

# KAVERI SEED COMPANY LIMITED

Non-kharif quarter remains subdued; Positive guidance from the Management

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Kaveri Seed Company Ltd (KSCL) reported subdued performance amid Non-kharif season and between a subdued Rabi season as its Revenue de-grew by 1% YoY to ₹1,426 mn vs ₹1,440 in the year-ago quarter. On a sequential basis its Revenue was down 17% due to non-seasonal sales. However, revenues in its Non-cotton segment saw an uptick as Hybrid rice, Selection rice and Maize revenues went up by 9.3%/8.2%/5.4% respectively even though volumes remained stable during the quarter owing to contribution of new hybrids. Vegetables segment continues to grow at a rapid pace even in the Rabi season. Vegetables sales volumes rose by 22% and revenues increased by 24% vegetable crops like Bitter Gourd, Tomato, Okra & Watermelon continued to outperform other Non-cotton crops in the company's portfolio.

Overall, in 9MFY24 its Revenue/EBITDA/PAT stood at ₹10,500mn/3,211mn/2,902mn higher by 5%/6%/4% YoY respectively. In the last few years the company has started to invest heavily on its R&D which currently stands at 5-6% of their overall revenues and as per the management is expected to go up till 7-8% over the next few years contributing to introduction of new hybrids across its non-cotton portfolio. Additionally the company's employee cost during the quarter jumped 27% YoY which currently stands at the highest level as the company continues its hiring across R&D, Distribution side as it plans to introduce new hybrids. The company is also focusing to grow in the exports markets which currently stands at 2% of its overall revenues and the management is expecting it to contribute 5% of their overall revenues in next five years.

## Strong Management Commentary & Guidance

The company is expecting to double its revenues in the next five years from ₹1.1bn to ~₹2bn by FY30 owing to introduction of new hybrids in Non-cotton portfolio mainly in crops like Rice, Maize and Vegetables. Additionally increased spending on its R&D, Employee cost and R&D Infrastructure will contribute to its growth going forward as the company continues to stay bullish on a long term basis in becoming a pure play seed company in India. Along the way, introduction of new genetically modified seeds in Mustard/Rice by the government will further aid its growth in the coming years. The management reiterated their guidance of growing its Revenues at 10-12% range over the long-term.

Key Financials	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Total Income (₹ mn)	9,700	10,704	11,805	13,287	14,812
EBITDA margins (%)	20.9%	23.5%	25.0%	26.7%	27.9%
PAT margins (%)	21.9%	25.5%	26.2%	26.2%	26.8%
EPS (Rs)	36.5	48.8	55.2	62.2	70.9
P/E(x)	15.8	13.4	11.8	10.5	9.2
P/BV (x)	2.6	2.7	2.2	1.8	1.5
EV/EBITDA (x)	16.5	14.4	12.1	9.7	7.8
ROE (%)	16.6%	19.9%	18.5%	17.2%	16.4%
ROCE (%)	11.3%	13.3%	12.9%	12.4%	12.4%

Rating	<b>BUY</b>
Current Market Price (₹)	<b>660</b>
12 M Price Target (₹)	<b>806</b>
Potential upside (%)	<b>22</b>

## Stock Data

Sector :	Hybrid Seeds
FV (₹) :	2
Total Market Cap (₹ bn) :	37
Free Float Market Cap (₹ bn) :	14
52-Week High / Low (₹)	765 / 467
BSE Code / NSE Symbol	532899 / KSCL
Bloomberg :	KSCL IN

## Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	59.90	59.90	59.90	59.90
FPIs	17.69	16.29	16.29	16.55
Insurance	2.88	5.12	5.12	5.12
AIF's	1.66	1.64	1.64	1.68
Bodies Corporate	1.48	1.41	1.41	1.41
Others	16.39	15.64	15.64	15.34

Source: BSE

## Price Performance

(%)	1M	3M	6M	12M
KSCL	-0.2%	6.8%	15.3%	29.5%
Nifty 50	1.0%	13.0%	12.4%	23.4%

\* To date / current date : February 7, 2024

## KSCL vs Nifty 50



## Outlook

We continue to like KSCL as it plans to grow its seeds business aggressively especially its Non-cotton portfolio. Management's positive commentary and guidance further assures our positive stance on the company. KSCL's Revenue/EBITDA/PAT has grown at a CAGR of 5%/20%/22% between FY20-FY23 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%/18%/13% respectively over FY23-FY25E. We reiterate our BUY rating and TP of ₹806.

