



Markets

MAGAZINE | JAN 04, 2014



MY BEST PICK

Gajendra Nagpal

Founder, Augment Financial Services expects a golden harvest with Kaveri Seeds

GAJENDRA NAGPAL

Kaveri Seeds

Continued market share gains in cotton seed and robust growth in corn and rice seeds segments will drive growth

- **CY13 return** 31%
- **Stock price** Rs 1,694
- **P/E (FY14)** 10X
- **Market cap** Rs 2,329 cr
- **Net sales** Rs 712 cr
- **Net profit** Rs 128 cr
- **ROE** 37.31%
- **RoCE** 38.59%

It's quite possible that you may have not heard of GV Bhaskar Rao, but his business, Kaveri Seeds, is known as India's fastest-growing seeds company

. Established in 1986, the Hyderabad-based company's net profit has grown at a CAGR of 45% over FY08-13. FY14 is also likely to be a year of strong

growth for Kaveri, driven by continued market share gains in cotton seed and robust growth in corn and rice seeds.

Kaveri, which holds a 10% market share of the organised seeds business, is fast emerging as a proxy play on the increasing focus on rising crop yields. What is more, the company, which went public in 2007, is debt-free and generates an impressive return on capital of over 35%. Much of its success can be attributed to its research and development focus, which has helped it come up with blockbuster cotton hybrid seed varieties such as Jadoo and Jackpot. Backed by this entry barrier, Kaveri has increased its overall share in the seeds market — which has over 350 private players — from 5% in FY12 to 10% now, and will enhance it to 15% in the near future on the back of a differentiated and high-yielding seeds portfolio.

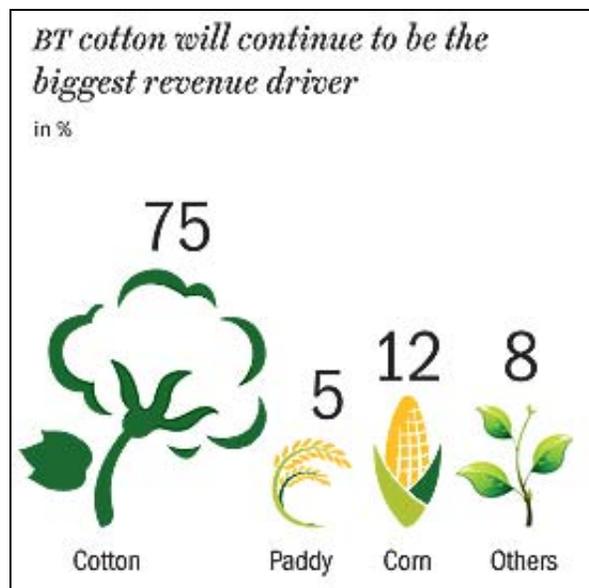
While Kaveri Seeds has a dominant position in the south, it has also expanded distribution to make inroads into new markets

While Bt cotton remains a key growth driver for Kaveri, its portfolio includes hybrid seeds for cotton, corn, paddy, *bajra*, sunflower, sorghum, tomato, okra, chilli and watermelon

Kaveri Seeds' market share in cotton has improved to 15% (from 10% in FY13) and the company is targeting 20% by next year

In its Microteck division, Kaveri markets micronutrients and organic bio-pesticides and fungicides to boost crop yields. In 2007, it entered into a non-exclusive licensing agreement with JK Agri Genetics for using insect-tolerant seed lines for producing, testing, marketing and selling GM hybrid cotton seed in India. In November 2011, it set up Kexveg India, a wholly-owned subsidiary, to grow premium exotic veggies and herbs for Indian and export markets.

Kaveri, which doesn't have major capex lined up over the next two years, has beefed up its network and has 15,000 distributors and retailers across India, up from 11,000 four years ago. While the firm has a dominant position in the south, expanded distribution has helped it make inroads into new markets such as Chhattisgarh, Jharkhand, West Bengal and Odisha.



