

India

ADD (no change)

Consensus ratings*: Buy 6 Hold 0 Sell 0	
Current price:	Rs562
Target price:	Rs831
Previous target:	Rs831
Up/downside:	47.9%
InCred Research / Consensus:	17.1%
Reuters:	KVRI.BO
Bloomberg:	KSCL IN
Market cap:	US\$437m Rs33,914m
Average daily turnover:	US\$1.1m Rs85.8m
Current shares o/s:	58.3m
Free float:	42.6%
*Source: Bloomberg	

Key changes in this note

- Adjust PAT estimates by 0.4% / (1) % for FY23F/FY24F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.4	16.4	(25.3)
Relative (%)	4.4	19.3	(30.0)

Major shareholders	% held
Promoter & Promoter Group	57.4
LIC	4.7
Massachusetts Institute of Technology	4.0

Analyst(s)



Nitin AWASTHI
T (91) 22 4161 1550
E nitin.awasthi@incredcapital.com
Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Kaveri Seed Co Ltd

All set for a fantastic performance in FY23F

- FY22 was a disappointing year for KSCL because of loss of government business in maize and the rampant use of illegal HTBT cotton seeds.
- The set-up for FY23F seems to be fantastic with all-time high commodity prices and onset of the monsoon season in India, as per schedule.
- Retain Add rating with an unchanged TP of Rs831 based on FY24F EPS.

Firm commodity prices

Demand for quality seeds in Kaveri Seed Company Ltd. or KSCL's portfolio is expected to be buoyant because of the high prices of crops. Although it's hard to predict the acreage growth in individual crops, we believe that cumulative acreage will rise. Both maize and cotton crops, in our view, are going to give favourable results for the farmers.

Illegal HTBT cotton seeds

Genetic Engineering Appraisal Committee (GEAC), a central government body, has still not approved HTBT cotton for commercial production. Hence, the sale of illegal HTBT cotton seeds will continue, although the growth may not be as steady as it was witnessed in the previous season. However, during the previous season, Covid-19 pandemic had disrupted the supply chain, leading to scarcity of legal seeds and forcing the farmers to move towards the usage of illegal seeds, which is not the case in the current season. Also, many farmers weren't satisfied with the performance of illegal seeds, which too should push them towards legal seeds because of seed-making companies taking responsibility for the performance of their seeds.

Government's pro-technology stance bodes well

The government has taken a pro-technology stance by easing the norms for genetically modified crop research. The Safety Assessment of Genome-edited Plants, 2022 guidelines have exempted researchers from seeking approval from the Genetic Engineering Appraisal Committee for usage of gene-editing technology.

Reiterate Add rating with unchanged target price of Rs831

We adjust our PAT estimates by 0.4% / (1) % for FY23F/FY24F, respectively, considering the 4QFY22 performance. We retain Add rating on the stock with an unchanged target price of Rs831, at 12x FY24F EPS. The developments regarding HTBT cotton seeds need to be closely watched going ahead. Downside risks: In India, the seed business comes under the jurisdiction of state governments. There have been cases where price controls were imposed on cotton seeds, making regulatory action the sector's biggest risk. The second big risk is vagaries of the weather – India's monsoon season. A poor monsoon will be bad for agriculture and hurt seed sales. The third risk is the spread of illegal technology, as it happened in case of HTBT cotton seed.

Financial Summary

	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	9,302	10,363	9,700	12,368	13,873
Operating EBITDA (Rsm)	2,532	2,980	2,025	3,727	4,203
Net Profit (Rsm)	2,608	3,119	2,131	3,631	4,037
Core EPS (Rs)	42.2	51.7	35.9	62.3	69.2
Core EPS Growth	25.6%	22.4%	(30.5%)	73.3%	11.2%
FD Core P/E (x)	13.31	10.87	15.65	9.03	8.12
DPS (Rs)	3.1	3.9	2.7	4.7	5.2
Dividend Yield	0.67%	0.69%	0.49%	0.83%	0.92%
EV/EBITDA (x)	12.18	9.33	13.83	6.38	4.92
P/FCFE (x)	11.44	113.72	18.93	14.05	67.62
Net Gearing	(0.2%)	(1.0%)	(1.5%)	(11.5%)	(9.9%)
P/BV (x)	3.54	2.73	2.56	2.04	1.66
ROE	26.5%	28.3%	16.9%	25.1%	22.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)				1.20	1.14

