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"We constantly innovate and build a pipeline that meets the new requirements of farmers" —GV Bhaskar Rao, Founder and chairman, Kaveri Seeds

FASTEST GROWING COMPANIES

Green Signal

Kaveri Seeds' diversified portfolio of hybrid products and focus on R&D keep growth ticking

KRIPA MAHALINGAM

Kaveri Seeds

- Sales growth (5-year CAGR %) **54**
- Net Profit growth (5-year CAGR %) **56**
- 5-year average ROCE (%) **25**

Some of us find our calling in life after we have tried our hand at a couple of different things but for GV Bhaskar Rao, it was clear almost from the start that his life would revolve around farming. Born into an agricultural family in Karim Nagar district in Andhra Pradesh, 160 km from Hyderabad, that may seem like an obvious choice. But most of his nine siblings chose to go overseas, so it would have been just as natural for Rao also to leave India

. Instead, he stayed back, completed his B.Sc in agriculture and, in 1976, set up a company to develop hybrid seeds on 15 acres of land. Today, the 62-year-old founder and chairman of Hyderabad-based Kaveri Seeds has nearly 75,000 acres under seed production, with farms in Karnataka, Andhra Pradesh and across the country. More importantly, Kaveri Seeds is one of India's fastest-growing companies.

The break came early. In 1978, GVB Rao & Co (in its earlier avatar)

Kaveri seeds has one of the largest collections of germplasm in India, which is one of its biggest Strengths

developed a proprietary corn hybrid through its indigenous breeding programme that proved a hit with farmers owing to its improved yields.

Enthused by this first brush with success, the company got into large-scale value breeding and, in 1986, was renamed Kaveri Seeds after the river in Karnataka, where much of the early developmental work was taking place. Since then, it's kept up the pace, growing on the back of its new products and a diversified portfolio of hybrid seeds

Jadoo started with a production of 15,000 packets in 2009. Four years later, it has sold 5 million packets

. Over the past five years (FY08-FY13), Kaveri Seeds' revenue and profits have grown at an average of 54% and 56%, respectively. In the first nine months of FY13, the company's revenues and profits nearly doubled to Rs 637 crore and Rs 119 crore, respectively. What's more, the company, which went public in 2007, is debt-free and generates an impressive return on capital of 25%. Much of its success can be attributed to its R&D focus, which has helped it come up with blockbuster brands such as Jadoo and Jackpot (varieties of cotton hybrid seeds).

Reaping rich rewards

Kaveri Seeds has one of the largest collections of germplasm in India, which Rao believes is also one of its biggest strengths. Germplasm, which could be a seed, stem or even pollen, is living tissue from which a new plant can be grown. The company has used that collection to develop a wide portfolio of seeds, reducing its dependence on any one crop. At last count, Kaveri had over 100 hybrids, including 10 varieties of cotton hybrids, 25 of corn and 13 of rice

. There are two major advantages to a diversified portfolio — hybrid penetration in many crops is still growing, which means there is potential for bigger business; also, farmers often switch crops when there is a delayed or a bad monsoon, and a wide range of seed varieties helps Kaveri derisk its business in a seasonal market.

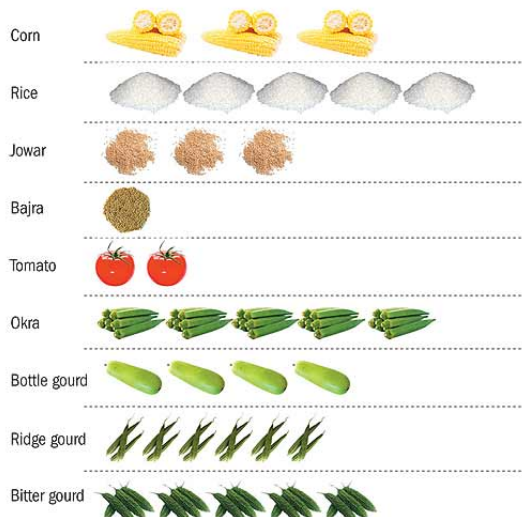
Another reason it's done well in the past five years is a new R&D centre at Pamulpurthi village, 55-60 km from Hyderabad. Here, the company has a state-of-the-art lab testing facility where seeds undergo moisture, germination and hybrid tests. Of the 600 acres on which the company develops new hybrids, a little over 200 acres are at Pamulpurthi. This facility also houses the company's largest processing centre, built across 350,000 sq ft for pre-cleaning, grading, cob drying (maintaining moisture content to increase the shelf life of seeds), storage and packaging. It has six other processing centres across the country, which together have a capacity of 62 metric tonnes per hour and a cold storage capacity of 8,330 metric tonnes.

