

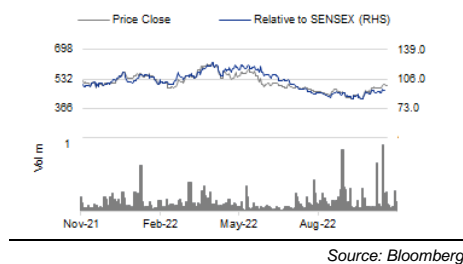
India

ADD (no change)

Consensus ratings*:	Buy 5	Hold 0	Sell 0
Current price:	Rs493		
Target price:	Rs639		
Previous target:	Rs688		
Up/downside:	29.6%		
InCred Research / Consensus:	1.0%		
Reuters:	KVRI.BO		
Bloomberg:	KSCL IN		
Market cap:	US\$355m		
	Rs28,767m		
Average daily turnover:	US\$1.0m		
	Rs83.0m		
Current shares o/s:	58.3m		
Free float:	42.6%		
<small>*Source: Bloomberg</small>			

Key changes in this note

- ▶ Adjust PAT estimates by (7.8) % / (7.2) % for FY23F/FY24F, respectively.
- ▶ Reduction of target price to Rs639 from Rs688 earlier.



Price performance	1M	3M	12M
Absolute (%)	17.0	3.9	(3.4)
Relative (%)	9.5	0.5	(5.8)

Major shareholders	% held
Promoter & Promoter Group	57.4
Massachusetts Institute of	5.0
LIC	4.7

Analyst(s)



Nitin AWASTHI
 T (91) 22 4161 1550
 E nitin.awasthi@incredcapital.com

Kaveri Seed Co Ltd

GM mustard set to be game changer

- 2QFY23 witnessed growth on all fronts, but media reports on government approval for GM mustard seed trials is a positive development.
- Production cost remains higher than the normal level and has not yet been passed on to consumers.
- Retain ADD rating with a lower target price of Rs639 based on 12x FY24F EPS.

GM mustard

Commercial cultivation of genetically modified (GM) crops has got the nod from Indian government after a long span of 20 years. These crops are HTBT cotton (on the verge of approval) and GM mustard (approved by the GEAC or Genetic Engineering Appraisal Committee). However, it will take a couple of years for the commercial rollout. The opening of doors to GM technology will propel the opportunity window for seed companies. GEAC has a line-up of crops for release with GM technology. We feel the government has the backing of the industry, while it also has the interests of farmers and the economy in mind. The country's big edible oil import bill makes a good case for GM mustard crop cultivation.

HTBT cotton

Illegal HTBT cotton has played havoc on the seed industry, by way of taking market share from the organized segment. There was no stopping the growth in usage of HTBT cotton seeds, in our view, because of better yield. However, legalization of seeds has solved the jigsaw puzzle and will help bring back trade to the organized segment. The industry has been in discussions with the government about the pricing of seeds and the royalty to be paid on them. The industry has the option of sharing the profits responsibly among GM tech providers and tech users (seed-makers), as per Kaveri Seed Company or KSCL.

Export growth

KSCL is following a prudent strategy of first garnering sufficient quantum of sales in a country before entering the business in a brick-and-mortar form. KSCL feels that sufficient sales have been achieved in Bangladesh for it to set up offices and research centres there.

Reiterate ADD rating with lower target price of Rs639

We adjust our PAT estimates by (7.8)%/(7.2)% for FY23F/FY24F, respectively, considering the 2QFY23 performance. We retain ADD rating on the stock with a lower target price of Rs639 or 12x FY24F EPS (Rs688 earlier). The developments regarding GM 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	11,032	12,938
Operating EBITDA (Rsm)	2,532	2,980	2,025	2,680	3,215
Net Profit (Rsm)	2,608	3,119	2,131	2,655	3,108
Core EPS (Rs)	42.2	51.7	35.9	45.5	53.3
Core EPS Growth	25.6%	22.4%	(30.5%)	26.7%	17.0%
FD Core P/E (x)	11.68	9.54	13.73	10.83	9.26
DPS (Rs)	3.1	3.9	2.7	3.4	4.0
Dividend Yield	0.76%	0.78%	0.55%	0.69%	0.81%
EV/EBITDA (x)	10.50	7.93	11.81	7.56	5.66
P/FCFE (x)	10.04	99.78	16.61	16.23	(47.54)
Net Gearing	(0.2%)	(1.0%)	(1.5%)	(8.9%)	(2.4%)
P/BV (x)	3.10	2.39	2.24	1.90	1.60
ROE	26.5%	28.3%	16.9%	19.0%	18.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly consolidated results summary