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly consolidated summary

Rs m	4QFY22	3QFY22	%QoQ	4QFY21	%YoY
Revenue	666	1,261	-47.2	643	3.6
Cost of Goods Sold	298	607	-51.0	294	1.2
Employee Expenses	218	263	-17.1	228	-4.0
Other Expenses	259	316	-18.0	279	-7.3
EBITDA	-109	74	NA	-158	NA
Depreciation	57	55	4.3	56	1.3
EBIT	-166	19	NA	-214	NA
Other Income	43	68	-36.4	42	1.5
Interest Expenses	0	0	NA	2	NA
Profit Before Tax	-123	87	NA	-174	NA
Tax Expenses	-5	16	NA	4	NA
Profit After Tax before MI	-118	70	NA	-178	NA
Minority Interest	-1	-6	NA	-4	NA
PAT	-118	76	NA	-174	NA
Key Ratios	4QFY22	3QFY22	%QoQ	4QFY21	%YoY
EBITDA Margin	-16.4	5.9	-2225bp	-24.6	824bp
EBIT Margin	-24.9	1.5	-2647bp	-33.4	844bp
PBT Margin	-18.5	6.9	-2540bp	-27.0	850bp
PAT Margin	-17.8	5.6	-2334bp	-27.7	991bp
Tax Rate	4.1	18.7	-1453bp	-2.4	651bp

SOURCES: INCRED RESEARCH, COMPANY REPORTS

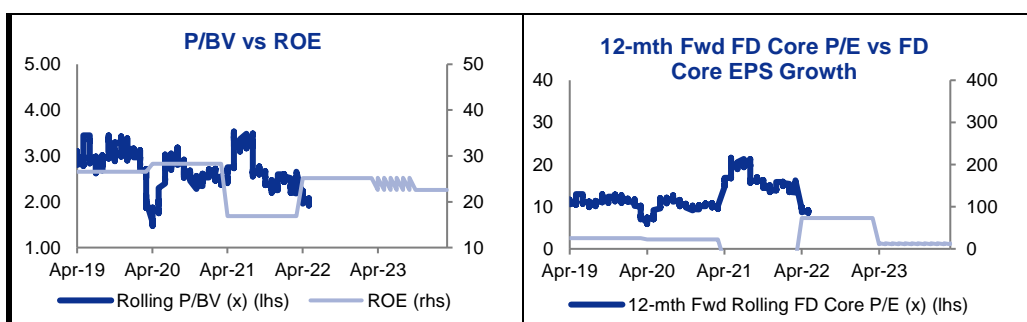
Figure 2: Revised earnings estimates

Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	12,368	14,014	12,368	13,873	0.0%	-1.0%
EBITDA	3,727	4,258	3,727	4,203	0.0%	-1.3%
EBITDA Margin (%)	30.1%	30.4%	30.1%	30.3%	0bp	-8bp
PAT	3,618	4,078	3,631	4,037	0.4%	-1.0%
EPS (Rs)	61	69	62	69	1.4%	0.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/E


SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Net Revenues	9,302	10,363	9,700	12,368	13,873
Gross Profit	4,498	4,957	4,362	6,070	6,809
Operating EBITDA	2,532	2,980	2,025	3,727	4,203
Depreciation And Amortisation	(257)	(222)	(209)	(247)	(185)
Operating EBIT	2,275	2,758	1,816	3,480	4,018
Financial Income/(Expense)	(5)	(5)	(1)		
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	456	457	413	308	231
Profit Before Tax (pre-EI)	2,727	3,210	2,228	3,789	4,249
Exceptional Items					
Pre-tax Profit	2,727	3,210	2,228	3,789	4,249
Taxation	(127)	(98)	(100)	(157)	(212)
Exceptional Income - post-tax					
Profit After Tax	2,599	3,112	2,128	3,631	4,037
Minority Interests	9	7	3		
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,608	3,119	2,131	3,631	4,037
Recurring Net Profit	2,608	3,119	2,131	3,631	4,037
Fully Diluted Recurring Net Profit	2,608	3,119	2,131	3,631	4,037