Kaveri is also looking to foray into markets outside India that have similar climatic conditions

PROMISING PIPELINE

Kaveri has planned an assortment of hybrid seeds that should keep its growth momentum going

Number of planned seed variety



Source: Company

Now, Kaveri Seeds, which spends 7-8% of its revenue on research, is focusing not only on developing drought-resistant seeds but also innovating to make crops resistant to new diseases and the extreme climate conditions across the country. “Every hybrid has a certain shelf life — say, about 10 years,” says Rao. “So we constantly innovate and build a pipeline that meets the new requirements of farmers.” Kaveri is developing 12 new variants across corn, rice, bajra and jowar and 22 variants across vegetables that are likely to be launched in the next two or three years (see: Promising pipeline).

“R&D is the backbone of the industry,” says Mithun Chand, executive director, Kaveri Seeds. “The product is everything. It doesn’t matter how good your distribution network or processing facilities are; if the product is not successful, you cannot remain in business over the long term.” Which is not to say that distribution isn’t important — on the contrary, since there’s a small window for selling seeds (just before the sowing season), distribution plays a key role in ensuring the success of a product. Accordingly, Kaveri has been beefing up its network and now has 15,000 distributors and retailers

across the country, up from 11,000 four years ago. While the company has a dominant position in the south, the expanded distribution has helped it make inroads into new markets such as Chhattisgarh, Jharkhand, West Bengal and Odisha.

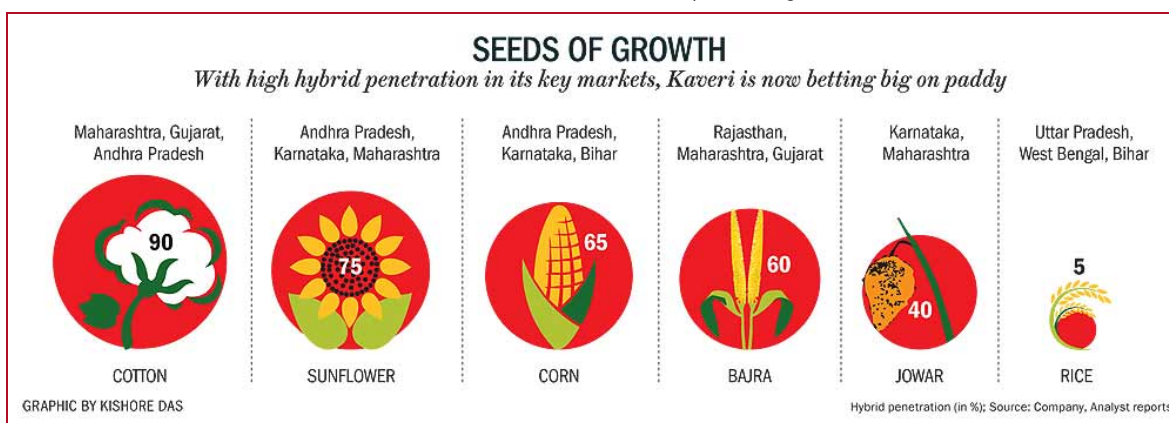
Traditionally, Indian farmers have hoarded seeds from the previous season and sown those in their fields. While they’re certainly open to buying seeds now, there’s also growing competition among seed companies. Kaveri tackles that by setting up outreach centres where it talks with farmers to understand their needs and also educate them about the company’s new seed varieties, the best way to use them as well as better farming practices. There are currently 57 such centres across the country. “We encourage farmers to cultivate our seeds in their fields and see the results for themselves,” points out Rao. “Ultimately, the farmer is the best judge and he will go for his choice for hybrids. So it is more of a pull product than a push product.”

Still, the pull factor seems to be working. Kaveri gets 30% of its revenues as advance from farmers in January of every year and the balance in the first quarter when the product is delivered. In fact, the company books 60% of its revenues in the first quarter in keeping with the seasonality of the business. With most of its investments in processing facilities done, the company plans to invest about Rs 10-15 crore in capex every year, which will be met through internal accruals.



