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## Company update

## Agriculture

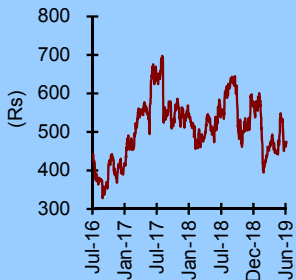
Target price Rs640

## Shareholding pattern

	Sep '18	Dec '18	Mar '19
Promoters	55.1	55.1	55.1
Institutional investors	30.1	30.4	28.5
MFs and other	3.3	4.0	4.3
Banks/FIs	2.3	2.4	2.4
FIs	22.6	22.0	20.0
Other Inst	1.9	2.0	1.8
Others	14.8	14.5	16.4

Source: BSE

## Price chart



## Kaveri Seed Company

**BUY**  
Maintained

Decline in sowing area due to delayed monsoon **Rs474**

The delayed monsoon has pushed the sowing by at-least 1-2 weeks. We note the overall sowing area has declined 9.5%, YoY and 25.5% compared to normal sowing area as on 28<sup>th</sup> Jun'19. Kaveri generates ~55% revenues from cotton seeds and cotton sowing has dropped 15.9%, YoY. Closer examination of cotton sowing in key states of Kaveri indicates 44% sowing deficit. While we expect improvement in sowing in Jul'19, possibility of double digit growth (as per management guidance) appears slim. Though near term earnings of Kaveri are under pressure, we remain positive on the company as the stock is at an attractive price given that valuations are near Mean P/E-1 SD. Maintain BUY with DCF-based target price of Rs640 (target P/E 14x FY21E).

- **Delayed monsoon:** Monsoon (as at 3<sup>rd</sup> Jul'19) is 28% deficient. We believe the shortfall to date has caused shifting of the sowing season by 1-2 weeks. If monsoon continues to be deficient even in Jul'19, it may impact *kharif* sowing and impact the revenues of seed companies such as Kaveri.
- **Reduction in area sown:** Sowing data (as of 28<sup>th</sup> Jun'19) indicates a shortfall of 9.5% YoY. Compared to normal sowing levels, the deficit stands at 25.5%. Excluding sugarcane crop, the sowing deficit stands at 12.6%. We note cotton sowing is down 15.9% YoY. Kaveri generates ~55% of revenues from cotton seeds.
- **State-wise decline in cotton sowing:** The state-wise sowing data indicates cotton sowing declined in Telangana, Maharashtra, Karnataka and Andhra Pradesh whereas it has increased sharply in Gujarat and Madhya Pradesh. It is stable in Haryana. Kaveri is strong in Southern states, Maharashtra and Gujarat. We note the cotton sowing in key states of Kaveri has declined by 44%, YoY.
- **Higher cotton prices provide a boost:** Cotton prices are up 5% YoY whereas prices of various other agri commodities are trading lower YoY. This is expected to result in farmers switching to cotton farming from other agri crops. This will boost the cotton seed companies such as Kaveri.
- **Maintain BUY:** We note Kaveri has created strong value (FCF) over the past decade and we remain positive on its medium-term growth outlook. We expect the company to report revenue and PAT CAGRs of 13.2% and 13.9% respectively over FY19-FY21. Over the past decade, the stock has traded at an average P/E of 20x. We value the stock at a DCF-based target price of Rs640, implying a target P/E of 14x FY21E. FCF yield is at an attractive ~7% on FY20E.

Market Cap	Rs29.9bn/US\$434mn	<b>Year to March</b>	<b>FY18</b>	<b>FY19P</b>	<b>FY20E</b>	<b>FY21E</b>
Reuters/Bloomberg	KVRI.BO/KSCL IN	Revenue (Rs mn)	8,192	8,094	9,231	10,379
Shares Outstanding (mn)	63.1	Adj. Net Profit (Rs mn)	2,112	2,175	2,418	2,820
52-week Range (Rs)	644/394	Dil. Rec. EPS (Rs)	32.0	34.4	38.3	44.7
Free Float (%)	44.9	% Chg YoY	61.0	7.8	11.2	16.6
FII (%)	20.0	P/E (x)	14.8	13.7	12.3	10.6
Daily Volume (US\$'000)	6,597	CEPS (Rs)	35.8	38.1	43.3	50.3
Absolute Return 3m (%)	0.9	EV/EBITDA (x)	11.4	11.4	9.8	8.6
Absolute Return 12m (%)	(12.8)	Dividend Yield (%)	0.6	0.8	0.8	0.8
Sensex Return 3m (%)	2.9	RoCE (%)	19.2	18.2	18.5	17.5
Sensex Return 12m (%)	13.9	RoE (%)	21.9	21.3	21.4	20.7

