

Issue Open: September 06,2007
Sector : Miscellaneous - Medium / Small
Price Band
Issue Close: September 11,2007
Rs. 150 - Rs. 170

Issue Summary	(Shares in million)
Total Equity Share in Issue	4.00
Employee Reservation Portion	0.20
Net Issue To The Public	3.80
Of Which Reserved for:-	
QIB	1.90
Non - Institutional	0.57
Retail	1.33
Equity Share Outstanding	
Prior to the issue	9.70
After the issue	13.70

Financial Snapshot	(Rs. In Million)			
	FY 2007	FY 2006	FY 2005	FY 2004
Sales	657.72	481.67	475.53	388.78
Total Income	672.38	497.23	482.22	396.35
Optg Profit	171.16	39.76	18.00	9.28
Net Profit	105.40	29.32	13.14	2.38
EPS*	7.69	2.14	0.96	0.17
Share capital	97.00	16.00	1.50	1.50
Res&Surplus	169.35	58.26	29.23	16.78
Networth	266.35	74.26	30.73	18.28
Total Debt	118.93	144.20	103.56	1.32
Book Value*	19.44	5.42	2.24	1.33

*The no. of shares are of the post issue equity i.e. 13.7 mn shares.

Company Snapshot

- KSCL has a CAGR of 19% in the topline; 164% in EBITDA & 254% in the bottomline over the last three years.
- Strengths are: One of the leading seed producers in India; Has hybrid seeds for a wide variety of crops; Presence in the industry over 2 decades; R&D capabilities with infrastructure & owned land for the same.
- Weakness are: Seasonal nature of the business; No exports; Limited presence (south india); No dividend track record.
- Opportunities are: Potentiality of the north & east Indian markets; Increased acceptance of Bt. cotton as a reliable hybrid; Very low levels of hybridization in paddy cultivation; Growing importance for organic farming; Farmers' acceptance of new hybrids developed with innovative technologies.
- Threats are: Pinching of parent lines for hybrid; Declining soil fertility; Adverse climatic conditions; Emergence of Multi National Corporations in seed industry.
- Strategies are: Venturing into high value segments, new crops; Expanding into new potential market; Continue breeding R&D; Adaptability to new technology sharing & sales opportunities; Custom-made product development.
- The stock is available at a **P/E of 20x & 22x at the lower & upper band of the issue price respectively.**

Shareholding Pattern	(In %)	
	Pre-Issue	Post-Issue
Promoters & PAC	86.13	60.99
Employees	-	1.46
QIB	0.21	14.01
Non - Institutional	13.66	13.83
Retail	-	9.71
Total	100.00	100.00
Total no. of shares	9,700,000	13,700,000

Company Valuation

Multiple	KSCL	Industry Avg.
Sales (Rs. in million)	657.72	168,650.30
Operating Profit (Rs. in million)	171.16	18,442.80
RONW (%)	39.57	3.86
OPM (%)	26.02	10.94
NPM (%)	16.02	6.16
P/E (150 & 170)	19.5 & 22.1	35.68
Price to Book Value (150 & 170)	7.72 & 8.74	

Objects of the issue:

1. Acquisition of farmland for R&D.
2. Setting up of marketing offices & godowns.
3. Setting up of corn cob drying plants.
4. Setting up of a biotechnology lab.
5. Upgradation of existing seed processing plants.
6. Setting up of a seed processing plant.
7. Meeting working capital requirements & issue expenses.

Industry Scenario

- The Indian seed market is among the top ten largest in the world.
- The Government is concerned about the stagnation in the production & productivity of pulses. A critical deficiency is the availability & quality of certified seeds. Government therefore proposes to expand the integrated oilseeds, oil palm, pulses & corn development programme.
- Key industry drivers are: Population growth; economic growth; land availability; sustainability; technology; hybridization; food preferences.
- Key crops are: Sunflower; grain sorghum; cotton; corn; paddy.
- In order to develop products in the seed industry, companies need access to an extensive germplasm bank & adequate capital to develop products over long periods of time. The development of a rich germplasm bank requires the accumulation of genetic material over a period of years. Development cycles can last for about 5 to 12 years prior to launching a commercially viable product. Seed companies need to invest heavily in creating research & development facilities which is a must to maintain a full product pipeline.

