

Current	Previous
CMP : Rs.646	
Rating : BUY	Rating : NR
Target : Rs.754	Target : NR

(NR-Not Rated)

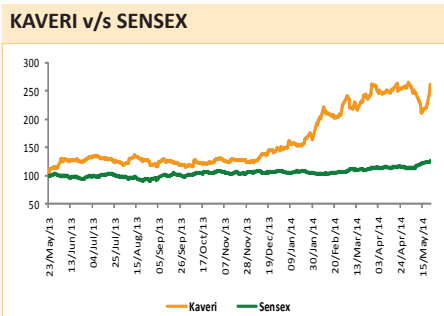
STOCK INFO	
BSE	532,899
NSE	KSCL
Bloomberg	KSCL IN
Reuters	KVRI.BO
Sector	Agri-Seed
Equity Capital (Rs mn)	137
Face Value (Rs)	2
Mkt Cap (Rs mn)	44,407
52w H/L (Rs)	670/243
Avg Daily Vol (BSE+NSE)	68,292

SHAREHOLDING PATTERN	%
<i>(as on 31st Mar. 2014)</i>	
Institutions	20.9
Others, Incl Public	15.5
Promoters	63.6

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
KAVERI	0	23	162
SENSEX	8	21	26

Source: Capitaline, IndiaNivesh Research



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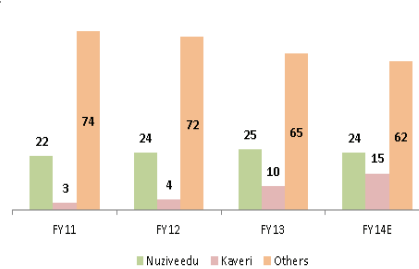
Kaveri Seed Company Ltd. (KSCL) is a producer & marketer of seeds with focus on hybrid categories along with micro-nutrients. The company has recorded a revenue & EBITDA CAGR of 64%/58% from FY10 to FY13; growth has been primarily driven by KSCL's BT.Cotton offering. On back of strong brand, high entry barriers and continuous new product launch, we expect KSCL to continue its growth trajectory. We recommend BUY with target price of Rs.754, based on 16x FY16 EPS.

Key Investment Rationale

KSCL-Second Largest market share in BT-Cotton

■ BT cotton seeds segment contributes heavily to KSCL's overall top-line. The contribution of BT-cotton to total revenue was 59% during FY13 from 36% in FY11. KSCL sell different BT-Cotton brands in different market (*Eg: Jadoo - Maharashtra, MP | ATM - Maharashtra, Gujarat | Singha | Barood*) depending on traits and climatic conditions suiting them. Around 50% revenues come from Jadoo, 10% from Jackpot & ATM and remaining from Singha, Barood etc. On back of differentiated and high yielding seed portfolio, KSCL increased its market share in BT-Cotton from 5% in FY12 to 10.0% in FY13, and is likely to enhance it to 15% in FY14. KSCL hold c40% market share in AP on back of Jadoo and Jackpot. Whereas, in Maharashtra and Gujarat the company holds only c7% market share v/s >20% for peers (Nuziveedu, Ajeet, Ankur & Mayco). In order to double its market share in Maharashtra and Gujarat, KSCL introduced few hybrid products and widened distribution networks. Additionally, lowest per acre consumption of BT-cotton seeds in India (1.6 packets/acre) relative to global standard (2.0 packets/acre) provide huge growth opportunities.

Chart: BT COTTON – Second Largest Market Share (%)



Source: Company Filings; IndiaNivesh Research

Chart: KSCL Revenue Contribution from BT COTTON (%)