Please refer to important disclosures at the end of this report

## Research Analyst:

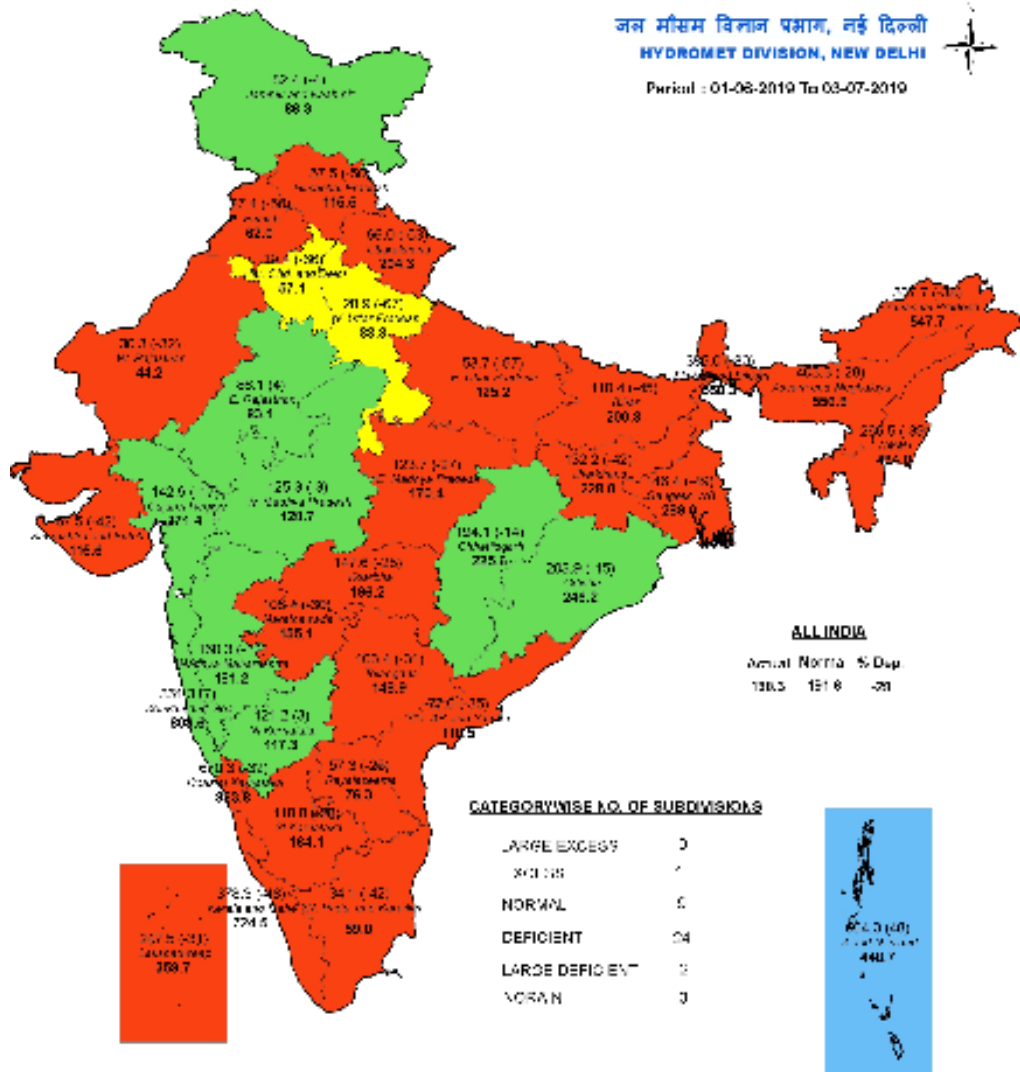
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### Decline in sowing area due to delayed monsoon

Monsoon as at 3<sup>rd</sup> July 2019 is deficient by 28%. We believe the shortfall to date has caused shifting of the sowing season by 2-3 weeks. If monsoon continues to be deficient even in Jul'19, it may impact *kharif* sowing and impact the revenues of seed companies such as Kaveri.