Company Background:-

The company was incorporated on August 27, 1986. KSCL is mainly into the business of production, processing & marketing of high quality hybrid seeds for different crops like corn, sunflower, cotton, paddy, grain sorghum, etc. & have recently forayed into micronutrients & bioproducts. KSCL also produces non-hybrid seeds, primarily for paddy. KSCL currently has production, processing & R&D facilities in Andhra Pradesh & Karnataka. All the seed varieties developed by the R&D team are marketed under the **brand name of 'Kaveri Seeds'**. The current marketing network of distributors & dealers are spread over Tamilnadu, Karnataka, Maharashtra & Andhra Pradesh. KSCL had entered into a sub-licensing agreement with Mahyco Monsanto Biotech (India) Limited for Bt. transgenic technology for cotton in the year 2004. In 2007, KSCL has also entered into a non-exclusive licensing agreement with JK Agri Genetics Limited for using insect tolerant seed lines for producing, testing, marketing & selling genetically modified hybrid cotton planting seed in India. The promoters of KSCL are: Mr. Gundavaram Venkata Bhaskar Rao; Mrs. Gundavaram Vanaja Devi; Mr. Rangineni Venu Manohar Rao; Mr. Chennameneni Vamsheedhar; Mr. Chennameneni Mithun Chand; Dr. Gundavaram Pawan; Dr. Gundavaram Madhushree & Gundavaram Venkata Bhaskar Rao (HUF) . In 2006, KSCL has Acquired the business of M/s Kaveri Agritech a partnership firm that is engaged in the business of plant nutrition (i.e. Bio-Products & Micro-Nutrients).

Company Snapshot:-

- KSCL has a CAGR of 19% in the topline; 164% in EBITDA & 254% in the bottomline over the last three years. On a Y-o-Y basis, KSCL has grown at a rate of 37% in the topline, 330% in the EBITDA & 260% in the bottomline.

- **Strengths** are: On the basis of the volume & variety of the various hybrids, **KSCL are one of the leading seed producers** in the country. Further, such hybrids are adaptable with conditions including inter alia varied agro-climates & soil types; **KSCL has hybrid seeds for corn, sunflower, cotton, paddy** etc. These varieties gives an edge in the market & KSCL has the ability & infrastructure to further develop different hybrids in these crops; **Presence in the industry over 2 decades**; KSCL's investment in infrastructure development is phenomenal. **R&D** main stations measuring 275.42 acres are strategically located around Hyderabad claimed to be India's seed hub. These research facilities enable them to come out with different high quality hybrids suitable for various climatic conditions. Farmers' reliance on the quality seeds today puts KSCL in a leadership position in terms of volumes & margins in sunflower & corn.

- **Weakness** are: Because of the **seasonality of the business**, KSCL's production & processing capacities are under-utilized. But they are overcoming this by introducing new varieties & new crops as well as penetrating into new markets with different seasonalities; **No exports**; KSCL has **limited presence** by catering only to the markets of Karnataka, Maharashtra, Tamilnadu & Andhra Pradesh; **High dependency on R&D**; **Relies on third party seed growers** for seed production; **Negative cash flow** two times in the last four fiscals.

- **Opportunities** are: **The North & East Indian markets offer enormous potential**. Of late, farmers have begun to understand the importance of hybridization for improved production & productivity & the demand for hybrid seeds & agri-inputs are growing; **Increased acceptance of Bt. cotton** as a reliable hybrid; Very low levels of hybridization in paddy cultivation; Growing importance for organic farming; **The Government of India has been stressing upon importance of increasing productivity through improved farm practices**. Thus, the **farmers have realised the importance of switching over to HYVs / hybrids**. This has opened the floodgates for companies like KSCL to cater to their needs. Farmers are willing to pay higher prices for value-added products.

- **Threats** are: **Pinching of parent lines** for hybrid; **Soil fertility is declining over the time**. Yields have plateaued & started declining because of poor soil fertility. Increased use of chemicals has further aggravated this problem; **Climatic conditions always play a big role** in deciding the type of a crop. Demand for a particular seed varies from year to year based on these conditions; Seed market is a crowded market but with only a few quality players. Many Indian players could not sustain the **onslaught of MNCs**; The **major competitors** are Monsanto & its subsidiaries, Pro-Agro (a Bayer Crop Scien. subsidiary), Pioneer (a Dupont subsidiary), Syngenta, Nuziveedu Seeds, Advanta & Rasi.

