, intellectual property rights and biosafety. Compliance with these regulations can be complex and time-consuming. Changes in regulations or new requirements may pose challenges for the Company to adapt and ensure compliance.

**Crop variability and climate change**

Agricultural productivity is influenced by climatic conditions, and unpredictable weather patterns and climate change can affect crop yields. The Company may face challenges in developing and adapting seed varieties that are resilient to climate change and can perform well under varying environmental conditions.

**Price volatility**

Commodity price fluctuations, including those of crops like cotton and corn, can impact the profitability of seed companies. The Company may face challenges in managing costs, optimising pricing strategies and mitigating risks associated with price volatility in agricultural commodities.

**Intellectual property protection**

Hybrid seed development involves significant investment in research and development. Protecting intellectual property rights for its proprietary seed varieties can be a challenge for the Company. Ensuring that its genetic innovations are adequately protected from unauthorised use or infringement is crucial for sustaining its competitive advantage.

Source: KSCL Annual Report

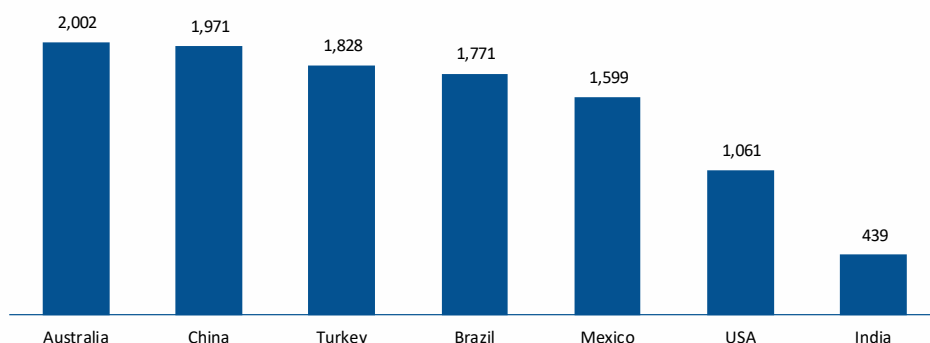
Business Segments

Cotton Seed: India a 2nd largest cotton producer but yields are still among the lowest

In FY23, company's revenue from hybrid cotton seed stood at ₹3,459 mn. In terms of volume, KSCL has sold 57.5 mn seed packets in FY23 as compared to 53.7 mn seed packets in FY22. According to the data from the International Cotton Advisory Committee (ICAC), it is projected that China has produced approximately 59.80 lakh tonnes of cotton in the FY22-23. Following closely, India is estimated to have produced 52.00 lakh tonnes, while the USA and Brazil are expected to have produced 31.96 and 29.46 lakh tonnes of cotton, respectively. These four countries collectively contributed around 71% of the global cotton production, despite occupying only 64% of the world's cotton-growing land. India holds the leading position in terms of cotton cultivation area, encompassing approximately 130 lakh hectares, which accounts for roughly 40% of the total global cotton cultivation area. In terms of cotton productivity, India's performance (439 kg/ha) significantly lags behind that of the leading cotton-producing nations such as Australia (2002 kg/ha), China (1971 kg/ha), Turkey (1828 kg/ha), Brazil (1771 kg/ha), Mexico (1599 kg/ha) and the USA (1061 kg/ha).

During the FY22-23, the states of Gujarat, Maharashtra and Telangana emerged as the major cotton-growing regions, collectively accounting for approximately 68% (82.09 lakh hectares) of the total cotton cultivation area in the country. Moreover, these states contributed to around 65.35% (236.69 lakh bales) of the cotton production in the country.

Yields for Cotton are still the lowest in India vs other major cotton producing countries (Kg/Ha)



Source: KSCL, LKP Research

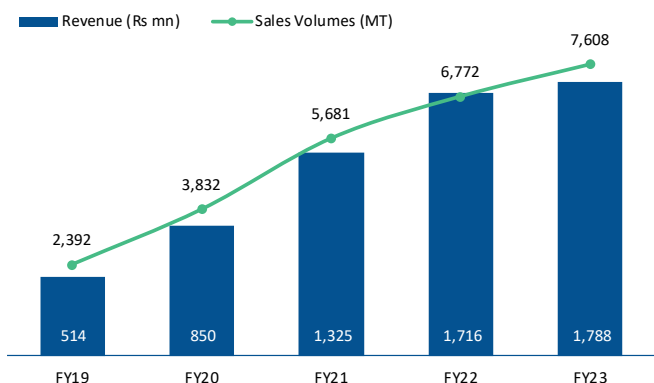
Hybrid & Selection Rice

In FY23, company's revenue from Hybrid Rice & Selection Rice stood at ₹1,788 mn and ₹1,161 mn respectively. In terms of volumes, KSCL sold 7,608 MT of Hybrid rice seeds and 17,173 MT of Selection Rice in FY23 as against 6,772 MT & 16,174 MT in FY22 higher by 12% & 6% YoY respectively. Hybrid rice volumes have grown at a CAGR of 34% from FY19-23, volumes are currently at their highest level since the company's inception. The estimated rice production during the period 2022-23 has reached a record-breaking 129 million tonnes. The agricultural sector contributed to 18.3% of India's GDP in the FY22-23, with rice alone accounting for 50% of the country's Agricultural GDP, benefiting from supportive Government policies. The adoption of hybrid rice still stands at about 9.5% with an acreage of 4.2 million hectares, indicating room for further expansion.