Sticky cotton

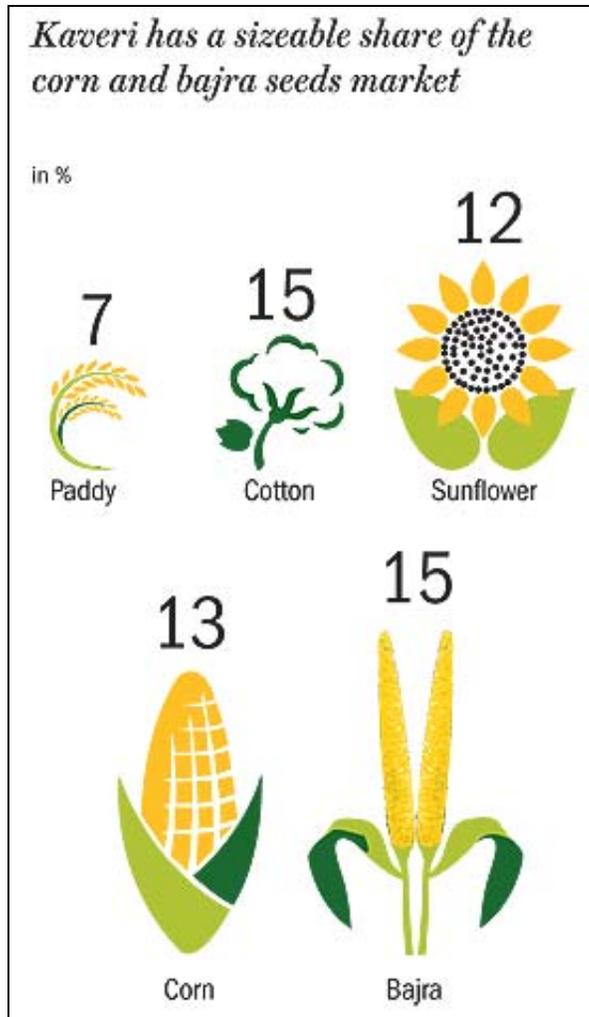
India's seed industry is expected to grow by 53% to Rs 10,700 crore by 2015, thanks to increased demand for high-yielding varieties, according to industry body Assocham. The study shows that the country has the potential to increase total seed production to 63 million quintals by 2015 from the current level of 40 million quintals. Hybrids have about 20% share of the total seed market, of which cotton (20%) has the biggest share, followed by rice (15%), wheat and vegetables (over 10% each). Kaveri believes there is scope for the per acre consumption of cotton seeds in India to jump from 1.6 packets per acre to the global standard of 2 packets per acre. That's why Kaveri will continue to grow its cotton seeds business by 20% in FY14 despite industry carrying higher than normal inventory. Even as other crop seeds are likely to register 15-20% growth, the firm is confident of at least 20% CAGR in revenue from cotton seed,

driven by continued market share gains.

This confidence doesn't seem misplaced if one takes stock of the prevalent situation in the cotton seed market. Due to overproduction, the industry is facing a massive overhang of leftover inventories (>50% of annual sales). However, Kaveri itself has no inventories, thanks to the exceptional success of its Jadoo hybrids that has helped it double market share in FY13. In addition, Kaveri's new cotton hybrid, branded 'ATM,' reportedly offers even higher yields than Jadoo and will support its thrust for further market share gains. According to the company, advance receipts from cotton seed dealers for the upcoming kharif season are up 10% year-on-year despite challenging industry conditions. Management also expects

Kaveri's year-end inventory of cotton seed to increase by 25-30% y-o-y, indicating that it is prepared for at least that much growth.

The next big opportunity for Kaveri could be hybrid rice. Of the 40 million hectares under rice cultivation, hybrid rice accounts for 2 million. The firm expects area under rice hybrid seed to grow to 4-5 million hectares over the next three to four years. Kaveri has around 7% market share currently (Bayer has around 50%) and expects to post robust growth in this segment by launching two new rice hybrids soon. What is encouraging is that its hybrids continue to top Indian Council of Agriculture Research trials, much ahead of MNC competitors. Kaveri also expects continued healthy growth in corn, in which it already has a significant presence. Kexveg is expected to provide another growth trigger. Set up with an initial investment of Rs 6.4 crore, it produces high-value exotic Indian vegetables and European herbs for domestic and export markets. At present, Kexveg contributes about Rs 1 crore to revenues but the company aims to earn about Rs 7-8 crore a year from this business in the next three years.



Rich harvest

It's not surprising to see that the robust performance of the company has continued in the current fiscal. Normal monsoon in target markets and good sowing in cotton, paddy and corn have helped the stellar performance. Sales for the six months ended September 2013 rose 53% from Rs 543 crore to Rs 833 crore, while profits are up 58% to Rs 171 crore from Rs 108 crore for the earlier respective period.

Kaveri's market share in cotton has improved to 15% (from 10% in FY13) and it is targeting 20% by next year. More importantly, the much awaited price hike (selling prices have not been raised over the past three years) in cotton seed will drive earnings in FY15. The current valuation is not factoring in management's expectation of continued strong growth in earnings. Consequently, the valuation seems reasonable at 10-11 times potential FY14 earnings per share, as its competitor Advanta trades at a multiple of 14.8 times. There are unconfirmed reports that Bayer CropScience, the crop protection and agri-products arm of German giant Bayer AG, is in preliminary talks to purchase a minority stake in Kaveri Seeds. These talks may or may not fructify in an eventual deal, but the development clearly indicates that the current management is doing a great job at Kaveri. In 2014, there cannot be a better stock than Kaveri Seeds as it has all the ingredients needed to become a multi-bagger.

The writer has a position in the stock

[Click here to see the article in its standard web format](#)