## Key Concall Highlights Q3FY24

- As envisaged, maize and vegetables are growing in both volumes and revenues and the same trajectory will continue in the coming quarters too.
- The company continues to deliver good realizations in both cotton and rice in spite of volumes remaining stable.
- In the exports market, KSCL is planning to grow its presence in crops like Tomato, Hot pepper, Gourds, Okra in some of the key focused export markets - Bangladesh, Nepal, African countries, Indonesia and Thailand.
- The company plans to double its top line from current ₹1.1bn to ₹2bn over the next five years owing to introduction of new hybrids, increased R&D spends, increased employee costs across R&D and Distribution area which continues to be company key strengths.
- In FY24 the company has launched 14 new hybrids and contribution from new products in Bajra, Maize contributed over 40-50% of its volumes during the quarter.
- Market share in cotton seeds remains at 14-15%, 3-4% in Pearl Millets. During the year the company lost market share to one of the unorganized players. But, the company is very confident of getting back the market share in key regions owing to strong pipeline of hybrids.

## 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

### Quarterly Performance

(₹ mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Sales	1,426	1,440	-1%	1,713	-16.7%
Raw Material	627	679	-8%	974	-35.6%
Employee Cost	350	274	28%	283	23.5%
Other expenses	364	1,176	-69%	343	6.0%
Total Operating expenses	1,341	2,129	-37%	1,601	-16.2%
EBITDA	86	-689	-112%	113	-23.9%
<i>EBITDA Margin (%)</i>	6%	-48%	5383	7%	-56
Depreciation	67	270	-75%	60	12.3%
EBIT	19	-958	-102%	53	-64.7%
Other Income	130	320	-59%	135	-3.4%
Interest	0.1	93	-100%	0.7	-86.3%
Exceptional items	-	-	-	-	-
Profit Before Tax (excluding exc items)	149	-732	-120%	187	-20.4%
Adj Profit Before Tax (Inc exc items)	149	-732		187	
Tax	38	35	-	48	-
<i>Tax rate (%)</i>	25%	-5%	-	25%	-
Profit after tax	112	-767	-115%	139	-19.6%
<i>PAT Margin (%)</i>	8%	-53%	6109	8%	
EPS (₹)	2.5	7.4	-66%	2.7	-4.9%

### Profit and Loss Statement

(₹ mn)	FY22	FY23	FY 24E	FY 25E	FY 26E
<b>Revenue from Operations</b>	<b>9,700</b>	<b>10,704</b>	<b>11,805</b>	<b>13,287</b>	<b>14,812</b>
Raw Material Cost	5,368	5,645	5,903	6,643	7,095
Employee Cost	912	983	1,062	1,116	1,462
Other Exp	1,394	1,558	1,889	1,980	2,126
<b>EBITDA</b>	<b>2,025</b>	<b>2,517</b>	<b>2,951</b>	<b>3,548</b>	<b>4,130</b>
EBITDA Margin(%)	20.9%	23.5%	25.0%	26.7%	27.9%
Depreciation	209	205	292	501	(29)
<b>EBIT</b>	<b>1,816</b>	<b>2,312</b>	<b>2,659</b>	<b>3,047</b>	<b>4,159</b>
EBIT Margin(%)	18.7%	21.6%	22.5%	22.9%	28.1%
Other Income	413	549	577	605	-
Interest	1.3	1.9	1.7	1.6	1.6
<b>PBT</b>	<b>2,228</b>	<b>2,859</b>	<b>3,234</b>	<b>3,651</b>	<b>4,158</b>
PBT Margin(%)	23.0%	26.7%	27.4%	27.5%	28.1%
Tax	100	132	146	172	195
<b>Adjusted PAT</b>	<b>2,128</b>	<b>2,726</b>	<b>3,089</b>	<b>3,479</b>	<b>3,962</b>
APAT Margins (%)	21.9%	25.5%	26.2%	26.2%	26.8%
Exceptional items	0	0	0	0	0
<b>PAT</b>	<b>2,128</b>	<b>2,726</b>	<b>3,089</b>	<b>3,479</b>	<b>3,962</b>
PAT Margins (%)	21.9%	25.5%	26.2%	26.2%	26.8%

## Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
<b>Equity and Liabilities</b>					
Equity Share Capital	117	112	112	112	112
Reserves & Surplus	12,691	13,539	16,627	20,106	24,069
<b>Total Networkth</b>	<b>12,808</b>	<b>13,651</b>	<b>16,739</b>	<b>20,218</b>	<b>24,181</b>
Long term Borrowings	6.1	1.3	1.3	1.3	1.3
Deferred tax liability	168	105	146	300	-18
Other Non-Current liabilities	304	321	351	458	421
<b>Total non-current liab and provs</b>	<b>478</b>	<b>428</b>	<b>499</b>	<b>760</b>	<b>405</b>
<b>Current Liabilities</b>					
Short term Borrowings & Provisions	14	17	22	18	18
Trade Payables	2,297	2,318	2,492	2,879	2,879
Other current liabilities	3,204	4,097	4,132	4,252	4,592
<b>Total current liab and provs</b>	<b>5,515</b>	<b>6,432</b>	<b>6,646</b>	<b>7,149</b>	<b>7,489</b>
<b>Total Equity &amp; Liabilities</b>	<b>18,801</b>	<b>20,510</b>	<b>23,884</b>	<b>28,127</b>	<b>32,074</b>
<b>Assets</b>					
Gross block	4,691	5,056	5,622	6,643	6,583
Net block	2,416	2,593	2,867	3,388	3,357
Capital WIP	432	1,331	1,781	2,305	2,770
Other non current assets	910	806	854	948	953
<b>Total fixed assets</b>	<b>3,758</b>	<b>4,730</b>	<b>5,502</b>	<b>6,641</b>	<b>7,080</b>
Inventories	7,606	7,179	7,870	8,120	8,304
Trade receivables	1,107	1,333	1,377	1,476	1,550
Biological Assets	818	1,174	1,333	1,623	1,578
Investments	4,705	5,567	6,681	7,683	8,835
Cash & Bank Balance	201	216	771	2,053	4,200
Other current assets	265	309	349	532	527
<b>Total current Assets</b>	<b>14,703</b>	<b>15,779</b>	<b>18,381</b>	<b>21,486</b>	<b>24,995</b>
Assets held for sale	339	2	-	-	-
<b>Total Assets</b>	<b>18,801</b>	<b>20,511</b>	<b>23,883</b>	<b>28,127</b>	<b>32,074</b>

## Key Ratios

YE Mar	FY22	FY23	FY 24E	FY 25E	FY 26E
<u>Per Share Data (Rs)</u>					
Adj. EPS	36.5	48.8	55.2	62.2	70.9
CEPS	40.1	52.4	60.5	71.2	70.3
BVPS	219.8	244.5	299.3	361.5	432.4
<u>Growth Ratios(%)</u>					
Revenue	-6.4%	10.3%	10.3%	12.5%	11.5%
EBITDA	-32.0%	24.3%	17.2%	20.2%	16.4%
EBIT	-34.1%	27.3%	15.0%	14.6%	36.5%
PAT	-31.6%	28.1%	13.3%	12.6%	13.9%
<u>Valuation Ratios (X)</u>					
PE	15.8	13.4	11.8	10.5	9.2
P/CEPS	14.4	12.5	10.8	9.2	9.3
P/BV	2.6	2.7	2.2	1.8	1.5
EV/Sales	3.5	3.4	3.0	2.6	2.2
EV/EBITDA	16.5	14.4	12.1	9.7	7.8
<u>Operating Ratios (Days)</u>					
Inventory days	282.3	241.4	240.0	220.0	225.0
Receivable Days	41.1	44.8	42.0	40.0	42.0
Payables day	85.3	78.0	76.0	78.0	78.0
Debt to Equity (x)	0.00	0.00	0.00	0.00	0.00
<u>Performance Ratios (%)</u>					
ROA (%)	11.3%	13.3%	12.9%	12.4%	12.4%
ROE (%)	16.6%	19.9%	18.5%	17.2%	16.4%
ROCE (%)	13.7%	16.4%	15.4%	14.5%	16.9%
Asset Turnover(x)	2.10	2.20	2.10	2.00	2.25
Inventory Turnover(x)	1.3	1.5	1.5	1.6	1.8

## Cash Flow

(₹ mn)	FY22	FY23	FY 24E	FY 25E	FY 26E
PBT	2,228	2,859	3,234	3,651	4,158
Depreciation	209	205	292	501	-29
Other Adjustments	-358	-516	41	250	-280
Operating CF before WC changes	2,079	2,548	3,567	4,401	3,848
Changes in working capital	-1,018	372	969	1,036	13
Tax paid	-87	-273	-146	-172	-195
<b>Cash flow from operations (a)</b>	<b>1,102</b>	<b>2,965</b>	<b>4,495</b>	<b>5,187</b>	<b>4,142</b>
Capital expenditure	-470	-1,085	-1,016	-1,546	-405
Other investing activities	1,131	-103	113	-18	-1,367
<b>Cash flow from investing (b)</b>	<b>661</b>	<b>-1,188</b>	<b>-902</b>	<b>-1,563</b>	<b>-1,772</b>
<b>Free cash flow (a+b)</b>	<b>1,763</b>	<b>1,777</b>	<b>3,592</b>	<b>3,624</b>	<b>2,369</b>
Buyback of equity shares	-1,463	-1,527	-3,194	-1,000	-1,000
Dividend including Tax on Dividend	-230	-230	164	435	783
Other flows in financing activities	-5	-6	-5	-5	-5
<b>Cash flow from financing (c)</b>	<b>-1,698</b>	<b>-1,762</b>	<b>-3,035</b>	<b>-570</b>	<b>-222</b>
<b>Net chng in cash (a+b+c)</b>	<b>66</b>	<b>15</b>	<b>558</b>	<b>3,054</b>	<b>2,148</b>
<b>Closing cash &amp; cash equivalents</b>	<b>198</b>	<b>213</b>	<b>771</b>	<b>2,053</b>	<b>4,200</b>

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