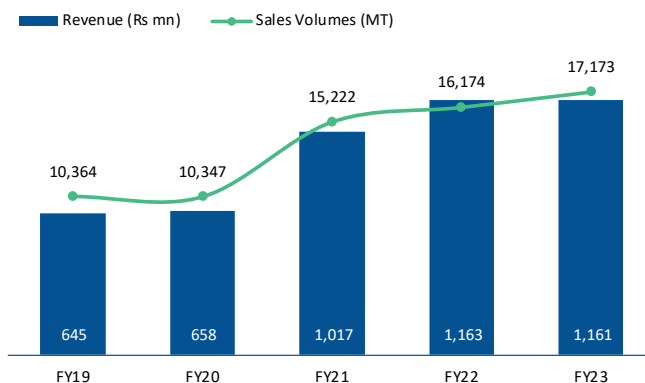
To support farmers, the Minimum Support Price (MSP) for common paddy has been raised from ₹2040 per quintal in 2022-23 to ₹2,183 per quintal for FY23-24. India's rice yield per hectare stands at close to around 3.38 metric tons (MT) which is a tad bit lower than the world average of 4.25 metric tons its No.1 competitor China is at 6.49 MT and highest yield per hectare country i.e, Australia stands at 9.82 MT.

Non-cotton seeds Revenue CAGR between FY19-23 stands at 15.4%; Non-cotton seeds Volume CAGR between FY19-23 stands at 20%