Rs m	2QFY23	2QFY22	%YoY
Revenue	1,671	1,476	13.2
Cost of Goods Sold	1,051	914	15.0
Employee Expenses	204	227	-10.1
Other Expenses	330	270	22.0
EBITDA	85	64	33.0
Depreciation	50	50	0.5
EBIT	35	14	146.9
Other Income	75	151	-50.5
Interest Expenses	1	0	50.0
Profit Before Tax	109	165	-33.8
Tax Expenses	55	37	48.9
Profit After Tax before MI	55	128	-57.5
Minority Interest	2	0	NA
PAT	53	128	-58.7
Key Ratios	2QFY23	2QFY22	%YoY
EBITDA Margin	5%	4%	1bp
EBIT Margin	2%	1%	1bp
PBT Margin	7%	11%	-5bp
PAT Margin	3%	9%	-5bp
Tax Rate	50%	22%	28bp

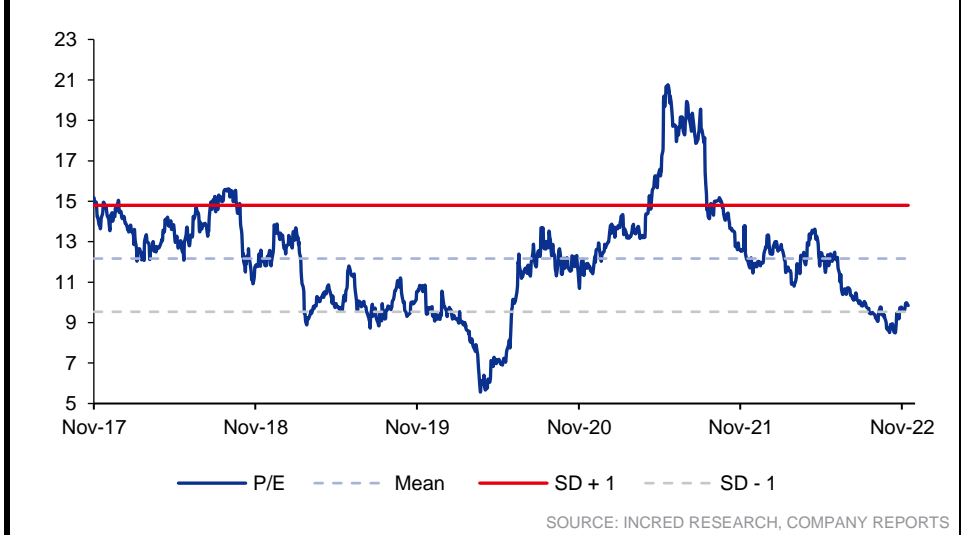
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

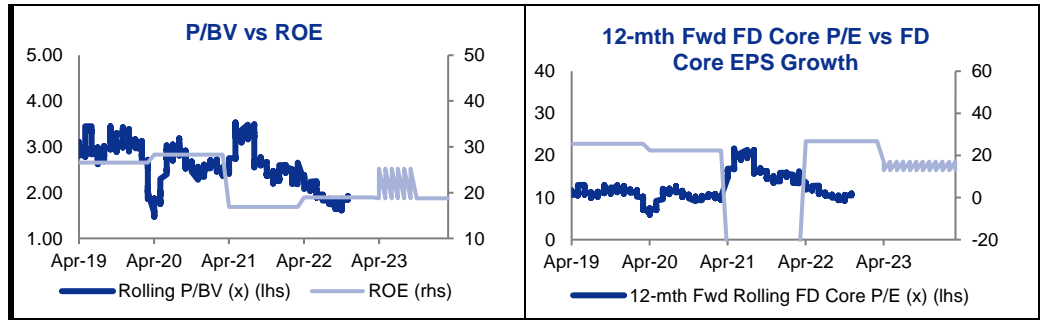
Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	11,012	12,938	11,032	12,938	0.2%	0.0%
EBITDA	2,892	3,476	2,680	3,215	-7.3%	-7.5%
EBITDA Margin (%)	26.3%	26.9%	24.3%	24.8%	-200bp	-205bp
PAT	2,852	3,346	2,630	3,105	-7.8%	-7.2%
EPS (Rs)	49	57	45	53	-8.0%	-6.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/E



