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### Kaveri Seed Company Ltd (Kaveri)

#### **Channel Check Update | Maintain BUY | TP Rs.754**

***In order to understand the ground reality of BT-Cotton seed demand we conducted the channel check with various seed distributors, manufacturers, dealers and cotton exporters.***

Following are the key takeaways:

#### **Positive Demand Outlook...**

Despite delayed monsoon and expected El-Nino effect, the producer and dealers of BT-Cotton seeds sounded positive on overall demand outlook. As per our checks, we learned that cotton crop tends to do well in low as well as in high rainfall. Whereas crops like Maize, Guar, Soybean, and Rice are impacted in an unfavourable climatic condition. Given the below average rainfall for the first fortnight of the month and considering our checks, we are of the view that farmers might shift to cotton (relative to Soybean & other in the current kharif season). This also corroborates management's view in the recent quarter conference call where cotton acreage is likely to go up by 4-5% in FY15. This acreage growth would be at Maharashtra, Andhra Pradesh, Gujarat and Kerala, which again happen to be the key markets for Kaveri.

#### **Re-seeding to be seen...**

During our channel-checks, we learnt that sowing of cotton crop is already done in major parts of Maharashtra, Andhra Pradesh, Gujarat and Kerala. However, due to lack of proper irrigation facilities and delayed monsoon in some regions re-seeding could be seen. This could boost the volumes of seed companies operating in these regions. Also our checks indicate that demand for re-seeding could largely emerge from Andhra Pradesh and Gujarat.

#### **Seed companies least impacted...by El-Nino**

Despite delayed monsoon, sowing is already done in major part of Maharashtra, Andhra Pradesh, Gujarat and Kerala. High seed demand and re-seeding trends indicate strong uptick in Q1FY15 volume. Prices of cotton have also remained firm, which implies increase in cotton acreages, which would translate to higher demand for better quality seeds, implying strong volumes for seed companies like Kaveri.

#### **Valuations & Conclusions**

In our coverage Kaveri would emerge as the biggest beneficiary from the on-going on-ground developments. Kaveri is a one of the leading hybrid category BT-Cotton seed manufacturer (56% of FY14 revenue). The company is expected to report 23% revenue CAGR (FY14A-16E) on back of strong market positioning, high entry barriers and continues new product launch. At CMP of Rs.663, the stock is trading at P/E multiple of 17.2x FY15E and 14.1x FY16E based on Bloomberg consensus earnings. We maintain BUY with target price of Rs.754, based on 16x FY16 EPS.