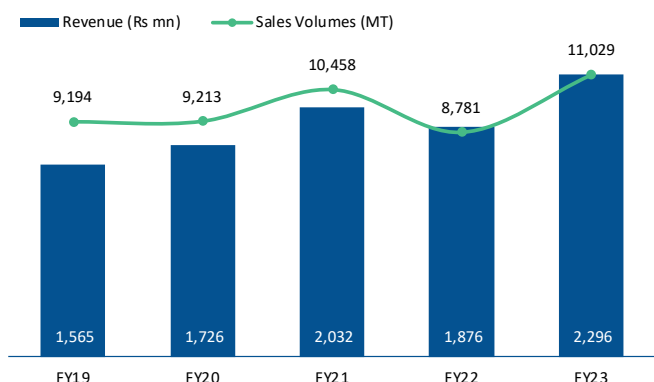
Hybrid Rice seed revenue & volumes



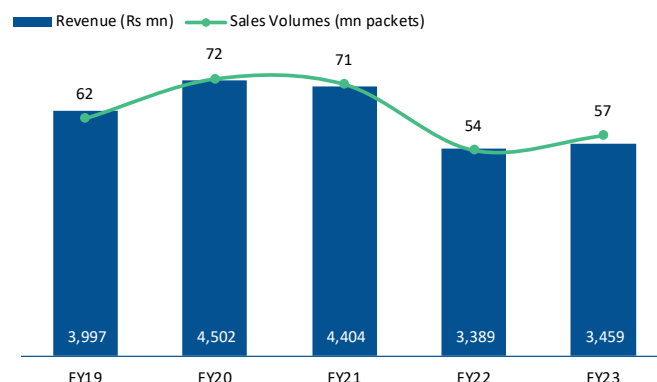
Selection Rice seed revenue & volumes



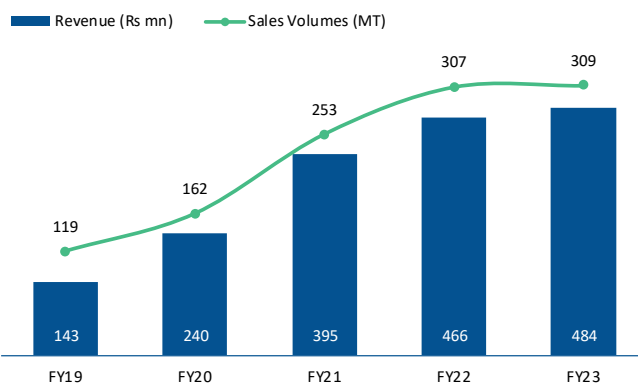
Maize seed revenue & volumes



Cotton seed revenue & volumes



Vegetables seed revenue & volumes

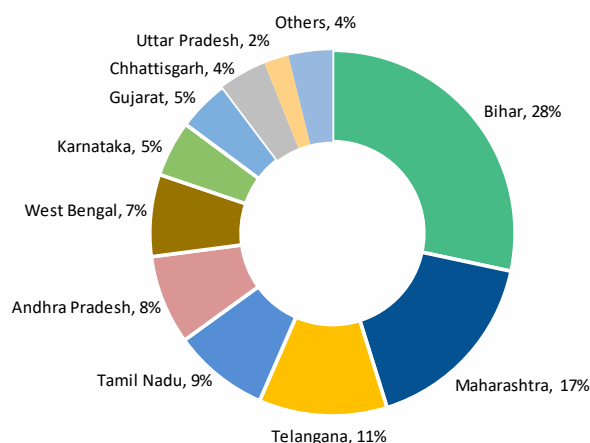


Maize & Vegetables- Future drivers of growth for KSCL

KSCL is now aiming to replicate the successful cotton seed story in other crop categories like Maize and Vegetables which contributed 23% & 5% of their revenues respectively. Maize volumes increased 26% in FY23 to 11,028 MT from 8,781 MT in FY22, Vegetables volumes grew 1% in FY23 to 309 MT however it showed a robust 27% CAGR between FY19-23 and is one of the fastest growing product basket for KSCL. Indian Vegetable market is about ₹4000 crores, major 8 crops contribute 62% vegetable market viz., Onion, Okra, Hot pepper, Tomato, Cauliflower, Cucumber, Cabbage, while the rest of the crops contribute 38%. A very significant development is the consolidation of vegetable seed companies. Multinational corporations (MNCs) are expected to invest more in breeding and technologies to gain a competitive edge in the market. Also, it is projected that the majority of crops will undergo more than 80% hybridisation. Over the course of ten years, the vegetable seed market is forecast to grow by 50%. This growth is likely to be accompanied by an increase in the area dedicated to vegetable cultivation, estimated to rise from 9.8 million hectares to 12 million hectares. This expansion is driven by rising demand and market trends.

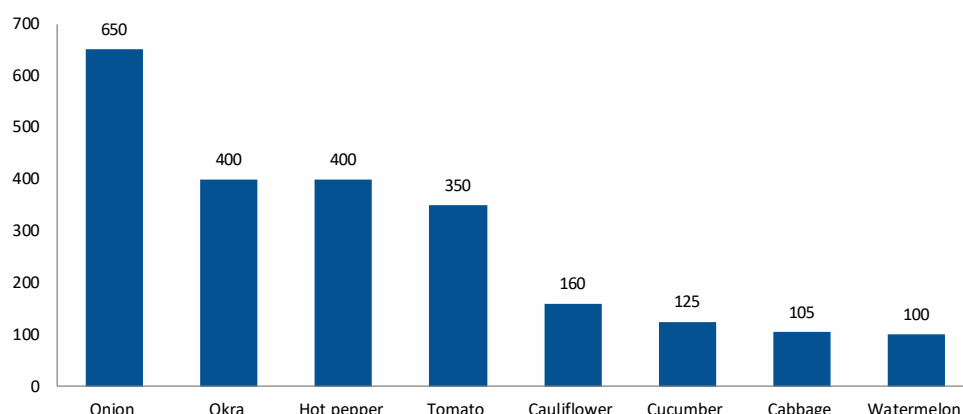
Maize is the third most significant cereal crop in India, trailing behind rice and wheat. It can be cultivated in diverse environments, ranging from extreme semi-arid to sub-humid and humid regions, accounting for approximately 82% of the area under cultivation during the kharif season. Maize contributes approximately 10% of the total food grain production in the country, with cultivation spanning nearly 201 million hectares, resulting in a production of 1162 million tonnes and a productivity rate of 5754.7 kg/ha globally, owing to its adaptability to various soil types, climates, biodiversity and management practices (FAOSTAT 2020). The Indian maize sector offers numerous opportunities in various sectors such as seeds, non-seed inputs, farm mechanisation, processed foods, industrial products, market-related infrastructure, storage and processing. Moreover, it has the potential to play a vital role in providing food security, feed security, nutritional security and increased income for maize growers. The cultivation of maize is considered a promising venture for doubling farmers' income as it requires less water while yielding higher productivity per hectare. The company is expecting 15-20% growth rate in Maize to continue, both in terms of volumes and revenues the company saw good growth overall during FY23 and the trend should continue in the coming years on account of increasing demand for both animal feed and biofuel blending (Ethanol) demand in the country.

State-wise maize production share



Source: KSCL Annual Report

Vegetable market (₹ Crs)



Source: KSCL Annual Report

Overview of Seed Industry

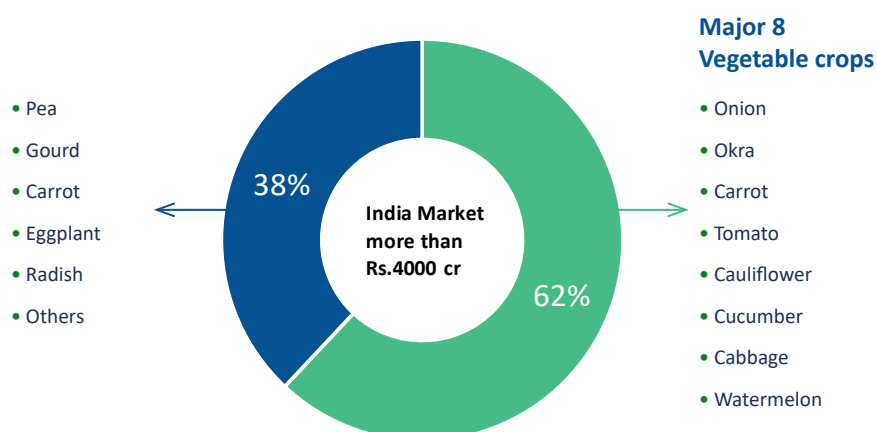
The seed industry in India reached a size of USD 6.3 billion in 2022 and it is projected to reach USD 12.7 billion by 2028, reflecting a compound annual growth rate (CAGR) of 12.43% during the period from 2023 to 2028. This growth can be attributed to several key factors. India's growing population and the presence of fertile arable lands across diverse agro-climatic zones have a positive impact on the market. Moreover, the commercialisation of agriculture and the active collaboration between the private and public sectors are driving the expansion of the seed industry in the country.

