

## India

## ADD (no change)

Consensus ratings\*: Buy 5 Hold 0 Sell 0

Current price:	Rs461
Target price:	Rs688
Previous target:	Rs831
Up/downside:	49.2%
InCred Research / Consensus:	3.1%
Reuters:	KVRI.BO
Bloomberg:	KSCL IN
Market cap:	US\$337m
	Rs26,913m
Average daily turnover:	US\$0.9m
	Rs75.6m
Current shares o/s:	58.3m
Free float:	42.6%

\*Source: Bloomberg

## Key changes in this note

- Adjust PAT estimates by (21.4) % / (17.1) % for FY23F/FY24F, respectively.

Price performance	1M	3M	12M
Absolute (%)	(7.9)	(15.3)	(20.9)
Relative (%)	(13.4)	(22.9)	(26.7)

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

## Analyst(s)



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## Kaveri Seed Co Ltd

## 1QFY23 performance below expectations

- Although 1QFY23 witnessed growth on all fronts, it was lower than expected.
- The company failed to capitalize on all-time high commodity prices as it was adversely hit by high production cost.
- Retain Add rating with a lower target price of Rs688 based on 12x FY24F EPS.

## Cotton seed segment

Although the sale of illegal HTBT cotton seeds is still going on in India, the quantum has reduced due to performance failure. However, Kaveri Seed Company (KSCL) faced stiff competition from smaller players who liquidated their old stock. Volume in this segment grew by 8.33%, which was lower than expected. The segment's revenue grew at an even lower rate of 3.87%, much below expectation. We expect the profitability of the segment to return on adoption of newer generation seeds.

## Rice, maize, and vegetable seeds segment

Hybrid rice, selection rice, maize, and vegetable seeds volume grew by 6.09%, 15.20%, 24.43% and 25.90%, respectively. However, hybrid rice, maize and vegetable seeds revenue grew by 1.02%, 13.46% and -2.54%, respectively. It is important to note that the acreage under rice crop was lower in India, but KSCL managed to increase its sales.

## Margin pressure

Higher raw material cost played spoilsport as it increased input cost. As commodity prices rose, the cost of production of commodity seeds also rose. However, due to the old seed stock available with competitors, there was a cap on the selling price of the said seeds. Please note that we have seen the prices of even controlled seeds (HTBT cotton seeds) being increased by the government, and so the trend is in favour of further price hikes.

## Reiterate Add rating with lower target price of Rs688

We adjust our PAT estimates by (21.4)%/(17.1)% for FY23F/FY24F, respectively, considering the 1QFY23 performance. We retain Add rating on the stock with a lower target price of Rs688 or 12x FY24F EPS (from Rs831 earlier). 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 seeds.

## Financial Summary

	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	9,302	10,363	9,700	11,012	12,938
Operating EBITDA (Rsm)	2,532	2,980	2,025	2,892	3,476
Net Profit (Rsm)	2,608	3,119	2,131	2,874	3,346
Core EPS (Rs)	42.2	51.7	35.9	49.3	57.4
Core EPS Growth	25.6%	22.4%	(30.5%)	37.2%	16.4%
FD Core P/E (x)	10.92	8.93	12.84	9.36	8.04
DPS (Rs)	3.1	3.9	2.7	3.7	4.3
Dividend Yield	0.81%	0.84%	0.59%	0.79%	0.93%
EV/EBITDA (x)	9.73	7.29	10.88	6.28	4.56
P/FCFE (x)	9.39	93.35	15.54	13.20	(75.20)
Net Gearing	(0.2%)	(1.0%)	(1.5%)	(10.4%)	(5.0%)
P/BV (x)	2.90	2.24	2.10	1.75	1.46
ROE	26.5%	28.3%	16.9%	20.4%	19.8%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly consolidated summary**

Rs m	1QFY23	4QFY22	%QoQ	1QFY21	%YoY
<b>Revenue</b>	<b>6,856</b>	<b>666</b>	<b>929.7</b>	<b>6,298</b>	<b>8.9</b>
Cost of Goods Sold	3,545	298	1,090.7	3,519	0.7
Employee Expenses	233	218	6.5	203	14.7
Other Expenses	612	259	136.5	580	5.6
<b>EBITDA</b>	<b>2,466</b>	<b>-109</b>	<b>NA</b>	<b>1,996</b>	<b>23.5</b>
Depreciation	48	57	-16.4	48	-0.5
<b>EBIT</b>	<b>2,419</b>	<b>-166</b>	<b>NA</b>	<b>1,948</b>	<b>24.1</b>
Other Income	75	43	73.7	151	-50.6
Interest Expenses	0	0	-30.9	0	-41.4
<b>Profit Before Tax</b>	<b>2,493</b>	<b>-123</b>	<b>NA</b>	<b>2,099</b>	<b>18.8</b>
Tax Expenses	44	-5	NA	52	-15.0
<b>Profit After Tax but Before Minority Interest</b>	<b>2,449</b>	<b>-118</b>	<b>NA</b>	<b>2,047</b>	<b>19.6</b>
Minority Interest	11	-1	NA	10	11.1
<b>PAT</b>	<b>2,438</b>	<b>-118</b>	<b>NA</b>	<b>2,037</b>	<b>19.7</b>
<b>Key Ratios</b>	1QFY23	4QFY22	%QoQ	1QFY21	%YoY
EBITDA Margin	36.0	-16.4	5,236bp	31.7	428bp
EBIT Margin	35.3	-24.9	6,021bp	30.9	434bp
PBT Margin	36.4	-18.5	5,489bp	33.3	304bp
PAT Margin	35.7	-17.8	5,348bp	32.5	322bp
Tax Rate	1.8	4.1	-239bp	2.5	-70bp