Chart 1: Delayed and deficient monsoon (as on 3<sup>rd</sup> July 2019)



Source: MET, I-Sec research

Legend  
 Large Excess [60% or more] Excess [20% to 60%] Normal [-10% to 19%] Deficient [-10% to -20%] Large Deficient [-20% to -60%] No Data [-100%] No Rain

NOTES:  
 a) Rainfall figures are based on operation data.  
 b) Small figures indicate actual rainfall (mm), while bold figures indicate Normal rainfall (mm).  
 c) Percentage Departures of rainfall are shown in brackets.

### Decline in sowing data

Sowing data (as of 28<sup>th</sup> Jun'19) indicates a shortfall of 9.5% YoY. Compared to normal sowing, the deficit stands at 25.5%. Excluding the sugarcane crop, the sowing deficit stands at 12.6%. Kaveri generates ~55% of revenues from cotton seeds. We note overall cotton sowing is down by 15.9% YoY.

**Table 1: Muted sowing data in kharif 2019 season**

Mn hectares	28-Jun-18	28-Jun-19	YoY
Rice	2.7	2.7	(0.1)
Pulses	0.9	0.3	(61.4)
Coarse cereals	2.1	1.9	(10.7)
Oil seeds	1.4	1.3	(4.6)
Sugarcane	5.1	5.0	(2.8)
Jute & Mesta	0.7	0.7	(6.6)
Cotton	3.2	2.7	(15.9)
<b>Total crops</b>	<b>16.2</b>	<b>14.7</b>	<b>(9.5)</b>

Source: Department of Agriculture, I-Sec research

**State-wise decline in sowing of cotton seeds**

The cotton sowing data indicates there is sharp decline in cotton sowing in Andhra Pradesh, Karnataka, Telangana and Maharashtra. There is also healthy increase in Gujarat and Madhya Pradesh. Kaveri is strong all southern states, Maharashtra and Gujarat. We note the sowing in Kaveri's key markets has declined by 44.1%, YoY.

**Table 2: State-wise decline in sowing of cotton seeds (28<sup>th</sup> June 2019)**

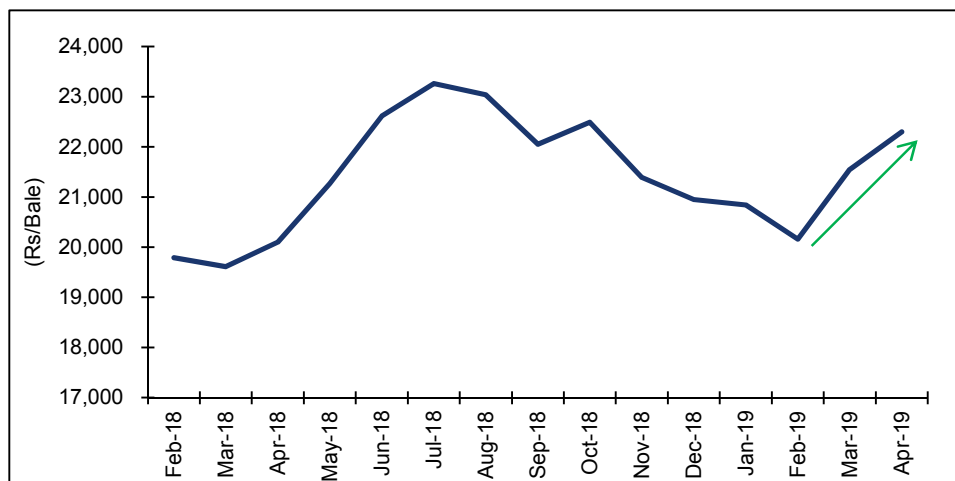
mn hectares	FY19	FY20	Growth (%)
Andhra Pradesh	0.05	0.02	(60.9)
Telangana	0.58	0.34	(40.5)
Gujarat	0.24	0.51	109.1
Haryana	0.67	0.68	1.7
Karnataka	0.19	0.05	(72.0)
Madhya Pradesh	0.16	0.30	91.7
Maharashtra	0.63	0.02	(96.9)
Odisha	0.00	0.01	408.3
Punjab	0.28	0.40	41.5
Rajasthan	0.41	0.35	(14.8)
Tamil Nadu	0.00	0.00	(3.1)
Others	0.02	0.03	57.6
<b>Total</b>	<b>3.22</b>	<b>2.71</b>	<b>(15.9)</b>

Source: Department of Agriculture, I-Sec research

Grey colour indicates key states of Kaveri.