Moreover, prominent seed breeders are increasingly integrating advanced digital technologies to assist farmers in mitigating the adverse effects of pests, climate fluctuations, and other environmental factors, thereby contributing to overall market growth. Additionally, the agricultural sector is witnessing the incorporation of data science, artificial intelligence (AI) tools, advanced phenomics, and genomics, which present promising prospects for the seed industry. The Government of India (GoI) plays a crucial role by offering various opportunities to encourage farmers and breeders, as exemplified by programmes like the Integrated Scheme for Oilseeds, Pulses, Oil Palm, and Maize (ISOPOM) and the Rashtriya Krishi Vikas Yojana. These initiatives provide consistent support and lucrative growth avenues for farmers and seed breeders alike. Additionally, research institutes are making increased investments in research and development (R&D) activities focused on enhancing crop production, supply chain management, and quality assurance. These efforts are expected to further propel the seed industry in India.

Key Growth drivers of Indian Seed industry

- **Adoption of hybrid seeds** is increasing as the demand for high yields and food security is increasing. The Indian seed market is estimated to grow at CAGR of 6.8% between 2022-27.
- **PM Kisan Scheme** - The central sector PM Kisan scheme supplements the financial needs of land-holding farmers by providing a yearly benefit of ₹6,000 directly to their bank accounts through the Direct Benefit Transfer (DBT) system. In the payment cycle of April-July 2022-23, around 11.3 crore farmers benefited from the scheme, offering total assistance of over Rs2 million to numerous farmers in a span of three years.
- **Agriculture Infrastructure Fund (AIF)** - Established for the period 2020-21 to 2032-33, the AIF facilitates financing for agricultural infrastructure. With an allocation of ₹1 lakh crore for 2020-21 to 2025-26, the fund also provides interest subvention and credit guarantee assistance until 2032-33. Since its inception, the AIF has sanctioned ₹13,681 crore for more than 18,133 agricultural infrastructure projects across the country.
- **PM Fasal Bima Yojana (PMFBY)** - The world's largest crop insurance scheme by farmer enrolments, the PMFBY records an average of 5.5 crore applications annually. Farmers only bear a minimal financial burden, contributing 1.5% and 2% of the total premium for the Rabi and Kharif seasons respectively, while the majority of the premium cost is covered by the Central and State Governments. Over the past six years, farmers paid a premium of ₹25,186 crore and received claims totaling ₹1.2 lakh crore.
- **Agricultural credit target** - The Agricultural Credit Target is set to rise to ₹20 lakh Crores, focusing on fisheries, animal husbandry, and dairying. This entails introducing the PM Matsya Sampada Yojana with an ₹6000 crore outlay to enhance value chain efficiency in these sectors.
- **Digital ecosystem upscaling** - The development of an opensource, interoperable public infrastructure for agriculture aims to improve access to credit, insurance, market intelligence, and support for the growth of agri-tech industries and startups. An allocated budget of ₹2,516 Crore is earmarked for the computerisation of 63,000 Primary Agriculture Credit Societies, enhancing operational efficiency and business diversification.
- **Budget growth** - Over the past decade (FY13 to FY23), the budget has shown a Compound Annual Growth Rate (CAGR) of 11%. Notably, the allocation towards the agriculture sector and rural development has exhibited a CAGR of approximately 12%. This underscores the government's dedicated investment in promoting agriculture sector growth and enhancing living standards in rural areas.

Overview of Major Vegetable crops in Indian Market



Source: KSCL Annual Report

Rabi Sowing remains sluggish until Dec'23 (Lakh ha)

Crop	Area sown in 23-24	Area sown in 22-23	Change (YoY %)
Wheat	187.94	197.59	-4.90
Rice	9.28	10.70	-13.30
Coarse Cereals	39.93	41.68	-4.20
Jowar	16.74	18.21	-8.10
Maize	14.55	14.27	2.00
Pulses	108.09	119.37	-9.40
Oilseeds	89.49	89.88	-0.40
All Crops	434.72	459.22	-5.30

Source: Industry

Foodgrains and Commercial Crops Production (MT)