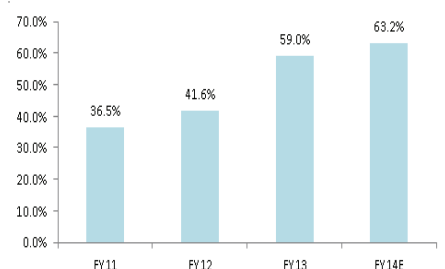
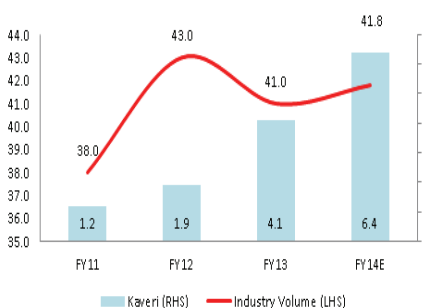
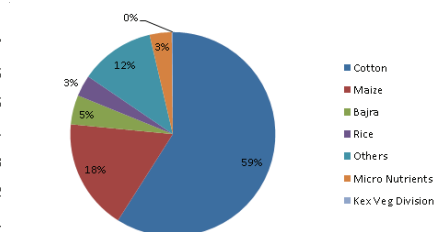


Chart: BT COTTON Volume (Mn/ Packets)



Source: Company Filings; IndiaNivesh Research

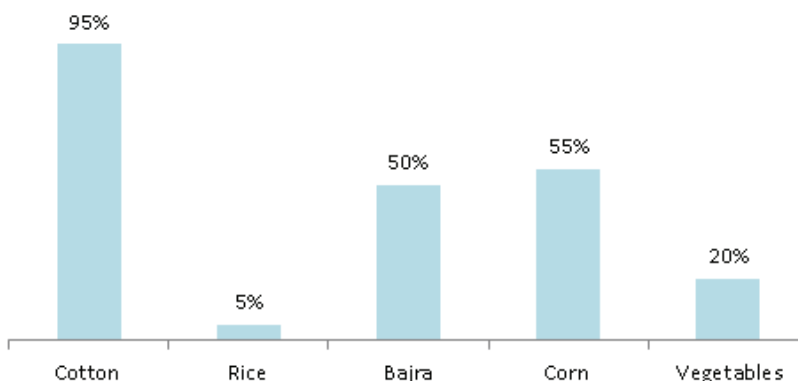
Chart: KSCL's Revenue Break-up



Rice - Lowest Penetration Provides Huge Opportunity

- India has c2mn ha (v/s total 42mn ha) under hybrid seed in rice crop. In our view, this is the next big opportunity for the industry as well as KSCL. In China hybrid rice is 65% of total rice acreage. The company expects area under rice hybrid seed to grow to 4-5mn ha over medium-to-long-term. KSCL has c6% market share in FY13 (Bayer crop science has 40-50%market share) and expects to post robust growth in rice crop, going forward. KSCL currently has portfolio of 6 hybrid seeds in rice and has recently got notification for 2 new hybrid namely KPH 371 and KPH 199. Notification is origination to participation in the government subsidy business. As 80% of rice market is in Eastern India and KSCL plans to sell it to state government and participate in subsidy business.

Chart: Rice - Hybrid Seed Penetration (%)

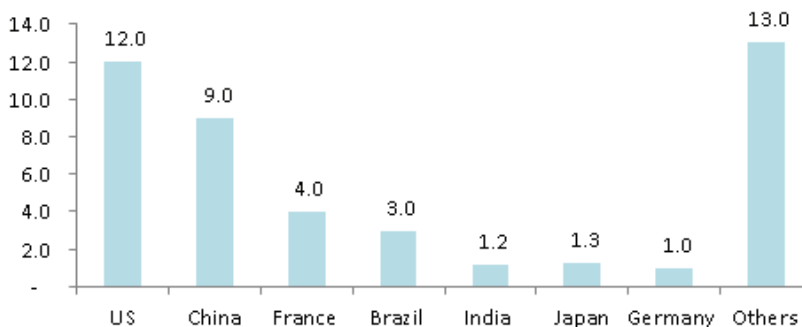


Source: Company Filings; IndiaNivesh Research

India - Fastest Growing Hybrid Seed Market

The Indian seed industry is the fifth largest market in the world accounting for around 4.4% of global seed trade. The present size of the Indian seed industry is estimated at around Rs.70bn with a production of around 40 mn quintals of various kinds of seeds (Source: ASSOCHAM report). In India, hybrid seeds account for around 20% of the total seed production; of which cotton has the biggest share (c59%) followed by rice (c15%), wheat (c10%) and vegetables (c10%). The production of hybrids needs to be promoted aggressively to improve productivity especially in crops like rice, maize and vegetables. A recent survey by ASSOCHAM on the size and growth of domestic seed market estimates that the total seed production of India will reach to 63 million quintals by CY15 from the current level of 40 million quintals. The major contributors to the next leg of growth for the industry are expected to come from corn, paddy and vegetable. The increasing penetration of hybrid seeds would lead to significant growth in the industry.