**Steady increase in cotton prices**

Cotton prices are up ~5% YoY. Prices of various other agri commodities have declined YoY. Hence, we believe the farmers are incentivised more to sow cotton than other agri commodities.

**Chart 2: Steady increase in cotton prices**

Source: Company data, I-Sec research

**Feedback from channel checks**

We spoke to few retail outlets in South India regarding seed sales. The feedback from channel checks is as follows:

- The demand for seeds is weaker and is expected to pick up as the monsoon progresses.
- Kaveri (market leader) is doing better than most other seed companies.
- Some farmers, who had done sowing in early Jun'19, may need to sow again and this may again result in higher demand for cotton seeds.
- There is some postponement of seed demand from Jun'19 to Jul'19.

## Valuation and risks

We expect Kaveri Seed Company (Kaveri) to report revenue and PAT CAGRs of 13.2% and 13.9% and RoE to move from 21.3% to 20.7% over FY19E-FY21E. At our DCF-based target price of Rs640, the implied P/E works out to 14x on FY21E EPS. Maintain **BUY**.

**Table 3: DCF-based valuation**

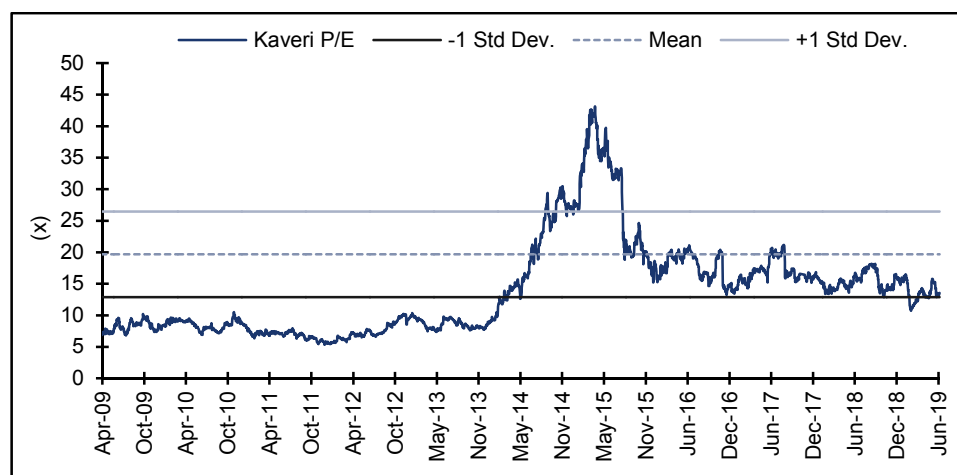
Particulars	Amt (Rs)
Risk-free rate	8.0%
Cost of Equity	13.0%
Terminal growth rate	4.0%
Discounted interim cash flows	20,843
Discounted terminal value	19,581
Total equity value	40,423
Number of shares (m)	63
<b>Value per share (Rs)</b>	<b>640</b>

Source: Company data, I-Sec research

## Mean P/E and standard valuation

The stock has traded at an average P/E of 20x over the past five years. As of now, it is trading close to its 1-year forward 'Mean P/E -1SD'.

**Chart 3: Mean P/E and standard deviation**



Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices

Major increase in input prices will result in downside to our estimates.

## Financial summary

Table 4: Profit &amp; Loss statement

(Rs mn., year ending March 31)

	FY18	FY19P	FY20E	FY21E
<b>Net Sales</b>	8,192	8,094	9,231	10,379
<b>Operating Expenses</b>	5,974	5,978	6,785	7,598
<b>EBITDA</b>	2,218	2,116	2,446	2,782
% margins	27.1	26.1	26.5	26.8
Depreciation & Amortisation	251	230	317	358
Gross Interest	6	5	9	9
Other Income	237	430	452	585
<b>Recurring PBT</b>	2,198	2,311	2,572	2,999
Less: Taxes	84	137	154	180
Less: Minority Interest	2	(0)	(1)	(1)
<b>Net Income (Reported)</b>	2,112	2,175	2,418	2,820
Extraordinaries (Net)	107	(1)	-	-
<b>Recurring Net Income</b>	2,219	2,173	2,418	2,820

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn., year ending March 31)

