

Key ConCall Highlights

CMP (INR): 570.5

Kaveri's cotton volumes grew 28% in H1 from 5.4 million packets to 6.9 million packets

Maize volumes went down 12% YoY in H1FY18. Q2 volumes are however up by 13%

Inventory profile is much better and discards likely to be lesser than previous years

- The year started on a strong note as rainfall was predicted to be normal. This is one of the best years for cotton, Sowing happened much earlier than last year in Central and South India . Kaveri's cotton volumes grew 28% in H1 from 5.4 million packets to 6.9 million packets. The company is still the top cotton seed producer in South and holds a market share of 15%. However the company gained cotton seed market share in Gujarat, Karnataka and Maharashtra this year. Cotton is the largest contributor to topline and contributes 60% to the overall revenue of the company. Two new cotton hybrids launched and 2 new cotton hybrids under demonstrations with farmers. Area Coverage during Kharif 2017, as on Sep 29, 2017 increased 19.3% for Cotton.
- The Maize Volumes however went down to 7200 tons in H1FY18 from 8200 tons(down by 12 %YoY) in the 1st of the last fiscal as there was some drop in volumes witnessed in Karnataka and performance went down due to shifting to other crops. Q2 volumes are however up by 13%. Volumes were likely to go up in the next half. Maize is the second largest contributor to revenue and contributes around 20% to the total revenue. For Maize, Telangana and Karnataka constitute more than 1/3 of organized market in Kharif Hybrid Maize seed sales. Government business volumes dropped compared to last year. 3 new hybrids launched in maize for kharif season. 2 new hybrids in maize are to be launched in Rabi season. 2 new maize hybrids are under demonstration. Maize area in Bihar looks positive. Rabi Maize acreage and export volumes look positive . Kaveri has a total market share of 8% in Bihar for maize.
- Inventory profile has improved significantly and discards likely to be lesser than previous years. Due to relatively lower inventory write-offs the gross margin also increased.
- For R&D purpose the company is likely to spend 3-4% of the total revenue. Previously the company used to spend 2% of the revenue for the same. This additional allocation company would use for hiring more people for R&D and for buying customized softwares. Additional land will also be acquired for R&D purposes.

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R&D expenditure to increase from 2% of revenue to 3-4%

The contribution from the newly launched products increased

- In March end this year the total cash on the books stood at INR649 Crores. However in September end it decreased to 422 Crores. The cash was used for buying back of 29,62,962 equity shares at INR675 per share for an aggregated value of INR200 Crores.
- The contribution from the newly launched products increased. Newly launched products includes all the products launched in the last 3 years. In hybrid rice contribution of new product went up from 1% to 15% of volume. In selection rice Contribution of new products went up from 3% to 12%. In Bajra, New product contribution has gone up from 6% to 14% of volume.
- The litigation case over royalty payment with Monsanto is now resolved.
- Use of Illegal Herbicide Tolerance was found in few states September rains impacted quality and quantity for early picking .Pink Bollworm reported in few places. Prophylactic spray by farmers to prevent damage by pink bollworm has gone up. Status of pink worm reported in Gujarat was much lesser than that of Maharashtra.
- There was no impact due to GST. Previously it was decided that the branded seeds would attract a GST of 5%. However after all the seed companies appealed against it, branded seeds are kept away from the ambit of GST.
- Vegetable market has been challenging for the industry in H1FY18 and is expected to pick up in H2. Company increased investment in R&D for the vegetable business.
- The company is focusing on strengthening distribution network beyond South and Central India, to northern, eastern and western geographies of India.



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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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