- **Strategies** are: Venturing into high value segments, new crops; Expanding into new potential market; Continue breeding R&D; Adaptability to new technology sharing & sales opportunities; Custom-made product development.

- KSCL has **recently entered other states** such as Bihar, Madhya Pradesh, Gujarat, Uttar Pradesh, Punjab, Haryana & Rajasthan, **where the response received has prompted them to enter these states**. **KSCL has 736 distributors & 3,500 dealers across India**.

Industry Scenario:-

- + The Indian seed market is among the top ten largest in the world.
- + The Government is concerned about the stagnation in the production & productivity of pulses. A critical deficiency is the availability & quality of certified seeds. Government therefore proposes to expand the integrated oilseeds, oil palm, pulses & corn development programme. Government will fund the expansion of IIPR, Kanpur & offer the other producers a capital grant or concessional financing in order to double the production of certified seeds within a period of three years.
- + **Industry drivers:** As key agricultural inputs, seed products have the following common industry drivers: Population growth - A fundamental driver for the increase in demand for crops is global population growth. The United Nations projects that world population will increase from 6.1 bn people in 2000 to 7.2 bn people in 2015. India's population is also projected to grow at a rapid pace from 934 mn in 1966 to 1264 mn by 2016, as per report of Plannig Commission titled "*Population Growth – Trends, Projections, Challenges & Opportunities*"; Economic growth - As people become wealthier, they consume more & higher quality food. The International Food Policy Research Institute forecasts a 40% increase in demand for grain by 2020; Land availability - Arable land is scarce in many parts of the world & under pressure from urbanization & industrial uses. Accordingly, there is continual pressure to increase the productivity of available resources; Sustainability - Without significant increase in productivity, more land will have to be brought under irrigation & multiple cropping, which may have a potentially severe adverse impact on biodiversity & the environment; Technology - Innovations that provide new benefits can spur significant market growth. These may relate to conventional seeds, but increasing derivations from biotechnology can confer valuable new traits upon seeds and significant improvements in crop management; Hybridization - Increasing awareness of the benefits of high-quality hybrid seeds & improved farming practices will encourage quantum shifts in grower preferences; Food preferences - Shifting consumer food preferences will affect selection of crops & the seed industry.
- + Key crops are: Sunflower; grain sorghum; cotton; corn; paddy.
- + Seed Industry – High Barriers to Entry: In order to develop products in the seed industry, companies need access to an extensive germplasm bank & adequate capital to develop products over long periods of time. The development of a rich germplasm bank requires the accumulation of genetic material over a period of years. Germplasm is scarce, expensive & must be refined properly to meet the breeding objectives. Furthermore, development cycles can last for about five to twelve years prior to launching a commercially viable product. Seed companies need to invest heavily in creating research & development facilities which is a must to maintain a full product pipeline. Success in the seed industry requires national distribution, building brand equity & achieving economies of scale in mass production.

Company*	Multiple (Times)				EPS	Share Price	Dividend/ Share
	EV/EBITDA	P/E	MCAP/SALES	MTBV	(Rs.)	(Rs.)	(Rs.)
*KSCL at Rs.150 L	12.70	19.50	3.12	7.72	7.69	150.00	0.00
*KSCL at Rs.170 U	14.30	22.10	3.54	8.74	7.69	170.00	0.00
#Bayer Cropscience	13.82	13.91	1.06	3.07	18.63	259.25	2.40
#Monsanto India	21.90	17.74	4.05	3.34	81.73	1450.00	22.50
*Advanta India	38.66	30.19	4.56	12.35	27.66	835.25	1.00

*Source : Based on annualised figure of FY07 from RHP & Capitaline. # Figures are of TTM.

Income Statement				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Net Sales	657.72	481.67	475.53	388.78
Inc/Dec in stocks	-	-	-	-
Materials Expenses	287.15	303.74	356.16	325.64
Establishment Expenses	66.06	40.29	26.26	23.59
Selling & Distribution Expenses	133.35	97.89	75.11	30.27
Operating Expenditure	486.56	441.91	457.54	379.50
Operating Income	171.16	39.76	18.00	9.28
Other Income	14.66	15.56	6.69	7.57
Gross Profits	185.82	55.32	24.68	16.85
Finance & Interest charges	14.29	6.71	1.45	7.85
Depreciation	12.35	7.36	5.33	4.09
Profit Before Tax	159.17	41.25	17.91	4.91
Tax	53.78	11.93	4.77	2.54
Profit After Tax	105.40	29.32	13.14	2.38
Extraordinary Items	-	0.30	0.68	-
Net Profit	105.40	29.02	12.45	2.38