Crop	2018-19	2019-20	2020-21	2022-23
Rice	116.48	118.84	124.36	135.5
Wheat	103.59	107.86	109.58	112.7
Total Cereals	263.14	274.47	285.27	350
Total Pulses	22.08	23.02	25.46	27.5
Total Foodgrains	285.21	297.5	310.74	330.5
Total Oilseeds	31.52	33.21	35.94	40.9
Sugarcane	405.41	370.5	405.39	494.2
Cotton (mn bales of 170 kg each)	28.04	36.06	35.24	34.3
Jute & Metsa (mn bales of 180 kg each)	9.82	9.82	9.35	9.4

Source: IBEF

Agriculture Sector's Scenario in India

India's agricultural sector has experienced substantial progress, exhibiting an average annual growth rate of 4.6% over the past six years. It represents 18.3% of India's Gross Value Added (GVA) at current prices for FY22-23. This commendable performance has played a pivotal role in fostering the nation's overall advancement and development and ensuring food security. Additionally, India has recently emerged as a net exporter of agricultural commodities, achieving an export value of USD 40.37 billion from April 2022 to January 2023.

There are two major agricultural seasons in India: Kharif and Rabi, Kharif season lasts from April to September (summer) - rice (paddy) is the season's main crop and rabi season lasts from October to March (winter) - wheat is the season's main crop. The overall sown area of Rabi crops have declined by 5.3% in FY23 due to erratic rainfall and delayed start in rabi sowing (Rabi sowing contributed 25-30% of its total revenues). The government had raised the MSP for wheat by 7% (highest since 2014). Additionally, storage levels remain lower at 65% compared with 83% in the last season and is also lower to average of last 10- years, thereby needs to be monitored on a regular basis.

In FY23, India's agricultural product exports demonstrated a noteworthy growth of 9%, reaching a total value of US\$ 26.3 billion compared to the preceding fiscal year. This was primarily driven by substantial increases in the shipment of rice, fruits, vegetables, livestock, and dairy products. This exceeded the target set by the Agricultural and Processed Food Products Exports Development Authority (APEDA), surpassing US\$ 23.56 billion.

Fresh and processed fruits and vegetables exhibited an impressive export growth of 18.8%, amounting to US\$ 3.8 billion, while the export of cereals, preparations, and processed food products experienced a notable ascent of 20% to US\$ 4.3 billion in the FY22-23. India has upheld its position as the world's leading rice exporter, with a substantial 45% share in the global grain trade. This is underscored by competitive pricing, a near-record high rice supply, and an impressive 15% YoY increase in rice exports, reaching a record US\$ 11.1 billion.

The Government has implemented a policy of progressively raising the Minimum Support Price (MSP) for all 22 Kharif, Rabi and other commercial crops. The MSP is set at a minimum of 50% above the all-India weighted average cost of production, starting from the agricultural year 2018-19. Notably, higher MSPs have been allocated to pulses and oilseeds to align with evolving dietary preferences and foster self-sufficiency in their production.

The agricultural sector in India has witnessed significant growth in the production of major crops, including rice, wheat, maize, cereals and lentils. The estimated food grain production is projected to reach 3305.34 lakh tonnes in FY23. Additionally, the United Nations has designated the year 2023 as the 'International Year of Millets'. This substantial surge in agricultural output contributes to enhancing food security and plays a vital role in supporting the economic stability and prosperity of farmers. The augmentation in the production of coarse grains underscores the significance of promoting nutrient-rich grains within the nation. Supported by the farmer-friendly policies of the Government and the efforts of farmers and scientists, the agricultural sector in India is poised for sustained advancement and further expansion in the upcoming years. These estimations serve as a pivotal gauge of the progress and potential of India's agricultural industry, accentuating the country's commitment towards attaining self-reliance in agricultural production and the goal of doubling farmer's income.

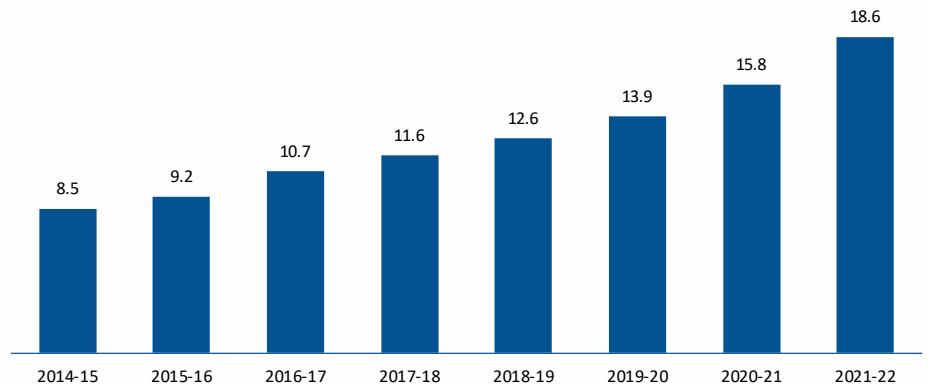
Improved access to agricultural credit

The Government has established a goal of achieving agricultural credit flows amounting to ₹18.5 lakh crore in FY22-23. Demonstrating a consistent pattern, the Government has consistently raised this target annually and has successfully surpassed the set target for several consecutive years. Notably, in FY21-22, the actual credit flow exceeded the target of ₹16.5 lakh crore by approximately 13%.

