



EQUITY STRATEGISTS™

www.equitystrategists.com



Vol.12.76

3rd June 2009

INVESTMENT PICK

LOW RISK / HIGH RETURN

HOLDING PERIOD – THREE MONTHS PLUS

KAVERI SEED

Present Price – Rs.188

Projected Price – Rs.250

Established in 1974 by Mr GV Bhaskar Rao (an agricultural science graduate), Kaveri is one of the oldest seeds companies in India. Kaveri started out as a provider of varietal maize, sunflower and paddy seeds, and later graduated to developing more productive hybrid seeds across different crop segments. Till recently, Kaveri's business was largely focused around the southern and western states of Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra. In a clear reflection of Kaveri's competitiveness and its strong R&D capabilities, Kaveri is among the top three companies in hybrid maize, hybrid sunflower, pearl millet and a variety of rice segments in its representative regions. Kaveri's key product segments include maize, sunflower, BT cotton (new product launch), paddy, pearl millet and its organic food business, Microtek.

Kaveri Seed (KSCL) is an interesting small-sized play on the expected boom in the hybrid seeds industry in India. Kaveri is one of the oldest players in the Indian organized hybrid seeds market and among the strongest in the Indian corn and sunflower markets. Given the high entry barriers in the hybrid seeds business, strong indigenous R&D capabilities are the key to success, and Kaveri has focused on acquiring strong R&D capabilities over the years with a smart choice of "right crops".

KSCL has been in the business of production, processing and marketing of seeds for over two decades. It has a pan-India presence with a comprehensive product portfolio and a strong R&D team.

Kaveri Seeds has built a comprehensive product portfolio of commercial crops in India. The company has developed many new hybrid seeds and a strong pan-India distribution network, making it a significant player.

Over the past few years, Kaveri Seeds has diversified its product portfolio, which now includes maize, cotton, sunflower, paddy, *bajra*, *jowar*, grain sorghum and vegetables. However, the main products are maize, cotton, sunflower and *bajra*.

Kaveri Seeds has higher operating margin compared with peers due to its presence in crops where demand is higher and realisations are better. Looking ahead, the margin should improve further due to the contribution from hybrids that were launched recently and which have found high market acceptance.

Kaveri has acquired critical mass and is well placed to move on to the next growth trajectory. Till recently, Kaveri was a regional player with focus on corn and sunflower, and footprint largely limited to Karnataka and Andhra Pradesh. Kaveri is now working on expanding its geographical footprint to North India as well as entering newer crop segments like hybrid paddy, BT cotton and hybrid vegetables. While this transformation offers exciting growth possibilities, the management has indicated 20-25% CAGR in revenues and faster profit growth over FY09-11E.

Kaveri's strong R&D focus is one of its key competitive advantages. This is clearly reflected in Kaveri's strong brand equity and high market share in corn and sunflower segments, and enhances confidence in the company's ability to successfully target newer crops like hybrid paddy and cotton. Currently, Kaveri employs 55 people in its R&D team and it spent ~Rs30m on R&D (3% of sales) in FY08. From a low base, Kaveri is looking to grow its R&D spend by 40-50% in FY09. With the scale-up in revenues, Kaveri's capacity to spend higher amounts on R&D will also go up.

It has an Equity Capital of Rs.13.70 cr with a strong Book Value of Rs.76.90. Last paid dividend was 20%. We expect the company to report an EPS of Rs.20 plus for FY09 which discounts the current price by less than 9 times leaving ample scope for appreciation.

Note: In case of any problem in receiving NEWSLETTER, kindly contact Mr Devesh Chauhan at 9350171231

Disclaimer: The recommendations made herein do not constitute an offer to sell or a solicitation to buy any of the securities mentioned. Readers using the information contained herein are solely responsible for their actions. The information and views contained herein are believed to be reliable but no responsibility or liability is accepted for errors of fact or opinion. Editors may or may not have trading or investment positions in the securities mentioned herein.

Website: - www.equitystrategists.com

EQUITY STRATEGISTS is published by
D Prasad & Jatiinder Sharrma
(9810018028) (9899252034)
(9312211052)

Available through Subscription Only
A – 1, Sector - 53
Noida – 201 301
contactus@equitystrategists.com