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	11,032	12,938
Gross Profit	4,498	4,957	4,362	5,168	6,061
Operating EBITDA	2,532	2,980	2,025	2,680	3,215
Depreciation And Amortisation	(257)	(222)	(209)	(221)	(173)
Operating EBIT	2,275	2,758	1,816	2,459	3,041
Financial Income/(Expense)	(5)	(5)	(1)	(1)	(1)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	456	457	413	304	229
Profit Before Tax (pre-EI)	2,727	3,210	2,228	2,762	3,270
Exceptional Items					
Pre-tax Profit	2,727	3,210	2,228	2,762	3,270
Taxation	(127)	(98)	(100)	(119)	(163)
Exceptional Income - post-tax					
Profit After Tax	2,599	3,112	2,128	2,643	3,106
Minority Interests	9	7	3	13	2
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,608	3,119	2,131	2,655	3,108
Recurring Net Profit	2,608	3,119	2,131	2,655	3,108
Fully Diluted Recurring Net Profit	2,608	3,119	2,131	2,655	3,108

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	2,532	2,980	2,025	2,680	3,215
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(529)	(542)	(933)	(1,001)	687
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	442	261	253	304	229
Other Operating Cashflow	(395)	(69)	(152)	1,711	(1,601)
Net Interest (Paid)/Received	(5)	(5)	(1)	(1)	(1)
Tax Paid	(129)	(106)	(87)	(119)	(163)
Cashflow From Operations	1,917	2,519	1,105	3,574	2,366
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	304	229
Cash Flow From Investing	1,125	(2,173)	661	(1,797)	(2,971)
Debt Raised/(repaid)	(8)	(47)	(5)	(5)	
Proceeds From Issue Of Shares	(2,404)		(1,463)		
Shares Repurchased					
Dividends Paid	228	238	230	197	233
Preferred Dividends					
Other Financing Cashflow	(830)	(481)	(460)	(483)	(548)
Cash Flow From Financing	(3,014)	(291)	(1,698)	(291)	(315)
Total Cash Generated	27	55	69	1,487	(920)
Free Cashflow To Equity	3,033	298	1,762	1,772	(605)
Free Cashflow To Firm	3,046	350	1,768	1,778	(604)

SOURCE: 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	1,352	429
Total Debtors	1,180	1,057	1,107	1,360	1,595
Inventories	7,282	7,195	7,606	4,498	5,276
Total Other Current Assets	311	293	1,425	1,621	1,901
Total Current Assets	8,853	8,686	10,337	8,832	9,201
Fixed Assets	2,677	2,765	2,849	2,828	2,854
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
Total Non-current Assets	6,916	10,933	8,454	10,115	13,162
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	5,886	6,881	5,493	3,615	4,239
Other Current Liabilities					
Total Current Liabilities	5,886	6,881	5,493	3,615	4,239
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	152	154
Total Liabilities	6,180	7,165	5,957	3,767	4,394
Shareholders Equity	9,587	12,444	12,821	15,154	17,942
Minority Interests	2	10	13	26	27
Total Equity	9,589	12,454	12,834	15,179	17,969

Key Ratios					
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	14.9%	11.4%	(6.4%)	13.7%	17.3%
Operating EBITDA Growth	19.7%	17.7%	(32.0%)	32.3%	19.9%
Operating EBITDA Margin	27.2%	28.8%	20.9%	24.3%	24.8%
Net Cash Per Share (Rs)	0.38	2.16	3.30	23.17	7.34
BVPS (Rs)	158.91	206.27	219.83	259.83	307.64
Gross Interest Cover	484.13	546.08	1,424.33	2,797.88	4,357.38
Effective Tax Rate	4.7%	3.1%	4.5%	4.3%	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	40.81	41.68
Inventory Days	489.81	488.74	506.03	376.73	259.37
Accounts Payables Days	404.52	431.00	423.02	283.46	208.42
ROIC (%)	39.8%	44.8%	26.3%	29.7%	42.4%
ROCE (%)	22.6%	24.6%	14.2%	17.4%	18.2%
Return On Average Assets	16.7%	17.6%	11.1%	14.0%	15.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.