During FY22-23 too, the growth in agriculture credit has remained robust with disbursement level of ₹21.55 lakh crore against target of 18.50 lakh crore. A target of ₹1,26,000 crore was fixed for Animal Husbandry, Dairy, Poultry & Fisheries during the FY22-23. The total achievement in respect of allied activities was ₹2.62 lakh crore. Agriculture credit target for FY23-24 has been set at ₹20.00 lakh crore with a sub-target of ₹2.93 lakh crore for Animal Husbandry, Dairying and Fisheries farmer.

This accomplishment was facilitated by the Government's implementation of various initiatives aimed at facilitating convenient access to credit for farmers at competitive interest rates. Noteworthy, among these initiatives are the Kisan Credit Card (KCC) Scheme, which enables farmers to obtain credit at any time and the Modified Interest Subvention Scheme, which offers subsidised interest rates on short-term agricultural loans of up to ₹3 lakh.

Agriculture Credit Flow (₹ Lakh Crs)

Source: www.pib.gov.in

Outlook & Valuation

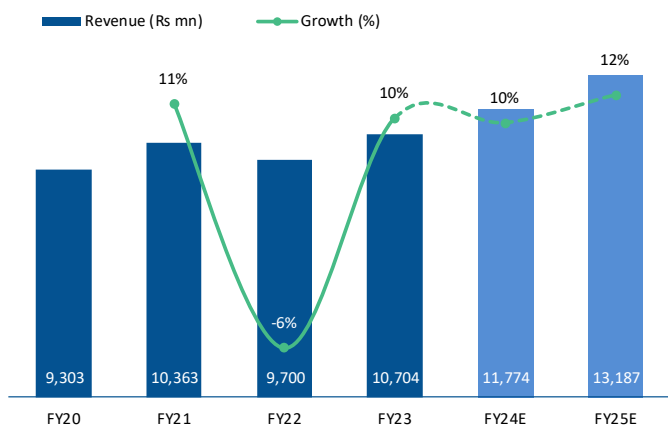
KSCL's Revenue/EBITDA/PAT has grown at a CAGR of 5%/20%/22% between FY20-23 on the back of new products introduced in their Non-Cotton portfolio as the company continues to reduce its dependence on Cotton seeds. However the company is yet to reach peak Revenue/PAT levels of 2014-15 but we believe owing to its Non-cotton portfolio mainly Vegetables, Maize & Rice with tremendous potential to grow as far as Hybridization is concerned KSCL will continue to improve its realizations in its Non-cotton portfolio as hybridization gains pace. We expect KSCL to post a Revenue/EBITDA/PAT CAGR of 11%/16%/14% respectively over FY23-25E. We initiate coverage on KSCL with a BUY rating and a one-year TP of ₹806.

Key Risks

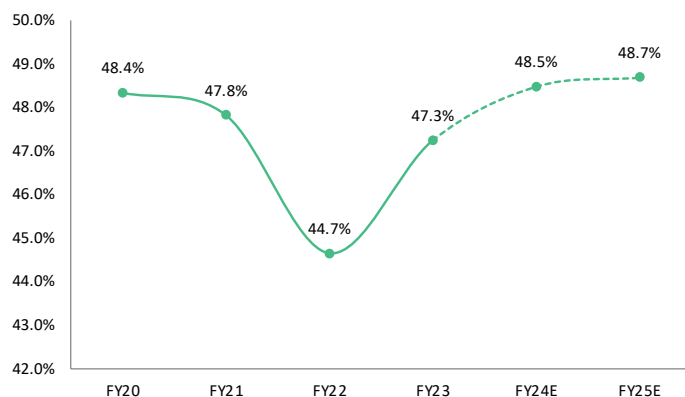
- Agri-inputs industry is subject to substantially all of the risks faced by the agriculture in India. The agri-inputs industry is substantially subject to weather factors (excess or shortfall in rains) and presence of diseases and pests.
- The agri-inputs business is highly seasonal in nature subject to Kharif and Rabi season (60-70% of KSCL sales are coming from Kharif season).
- Any Changes in the regulatory framework can impact KSCL's business.

Financials in Chart

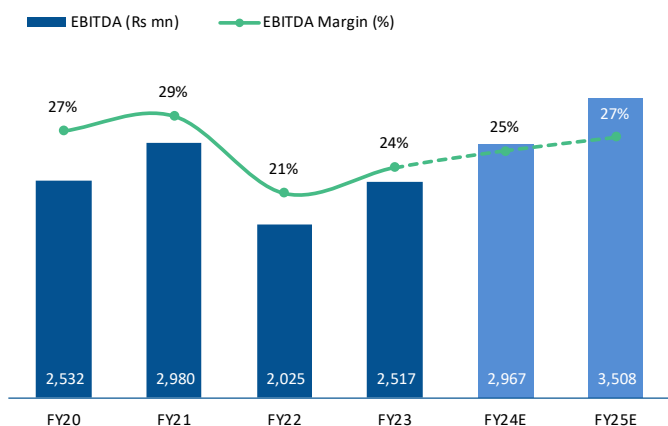
Revenue growth is expected to stabilise owing to performance in Non-cotton seeds