Cash Flow Statement				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Cash flow from operations	171.52	41.22	18.73	9.86
Cash for working capital	(98.51)	(61.61)	0.43	20.06
Direct Taxes Paid	(52.86)	(12.63)	(5.01)	(2.17)
Net Operating Cash Flow - A	20.15	(33.03)	14.16	27.75
Net purchase of fixed assets	(127.72)	(46.79)	(26.69)	(3.68)
Net purchase / sale of investments	62.61	15.86	(110.10)	(31.17)
Interest & Dividends received	7.74	10.09	5.80	5.82
Profit on sale of investment	6.56	1.92	0.15	1.18
Net Cash Flow From Investing - B	(50.81)	(18.92)	(130.84)	(27.86)
Proceeds from equity	84.72	16.28	-	-
Proceeds / Repayment from borrowings	(25.27)	40.64	102.24	(0.90)
Interest paid	(14.29)	(4.63)	(1.45)	(0.79)
Net Cash Flow From Financing - C	45.17	52.29	100.79	(1.69)
Net Cash Flow (A+B+C)	14.50	0.34	(15.89)	(1.79)
Opening Cash	33.60	33.26	49.15	50.94
Closing Cash	48.10	33.60	33.26	49.15

Balance Sheet				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Sources of Funds				
Equity Share Capital	97.00	16.00	1.50	1.50
Reserves & Surplus	169.35	58.26	29.23	16.78
Miscellaneous expenditure (written off)	-3.58	-	-	-
Networth	262.78	74.26	30.73	18.28
Secured Loan	118.93	141.13	103.56	1.32
Unsecured Loan	-	3.08	-	-
Loan Funds	118.93	144.20	103.56	1.32
Deferred Tax Liability, net	1.47	0.55	0.96	0.51
Share application money	-	1.78	-	-
Total Liability	383.18	220.79	135.25	20.11
Application of Funds				
Gross Block	242.73	112.75	78.05	51.36
Less: Accumulated Depreciation	44.14	32.33	25.04	19.71
Net Block	198.59	80.42	53.01	31.64
Capital work in progress	9.84	12.09	-	-
Net Fixed Assets	208.43	92.52	53.01	31.64
Investments	72.56	135.17	151.03	40.93
Current Assets				
Inventories	107.76	32.36	25.44	28.68
Sundry Debtors	174.51	104.75	93.91	93.62
Cash & Bank	48.10	33.60	33.26	49.15
Loans & Advances	60.82	77.91	59.08	27.57
Less: Current Liabilities & Provisions	289.00	255.52	280.47	251.48
Net Current Assets	102.20	-6.90	-68.78	-52.46
Total Assets	383.18	220.79	135.25	20.11

Particulars	FY 2007	FY 2006	FY 2005	FY 2004
RONW	39.57%	39.49%	42.75%	13.00%
OPM	26.02%	8.25%	3.78%	2.39%
NPM	16.02%	6.09%	2.76%	0.61%



Kaveri Seeds Company Limited

Equity Research Desk

September 6, 2007

IPO - ANALYSIS

Objects of The Issue:-

Sl. No.	Particulars	Amount (INR,mn)
1.	Acquisition of farmland for R&D near Hyderabad, Alwar & Ahmedabad.	200.00
2.	Setting up of marketing offices & godowns in Delhi, Lucknow, Jaipur, Ahmedabad & Aurangabad.	120.08
3.	Setting up of corn cob drying plants in Medak District & Bellary.	42.00
4.	Setting up of a biotechnology lab at Gundla Pochampally near Hyderabad.	20.45
5.	Upgradation of existing seed processing plants at Kandlakoi, Gundla Pochampally, Gatla Narsingapur & Bellary.	91.67
6.	Setting up of a seed processing Plant in Medak District near Hyderabad.	58.78
7.	Working capital margin requirements.	100.00
8.	Issue expenses.	[.]
	Total	[.]

At the lower band & the upper band, KSCL would be raising approximately Rs.600 mn & Rs.680 mn respectively.
Post issue, the market cap based on the lower & upper band would be approximately Rs.2,055 mn & Rs.2,329 mn respectively.
The objects of the issue has not been appraised by any bank or any financial institution or an independent organization.

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