

I India

July 22, 2021 - 5:46 PM

ADD (no change)

Consensus ratings*: Buy 9 Hold 2 Sell 0	
Current price:	Rs715
Target price:	Rs781
Previous target:	Rs781
Up/downside:	9.2%
InCred Research / Consensus:	-13.0%
Reuters:	KVRI.BO
Bloomberg:	KSCL IN
Market cap:	US\$578m
	Rs43,108m
Average daily turnover:	US\$3.1m
	Rs233.5m
Current shares o/s:	60.3m
Free float:	44.5%
*Source: Bloomberg	

Key financial forecast

	Mar-21F	Mar-22F	Mar-23F
Net Profit (Rsm)	3,283	3,494	3,926
Core EPS (Rs)	54.42	57.91	65.08
Core EPS Growth	28.8%	6.4%	12.4%
FD Core P/E	60.88	64.79	72.81
Recurring ROE	29.6%	24.6%	22.3%
P/BV (x)	3.42	2.73	2.22
DPS (Rs)	4.05	4.31	4.88
Dividend Yield	0.57%	0.60%	0.68%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(2.1)	21.9	16.6
Relative (%)	(1.4)	11.5	(15.3)

Major shareholders	% held
Promoter & Promoter Group	55.5
Massachusetts Institute of Technology	2.8
Vantage Equity Fund	2.7

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Kaveri Seed Co Ltd

Company could see P/E rerating

- The seed industry, which has been dealing with crucial issues for some time, has seen some of them resolved quickly.
- We have been tracking movements and trying to solve the puzzle as it seems a likely moment for investors to enter the seed industry.
- We have an Add rating and TP of Rs781 on Kaveri Seeds.

The event

- On 6 Jul, the National Seed Association of India (NSAI) posted two articles on its website, "NSAI and FSII president and office bearer met Secretary and Senior Officers in the Ministry of Agriculture" and "High Power Seed Industry Associations Office Bearers met Shri Parshottam Rupalaji, Union Minister of State for Panchayati Raj, Agriculture and Farmers Welfare", indicating officials of the two organisations were meeting the government. NSAI represents mostly domestic seed manufacturers, and the Federation of Seed Industry of India (FSII) mostly foreign agri-biotech companies.

The dispute and its outcome

- Since the launch of BT Cotton in India the two groups have locked horns on trait value. The government intervened in FY15 by deciding both the trait value and maximum selling price of the product and bringing them under price controls. This stopped new technologies flowing from agri-biotech companies to domestic seed manufacturers, reducing profits of domestic seed companies and limiting new R&D spends.

Farmers turn to the black market

- As Indian farmers look for new seeds with better yields, they are forced to turn to the seed mafia for next-generation HTBT Cotton seeds, in our view. According to Mr. N. P. Patel of NSAI, 7.5m packets were distributed in the current financial year. According to NSAI, the segment's market size is 50m packets annually, thus, in our view, 15% of the market is illegal and growing fast.

The problem and the outcome

- As a result of the above, we believe 1) domestic seed manufacturers are directly losing business; 2) foreign agri-biotech companies are indirectly losing business; 3) farmers are turning to dubious products with high prices and no guarantees; and 4) the government's action is creating a black economy. In our view, the NSAI, FSII and the government should iron out their differences and set the ball rolling for technology transfers, starting with HTBT3 Cotton being legalised and raising the maximum retail price and, if not, completely deregulate cotton seed pricing.

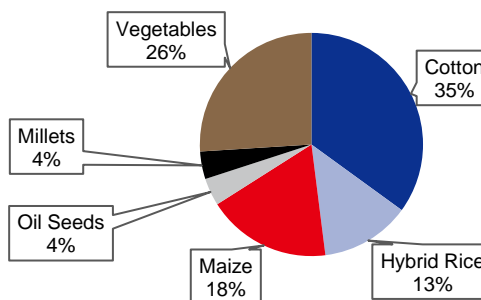
These factors may result in P/E rerating for the sector

- We believe these factors could result in significant P/E rerating, apart from robust EPS growth for seed companies ahead. As most of these are probable outcomes, we do not change any of our estimates for now but will wait for more industry updates.

Top pick within the sector

- We believe Kaveri Seed is set to outperform going forward given its standing in various product categories. We value Kaveri Seed at 11x FY23F EPS to arrive at a TP of Rs781. Key risks are regulatory actions and bad weather – a weak monsoon season could affect agriculture and hurt business.