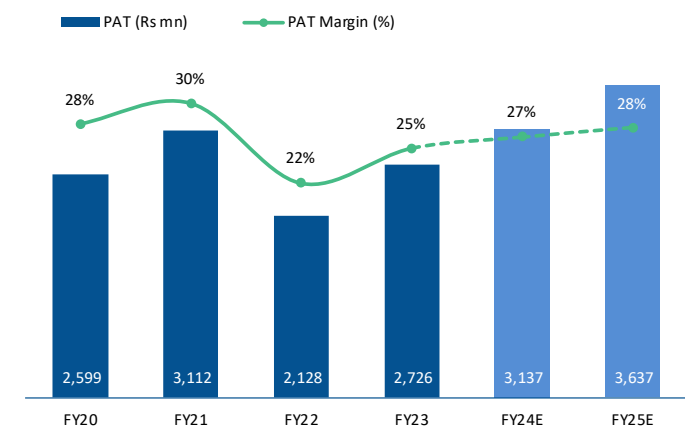
Gross Margins continue to improve on the back of higher realizations in Non-cotton portfolio



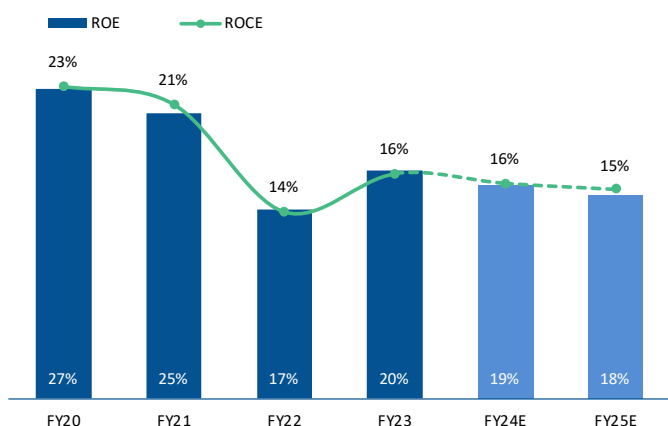
Operating Profit & OPM continues to improve



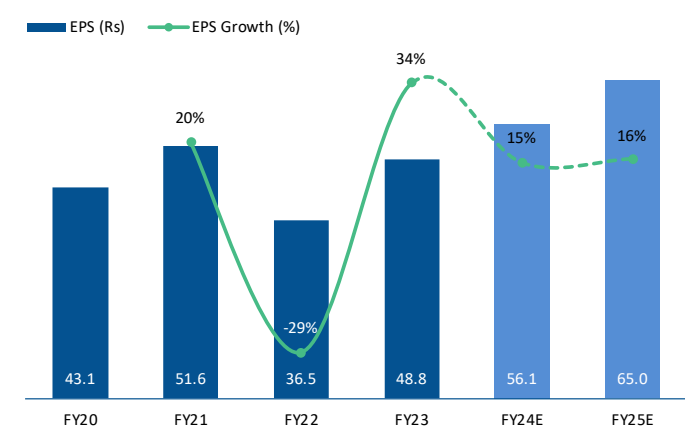
KSCL is expected to maintain 12-14% CAGR growth in PAT over FY23-25E



Return ratios are expected to remain stable



EPS Vs EPS Growth



Profit and Loss Statement

(₹ mn)	FY20	FY21	FY22	FY23	FY 24E	FY 25E
Revenue from Operations	9,303	10,363	9,700	10,704	11,774	13,187
Raw Material Cost	5,795	6,902	4,786	5,479	5,946	6,633
Employee Cost	679	845	912	983	1,001	1,121
Other Exp	1,287	1,132	1,394	1,558	1,743	1,793
EBITDA	1,542	1,484	2,607	2,684	3,085	3,640
EBITDA Margin(%)	16.6%	14.3%	26.9%	25.1%	26.2%	27.6%
Depreciation	257	222	209	205	257	295
EBIT	1,285	1,262	2,398	2,478	2,828	3,344
EBIT Margin(%)	13.8%	12.2%	24.7%	23.2%	24.0%	25.4%
Other Income	456	457	413	549	577	605
Interest	5	5	1	2	2	2
PBT	1,736	1,714	2,809	3,026	3,402	3,948
PBT Margin(%)	18.7%	16.5%	29.0%	28.3%	28.9%	29.9%
Tax	127	98	100	132	148	179
Adjusted PAT	1,609	1,616	2,710	2,893	3,255	3,769
APAT Margins (%)	17.3%	15.6%	27.9%	27.0%	27.6%	28.6%
Exceptional items	0	0	0	0	0	0
PAT	1,609	1,616	2,710	2,893	3,255	3,769
PAT Margins (%)	17.3%	15.6%	27.9%	27.0%	27.6%	28.6%