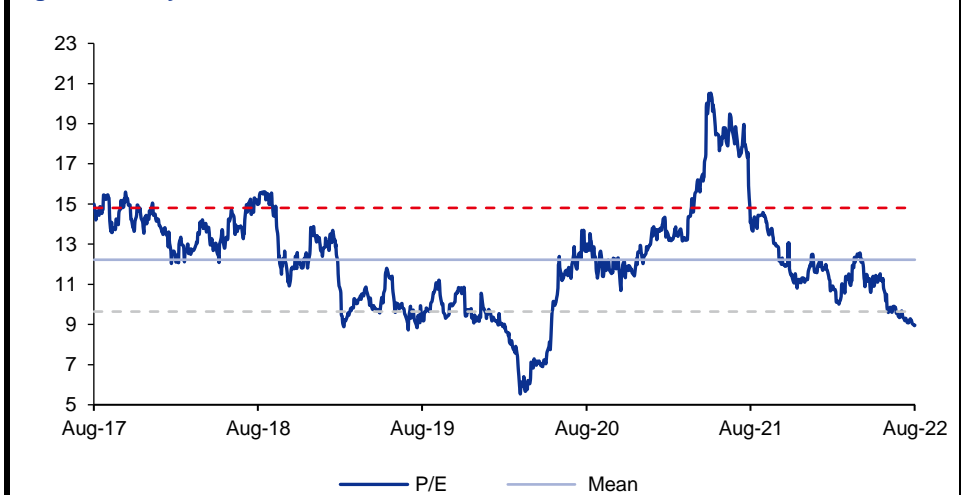
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	12,368	13,873	11,012	12,938	-11.0%	-6.7%
EBITDA	3,727	4,203	2,892	3,476	-22.4%	-17.3%
EBITDA Margin (%)	30.1%	30.3%	26.3%	26.9%	-387bp	-343bp
PAT	3,631	4,037	2,852	3,346	-21.4%	-17.1%
EPS (Rs)	62	69	49	57	-21.4%	-17.1%

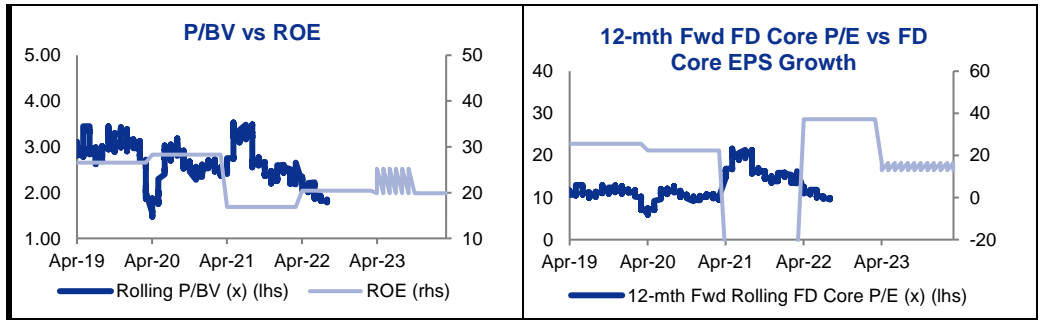
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: One-year forward P/E**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
<b>Total Net Revenues</b>	<b>9,302</b>	<b>10,363</b>	<b>9,700</b>	<b>11,012</b>	<b>12,938</b>
<b>Gross Profit</b>	<b>4,498</b>	<b>4,957</b>	<b>4,362</b>	<b>5,358</b>	<b>6,295</b>
<b>Operating EBITDA</b>	<b>2,532</b>	<b>2,980</b>	<b>2,025</b>	<b>2,892</b>	<b>3,476</b>
Depreciation And Amortisation	(257)	(222)	(209)	(233)	(185)
<b>Operating EBIT</b>	<b>2,275</b>	<b>2,758</b>	<b>1,816</b>	<b>2,660</b>	<b>3,291</b>
Financial Income/(Expense)	(5)	(5)	(1)		
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	456	457	413	306	231
<b>Profit Before Tax (pre-EI)</b>	<b>2,727</b>	<b>3,210</b>	<b>2,228</b>	<b>2,965</b>	<b>3,522</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>2,727</b>	<b>3,210</b>	<b>2,228</b>	<b>2,965</b>	<b>3,522</b>
Taxation	(127)	(98)	(100)	(102)	(176)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,599</b>	<b>3,112</b>	<b>2,128</b>	<b>2,863</b>	<b>3,346</b>
Minority Interests	9	7	3	11	
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,608</b>	<b>3,119</b>	<b>2,131</b>	<b>2,874</b>	<b>3,346</b>
Recurring Net Profit	2,608	3,119	2,131	2,874	3,346
<b>Fully Diluted Recurring Net Profit</b>	<b>2,608</b>	<b>3,119</b>	<b>2,131</b>	<b>2,874</b>	<b>3,346</b>