Figure 1: Cotton and rice dominated the Indian hybrid seed market as on FY20



SOURCE: INCRED RESEARCH, COMPANY REPORTS

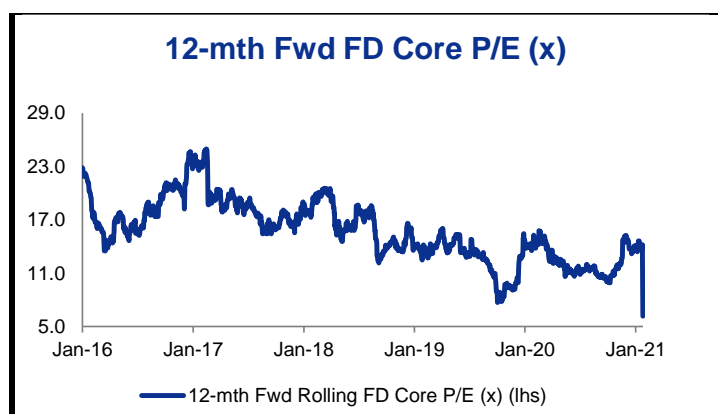
BY THE NUMBERS

Profit & Loss				
(Rs mn)	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	9,302	10,442	11,572	13,350
Gross Profit	4,498	4,977	5,670	6,551
Operating EBITDA	2,532	3,110	3,642	4,143
Depreciation And Amortisation	(257)	(222)	(237)	(247)
Operating EBIT	2,275	2,888	3,405	3,896
Financial Income/(Expense)	(5)	(4)	(2)	(2)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	456	482	230	192
Profit Before Tax (pre-EI)	2,727	3,366	3,633	4,085
Exceptional Items				
Pre-tax Profit	2,727	3,366	3,633	4,085
Taxation	(127)	(94)	(151)	(159)
Exceptional Income - post-tax				
Profit After Tax	2,599	3,272	3,482	3,926
Minority Interests	9	11	12	
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	2,608	3,283	3,494	3,926
Recurring Net Profit	2,608	3,283	3,494	3,926
Fully Diluted Recurring Net Profit	2,608	3,283	3,494	3,926

Cash Flow				
(Rs mn)	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	2,532	3,110	3,642	4,143
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(529)	197	(147)	(392)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	442	474	230	192
Other Operating Cashflow	(395)	(844)	78	594
Net Interest (Paid)/Received	(5)	(4)	(2)	(2)
Tax Paid	(129)	(94)	(151)	(159)
Cashflow From Operations	1,917	2,838	3,650	4,375
Capex	(520)	(200)	(200)	(200)
Disposals Of FAs/subsidiaries	14			
Acq. Of Subsidiaries/Investments	1,594			
Other Investing Cashflow	38	474	230	192
Cash Flow From Investing	1,125	274	30	(8)
Debt Raised/(repaid)	(8)	(6)	(6)	(6)
Proceeds From Issue Of Shares	(2,404)			
Shares Repurchased				
Dividends Paid	228	245	260	294
Preferred Dividends				
Other Financing Cashflow	(830)	(482)	(511)	(591)
Cash Flow From Financing	(3,014)	(243)	(256)	(302)
Total Cash Generated	27	2,869	3,424	4,065
Free Cashflow To Equity	3,033	3,107	3,675	4,362
Free Cashflow To Firm	3,046	3,116	3,683	4,369

Balance Sheet				
(Rs mn)	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	81	2,927	6,327	10,392
Total Debtors	1,180	1,430	1,458	1,390
Inventories	7,282	4,342	4,527	5,029
Total Other Current Assets	311	522	521	601
Total Current Assets	8,853	9,222	12,834	17,412
Fixed Assets	2,677	2,655	2,618	2,570
Total Investments	3,839	3,839	3,839	3,839
Intangible Assets				
Total Other Non-Current Assets	401	418	405	147
Total Non-current Assets	6,916	6,911	6,861	6,556
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	5,886	3,219	3,557	4,191
Other Current Liabilities				
Total Current Liabilities	5,886	3,219	3,557	4,191
Total Long-term Debt	58	52	47	41
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	58	52	47	41
Total Provisions	236	245	253	266
Total Liabilities	6,180	3,516	3,857	4,498
Shareholders Equity	9,587	12,603	15,812	19,444
Minority Interests	2	14	26	26
Total Equity	9,589	12,617	15,838	19,470

Key Ratios				
	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	14.9%	12.3%	10.8%	15.4%
Operating EBITDA Growth	19.7%	22.8%	17.1%	13.7%
Operating EBITDA Margin	27.2%	29.8%	31.5%	31.0%
Net Cash Per Share (Rs)	0.38	47.65	104.10	171.57
BVPS (Rs)	158.91	208.90	262.10	322.30
Gross Interest Cover	484.13	681.84	1,372.24	1,765.63
Effective Tax Rate	4.7%	2.8%	4.2%	3.9%
Net Dividend Payout Ratio	8.7%	7.4%	7.4%	7.5%
Accounts Receivables Days	39.76	45.63	45.56	38.94
Inventory Days	489.81	388.17	274.27	256.53
Accounts Payables Days	404.52	304.06	209.55	207.99
ROIC (%)	39.8%	47.1%	53.1%	62.7%
ROCE (%)	22.6%	25.5%	23.6%	21.8%
Return On Average Assets	16.7%	20.5%	19.4%	18.0%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

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.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.