	FY18	FY19P	FY20E	FY21E
<b>Assets</b>				
Total Current Assets	6,069	6,705	7,771	8,971
of which cash & cash eqv.	139	87	289	551
Total Current Liabilities & Provisions	4,199	5,043	5,769	6,487
<b>Net Current Assets</b>	1,870	1,663	2,002	2,484
Investments	6,141	6,019	7,719	9,719
Net Fixed Assets	1,892	2,399	2,863	2,905
Capital Work-in-Progress	374	382	-	-
<b>Total Assets</b>	<b>10,277</b>	<b>10,462</b>	<b>12,584</b>	<b>15,108</b>
<b>Liabilities</b>				
<b>Borrowings</b>	170	208	208	208
<b>Deferred Tax Liability</b>	(11)	191	191	191
Minority Interest	(6)	(6)	(7)	(7)
Equity Share Capital	132	126	126	126
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	9,992	9,942	12,065	14,589
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	10,124	10,069	12,191	14,716
<b>Total Liabilities</b>	<b>10,277</b>	<b>10,462</b>	<b>12,584</b>	<b>15,108</b>

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn., year ending March 31)

	June 18	Sept 18	Dec 18	Mar 19
Net sales	5,819	752	672	447
% growth (YoY)	(1.5)	8.0	(4.9)	7.5
EBITDA	2,035	79	1	(59)
Margin (%)	35.0	10.5	0.2	(13.3)
Other income	168	131	106	24
Extraordinaries (Net)	(75)	(25)	49	49
Adjusted Net profit	2,031	94	86	(65)

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn., year ending March 31)

	FY18	FY19P	FY20E	FY21E
<b>Operating Cashflow</b>	2,334	2,402	2,735	3,178
Working Capital Changes	(625)	156	(137)	(219)
Capital Commitments	(147)	(744)	(400)	(400)
<b>Free Cashflow</b>	1,563	1,814	2,197	2,558
<b>Cashflow from Investing Activities</b>	622	122	(1,700)	(2,000)
Issue of Share Capital	(2,000)	(2,000)	-	-
Inc (Dec) in Borrowings	(17)	39	-	-
Dividend paid	(239)	(26)	(295)	(295)
<b>Change in Deferred Tax Liability</b>	-	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	(71)	(52)	202	263

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY18	FY19P	FY20E	FY21E
<b>Per Share Data (Rs)</b>				
EPS	32.0	34.4	38.3	44.7
Cash EPS	35.8	38.1	43.3	50.3
Dividend per share (DPS)	3.0	4.0	4.0	4.0
Book Value per share (BV)	153.0	162.5	196.1	236.1
<b>Growth (%)</b>				
Net Sales	16.2	(1.2)	14.0	12.4
EBITDA	59.0	(4.6)	15.6	13.7
PAT	54.1	2.9	11.2	16.6
Cash EPS	41.2	1.7	13.8	16.2
<b>Valuation Ratios (x)</b>				
P/E	14.8	13.7	12.3	10.6
P/CEPS	13.2	12.4	10.9	9.4
P/BV	3.1	2.9	2.4	2.0
EV / EBITDA	11.4	11.4	9.8	8.6
EV / Sales	3.1	3.0	2.6	2.3
<b>Operating Ratios</b>				
Raw Material / Sales (%)	48.1	52.4	52.0	52.0
Employee cost / Sales (%)	6.6	6.8	6.8	6.5
SG&A / Sales (%)	1.3	1.2	1.2	1.2
Other Income / PBT (%)	10.8	18.6	17.6	19.5
Effective Tax Rate (%)	3.8	5.9	6.0	6.0
Working Capital (days)	21.1	19.5	18.6	18.6
Inventory Turnover (days)	217.7	253.1	251.9	251.9
Receivables (days)	38.3	38.2	36.5	36.5
Payables (days)	183.7	225.8	226.3	226.3
Net D/E (x)	(0.6)	(0.6)	(0.6)	(0.7)
<b>Profitability Ratios (%)</b>				
Net Income Margins	25.8	26.9	26.2	27.2
RoACE	19.2	18.2	18.5	17.5
RoAE	21.9	21.3	21.4	20.7
Dividend Payout	9.4	11.6	10.4	9.0
Dividend Yield	0.6	0.8	0.8	0.8
EBITDA Margins	27.1	26.1	26.5	26.8

Source: Company data, I-Sec research

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