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
<b>EBITDA</b>	<b>2,532</b>	<b>2,980</b>	<b>2,025</b>	<b>2,892</b>	<b>3,476</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(529)	(542)	(933)	(1,038)	689
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	442	261	253	306	231
Other Operating Cashflow	(395)	(69)	(152)	1,781	(1,609)
Net Interest (Paid)/Received	(5)	(5)	(1)		
Tax Paid	(129)	(106)	(87)	(102)	(176)
<b>Cashflow From Operations</b>	<b>1,917</b>	<b>2,519</b>	<b>1,105</b>	<b>3,839</b>	<b>2,611</b>
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	306	231
<b>Cash Flow From Investing</b>	<b>1,125</b>	<b>(2,173)</b>	<b>661</b>	<b>(1,795)</b>	<b>(2,969)</b>
Debt Raised/(repaid)	(8)	(47)	(5)	(5)	
Proceeds From Issue Of Shares	(2,404)		(1,463)		
Shares Repurchased					
Dividends Paid	228	238	230	214	251
Preferred Dividends					
Other Financing Cashflow	(830)	(481)	(460)	(517)	(585)
<b>Cash Flow From Financing</b>	<b>(3,014)</b>	<b>(291)</b>	<b>(1,698)</b>	<b>(308)</b>	<b>(334)</b>
Total Cash Generated	27	55	69	1,736	(692)
<b>Free Cashflow To Equity</b>	<b>3,033</b>	<b>298</b>	<b>1,762</b>	<b>2,039</b>	<b>(358)</b>
<b>Free Cashflow To Firm</b>	<b>3,046</b>	<b>350</b>	<b>1,768</b>	<b>2,045</b>	<b>(358)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Total Cash And Equivalents	81	141	198	1,605	913
Total Debtors	1,180	1,057	1,107	1,358	1,595
Inventories	7,282	7,195	7,606	4,338	5,096
Total Other Current Assets	311	293	1,425	1,618	1,901
<b>Total Current Assets</b>	<b>8,853</b>	<b>8,686</b>	<b>10,337</b>	<b>8,918</b>	<b>9,505</b>
Fixed Assets	2,677	2,765	2,849	2,816	2,831
Total Investments	3,839	5,990	5,166	7,166	10,166
Intangible Assets					
Total Other Non-Current Assets	401	2,178	439	121	142
<b>Total Non-current Assets</b>	<b>6,916</b>	<b>10,933</b>	<b>8,454</b>	<b>10,103</b>	<b>13,139</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	5,886	6,881	5,493	3,486	4,095
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>5,886</b>	<b>6,881</b>	<b>5,493</b>	<b>3,486</b>	<b>4,095</b>
Total Long-term Debt	58	11	6	1	1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities			308		
<b>Total Non-current Liabilities</b>	<b>58</b>	<b>11</b>	<b>313</b>	<b>1</b>	<b>1</b>
Total Provisions	236	274	151	152	154
<b>Total Liabilities</b>	<b>6,180</b>	<b>7,165</b>	<b>5,957</b>	<b>3,638</b>	<b>4,250</b>
Shareholders Equity	9,587	12,444	12,821	15,359	18,371
Minority Interests	2	10	13	24	24
<b>Total Equity</b>	<b>9,589</b>	<b>12,454</b>	<b>12,834</b>	<b>15,383</b>	<b>18,395</b>

<b>Key Ratios</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Revenue Growth	14.9%	11.4%	(6.4%)	13.5%	17.5%
Operating EBITDA Growth	19.7%	17.7%	(32.0%)	42.8%	20.2%
Operating EBITDA Margin	27.2%	28.8%	20.9%	26.3%	26.9%
Net Cash Per Share (Rs)	0.38	2.16	3.30	27.50	15.64
BVPS (Rs)	158.91	206.27	219.83	263.35	314.99
Gross Interest Cover	484.13	546.08	1,424.33	8,707.89	26,448.25
Effective Tax Rate	4.7%	3.1%	4.5%	3.4%	5.0%
Net Dividend Payout Ratio	8.7%	7.5%	7.5%	7.4%	7.5%
Accounts Receivables Days	39.76	39.39	40.71	40.85	41.65
Inventory Days	489.81	488.74	506.03	385.50	259.16
Accounts Payables Days	404.52	431.00	423.02	289.79	208.25
ROIC (%)	39.8%	44.8%	26.3%	32.4%	46.2%
ROCE (%)	22.6%	24.6%	14.2%	18.7%	19.3%
Return On Average Assets	16.7%	17.6%	11.1%	15.1%	16.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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