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	2,532	2,980	2,025	3,727	4,203
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(529)	(542)	(933)	(561)	537
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	442	261	253	308	231
Other Operating Cashflow	(395)	(69)	(152)	813	(1,305)
Net Interest (Paid)/Received	(5)	(5)	(1)		
Tax Paid	(129)	(106)	(87)	(157)	(212)
Cashflow From Operations	1,917	2,519	1,105	4,130	3,454
Capex	(520)	(391)	652	(100)	(200)
Disposals Of FAs/subsidiaries	14	2	2		
Acq. Of Subsidiaries/investments	1,594	(1,780)	3	(2,000)	(3,000)
Other Investing Cashflow	38	(4)	4	308	231
Cash Flow From Investing	1,125	(2,173)	661	(1,792)	(2,969)
Debt Raised/(repaid)	(8)	(47)	(5)	(5)	
Proceeds From Issue Of Shares	(2,404)		(1,463)		
Shares Repurchased					
Dividends Paid	228	238	230	272	303
Preferred Dividends					
Other Financing Cashflow	(830)	(481)	(460)	(645)	(689)
Cash Flow From Financing	(3,014)	(291)	(1,698)	(377)	(386)
Total Cash Generated	27	55	69	1,961	99
Free Cashflow To Equity	3,033	298	1,762	2,333	485
Free Cashflow To Firm	3,046	350	1,768	2,338	485

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Cash And Equivalents	81	141	198	1,851	1,950
Total Debtors	1,180	1,057	1,107	1,525	1,710
Inventories	7,282	7,195	7,606	4,831	5,419
Total Other Current Assets	311	293	1,425	1,817	2,038
Total Current Assets	8,853	8,686	10,337	10,024	11,118
Fixed Assets	2,677	2,765	2,849	2,802	2,817
Total Investments	3,839	5,990	5,166	7,166	10,166
Intangible Assets					
Total Other Non-Current Assets	401	2,178	439	136	153
Total Non-current Assets	6,916	10,933	8,454	10,104	13,136
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	5,886	6,881	5,493	3,882	4,354
Other Current Liabilities					
Total Current Liabilities	5,886	6,881	5,493	3,882	4,354
Total Long-term Debt	58	11	6	1	1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities			308		
Total Non-current Liabilities	58	11	313	1	1
Total Provisions	236	274	151	153	155
Total Liabilities	6,180	7,165	5,957	4,036	4,510
Shareholders Equity	9,587	12,444	12,821	16,079	19,731
Minority Interests	2	10	13	13	13
Total Equity	9,589	12,454	12,834	16,092	19,743

Key Ratios					
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	14.9%	11.4%	(6.4%)	27.5%	12.2%
Operating EBITDA Growth	19.7%	17.7%	(32.0%)	84.0%	12.8%
Operating EBITDA Margin	27.2%	28.8%	20.9%	30.1%	30.3%
Net Cash Per Share (Rs)	0.38	2.16	3.30	31.73	33.42
BVPS (Rs)	158.91	206.27	219.83	275.70	338.31
Gross Interest Cover	484.13	546.08	1,424.33	20,978.96	32,294.08
Effective Tax Rate	4.7%	3.1%	4.5%	4.2%	5.0%
Net Dividend Payout Ratio	8.7%	7.5%	7.5%	7.5%	7.5%
Accounts Receivables Days	39.76	39.39	40.71	38.84	42.56
Inventory Days	489.81	488.74	506.03	360.42	264.82
Accounts Payables Days	404.52	431.00	423.02	271.68	212.80
ROIC (%)	39.8%	44.8%	26.3%	42.0%	52.8%
ROCE (%)	22.6%	24.6%	14.2%	23.8%	22.2%
Return On Average Assets	16.7%	17.6%	11.1%	18.7%	18.2%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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