Chart: 5th Largest Seed Market in World (USD Bn)



Source: Company Filings; IndiaNivesh Research

Wide Distribution Network

■ KSCL has a wide distribution network of c15,000 direct/indirect distributors (15 key Indian states) and strong team of c350 marketing professionals on a pan India basis. It also has around 90,000 loyal production growers and c60,000 acres (across 12 different agro-climatic centres) under seed production. The company has c57 out-reach trail centres and eight plants spread across key locations in India with aggregate processing capacity of c145 MT per hour. KSCL also has 26 warehouses at strategic locations with combined storage space of c500,000 sqft. On back of underlying strength, over the past few years KSCL is emerging as pan India player relative to earlier - focused in Southern and Central India. KSCL's initiatives to introduce new range of seeds as per the markets acceptance and climatic condition should bode well in broadening the geographical reach. In order to understand the market requirement, KSCL is also setting up outreach centres to understand the needs of farmers. In our view, KSCL is emerging as the dominant pan India players with foot print in new locations (Chhattisgarh, Jharkhand, West Bengal & Odisha).

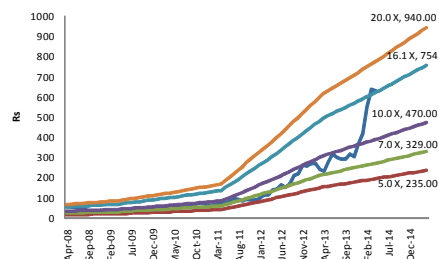
High entry barrier

■ The hybrid seed business is very critical in nature and has various entry barriers: (1) process of developing a hybrid seed from R&D to production takes 9-10 years, huge entry barrier in itself, (2) marketing of seeds has huge challenges due to farmers loyalty to specific brand, and (3) requirement of wide distributor network, which remains a critical factor in gaining farmers confidence.

Valuation

At CMP of Rs.646, the stock is trading at P/E multiple of 16.7x FY15E and 13.7x FY16E based on Bloomberg consensus earnings. On back of solid industry fundamentals like - (1) low hybrid seed penetration (c25%), & (2) few private players participation (c30%) in seed market, the macro outlook for the seed industry looks attractive. Additionally, KSCL's strong industry position, wide distribution network, diversified product range, superior R&D capabilities places it well to benefit from large macro opportunities in the sector. We recommend BUY with target price of Rs.754 (16.0x FY16E) on KSCL.

PE Band



Source: Company Filings; IndiaNivesh Research

YE March (Rs. Mn)	Net Sales	PBDIT	Adj PAT	EPS (Rs)	EBITDA Margin	ROE (%)	P/E (x)
FY13A	7,120	1,394	1,281	18.7	19.6	43.3%	34.6x
FY14e	10,240	2,248	2,109	30.7	22.0	52.7%	21.0x
FY15e	12,652	2,859	2,642	38.5	22.6	50.9%	16.8x
FY16e	15,325	3,486	3,221	47.2	22.7	38.7%	13.7x

Source: Company Filings; Bloomberg Estimate

Relative Valuation

Co.	Mcap	P/E	M/Sales	EV/EBITDA	EBITDA Margin %	ROE %
(Rs Mn)	(Rs Mn)	FY15E	FY15E	FY15E	FY15E	FY15E
Kaveri	44,407	16.7x	3.5x	15.2x	22.5	50.9
Monsanto	31,914	19.3x	4.6x	16.5x	25.1	30.5
Bayer Crop	57,156	17.3x	1.6x	10.0x	13.0	23.0

Source: Company Filings; Bloomberg Estimate



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