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities						
Equity Share Capital	121	121	117	112	112	112
Reserves & Surplus	9,466	12,324	12,691	13,539	16,676	20,312
Total Network	9,587	12,444	12,808	13,651	16,787	20,424
Long term Borrowings	58	11	6	1	1	1
Deferred tax liability	181	157	168	105	129	177
Other Non-Current liabilities	179	241	304	321	347	425
Total non-current liab and provs	418	409	478	428	477	603
Current Liabilities						
Short term Borrowings & Provisions	11	11	14	17	21	17
Trade Payables	2,669	3,584	2,297	2,318	2,461	2,866
Other current liabilities	3,101	3,171	3,204	4,097	3,297	3,310
Total current liab and provs	5,780	6,766	5,515	6,432	5,779	6,193
Total Equity & Liabilities	15,785	19,619	18,801	20,510	23,043	27,221
Assets						
Gross block	4,381	4,526	4,691	5,056	5,551	6,153
Net block	2,479	2,445	2,416	2,593	2,831	3,138
Capital WIP	182	308	432	1,331	1,181	2,331
Other non current assets	537	691	910	806	794	841
Total fixed assets	3,197	3,444	3,758	4,730	4,805	6,310
Inventories	6,391	7,195	7,606	7,179	7,771	8,085
Trade receivables	1,180	1,057	1,107	1,333	1,360	1,470
Biological Assets	892	1,642	818	1,174	1,316	1,503
Investments	3,512	5,604	4,705	5,567	6,681	7,683
Cash & Bank Balance	81	141	201	216	765	1,677
Other current assets	270	250	265	309	345	493
Total current Assets	12,324	15,889	14,703	15,779	18,238	20,911
Assets held for sale	263	286	339	2	-	-
Total Assets	15,785	19,619	18,801	20,511	23,043	27,221

Key Ratios

YE Mar	FY20	FY21	FY22	FY23	FY 24E	FY 25E
<u>Per Share Data (Rs)</u>						
Adj. EPS	43.1	51.6	36.5	48.8	56.1	65.0
CEPS	47.3	55.3	40.1	52.4	60.7	70.3
BVPS	158.9	206.4	219.8	244.5	300.2	365.2
<u>Growth Ratios(%)</u>						
Revenue	14.9%	11.4%	-6.4%	10.3%	10.0%	12.0%
EBITDA	19.6%	17.7%	-32.0%	24.3%	17.9%	18.2%
EBIT	20.6%	21.2%	-34.1%	27.3%	17.2%	18.5%
PAT	19.5%	19.7%	-31.6%	28.1%	15.1%	15.9%
<u>Valuation Ratios (X)</u>						
PE	7.9	9.9	15.8	13.4	11.7	10.1
P/CEPS	7.2	9.3	14.4	12.5	10.8	9.3
P/BV	2.1	2.5	2.6	2.7	2.2	1.8
EV/Sales	2.2	3.0	3.5	3.4	3.0	2.6
EV/EBITDA	8.1	10.3	16.5	14.4	12.1	10.0
<u>Operating Ratios (Days)</u>						
Inventory days	247.3	249.9	282.3	241.4	240.0	220.0
Receivable Days	45.7	36.7	41.1	44.8	42.0	40.0
Payables day	103.3	124.5	85.3	78.0	76.0	78.0
Debt to Equity (x)	0.01	0.00	0.00	0.00	0.00	0.00
<u>Performance Ratios (%)</u>						
ROA (%)	16.5%	15.9%	11.3%	13.3%	13.6%	13.4%
ROE (%)	27.1%	25.0%	16.6%	19.9%	18.7%	17.8%
ROCE (%)	22.7%	21.4%	13.7%	16.4%	15.7%	15.3%
Asset Turnover(x)	2.20	2.33	2.10	2.20	2.10	2.15
Inventory Turnover(x)	1.5	1.4	1.3	1.5	1.5	1.6

Cash Flow

(₹ mn)	FY 20	FY 21	FY22	FY23	FY 24E	FY 25E
PBT	2,727	3,210	2,228	2,859	3,285	3,816
Depreciation	257	222	209	205	257	295
Other Adjustments	-409	-430	-358	-516	6	45
Operating CF before WC changes	2,574	3,003	2,079	2,548	3,548	4,156
Changes in working capital	-651	-512	-1,018	372	797	986
Tax paid	-129	-106	-87	-273	-148	-179
Cash flow from operations (a)	1,917	2,519	1,102	2,965	4,338	5,097
Capital expenditure	-518	-390	-470	-1,085	-345	-1,753
Other investing activities	1,642	-1,783	1,131	-103	-887	-228
Cash flow from investing (b)	1,125	-2,173	661	-1,188	-1,231	-1,980
Free cash flow (a+b)	3,042	345	1,763	1,777	3,107	3,116
Buyback of equity shares	-2,404	-	-1,463	-1,527	-3,250	-2,900
Dividend including Tax on Dividend	-228	-238	-230	-230	700	700
Other flows in financing activities	-382	-53	-5	-6	-5	-5
Cash flow from financing (c)	-3,014	-291	-1,698	-1,762	-2,555	-2,205
Net chng in cash (a+b+c)	28	55	66	15	552	912
Closing cash & cash equivalents	78	133	198	213	765	1,677

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.