The magic continues

The illustration on the pack of Jadoo shows a brooding hen, surrounded by golden eggs. It's a very apt metaphor for a product that's helped Kaveri double its share in the cotton hybrid seeds market from 5% in FY12 to 10% now. Introduced in 2009, Jadoo started with a modest production of 15,000 packets. Less than four years later, it has sold nearly 5 million packets as farmers lapped up the seed that not only gave 20% better yield than other hybrids but could also withstand excessive rain and drought situations. "When we named the product Jadoo, many people mocked us, including some from Monsanto who asked us if the product would do magic. But Jadoo has been truly magical for us and the farmers," says Rao. Jadoo now contributes nearly 30% of the company's revenues, which have more than quadrupled since its launch (from Rs 162 crore in FY10 to Rs 637 crore in the first nine months of FY13).



Cotton hybrid seeds (including Jadoo and Jackpot) make up 60% of Kaveri Seeds' income, with corn coming in next at 20%. Pearl millet, vegetables and paddy make up the rest. That fits in with the general market trend as well: adoption of hybrid seeds is the highest in cotton — nearly 90% — followed by corn, where hybrid adoption is around 60%. Cotton is also the money-spinner, accounting for a third of the Rs 12,000-crore seeds market. Now, with near-total hybrid adoption and acreage under cotton cultivation not likely to increase dramatically, incremental growth can only come from more seeds used per acre. Analysts expect usage to increase from 1.6 packs per acre currently, to two packs per acre in the next couple of years. That could help Kaveri further improve its marketshare, to 15%, although it may not catch up with market leader Nuziveedu's 25%. In fact, the potential for explosive growth from cotton doesn't exist anymore, which is why the seeds industry as well as Kaveri are looking for the next big opportunity. That would be rice, predicts Manoj Bahety, associate director, Edelweiss Securities. "The use of hybrid seeds [in rice cultivation] is expected to more than double to 4-5 million hectares in the next three or four years and that presents a huge growth opportunity for all players," he adds. Kaveri currently has a 7% share in rice hybrids, which it hopes to increase to 15% in the next couple of years (see: Seeds of growth).

"The challenge for us is the vagaries of the climate. Continuous drought and excessive rainfall will change cropping patterns," says Chand. "But our diversified product portfolio helps us cope with any change." The company maintains 20% of its production as inventory to meet any sudden changes in demand and Bahety believes a slight failure in the monsoon could actually work in the industry's favour. "In such situations, if the hybrids are able to perform better, there would be faster adoption by farmers across crops," he points out.

But the hybrids market is an intensely competitive one and analysts believe every company needs at least one blockbuster product to stay ahead. Nuziveedu's offering, Mallika, for instance, is the hybrid-Bt cotton market leader, while Kaveri, too, has its equivalent in Jadoo and Jackpot. Going forward, it needs to develop more such star performer seeds. "While the market is competitive, each hybrid speaks for itself. If the hybrid delivers on performance, like Jadoo did for Kaveri Seeds, then it can not only successfully create a niche for itself but also take out the competition in that segment," says Kailash Gandhi, analyst at Wallfort Financial Services.

Kaveri, though, isn't putting all its golden eggs in one basket. R&D for the next blockbuster seed aside, it is also looking to foray into markets outside India such as Vietnam, Africa, Pakistan and Bangladesh that have similar climatic conditions. A two-year trial period for seeds for these markets is on and the management expects the overseas business to gain momentum in the next three or four years. In 2011, Kaveri also started a 100% subsidiary called Kexveg India to produce high-value fresh exotic vegetables and herbs for the domestic and export markets. While these vegetables and herbs are being grown on over 5 million hectares in Andhra Pradesh, the company plans to increase the area under cultivation to 100 million hectares in the next three or four years. At present, Kexveg contributes about Rs 1 crore to revenues but Rao believes the potential is much higher — the company aims to earn about Rs 7-8 crore a year from this business in the next three years.

With farm land availability reducing even as population increases, farm productivity has to rise, which means acceptance of hybrid seeds will only grow. Indeed, Kaveri Seeds believes that increased adoption of hybrid seeds will drive revenue growth for the company in the coming years. "We expect revenues to

grow by more than 20-25% for the next five years,” says Rao. Certainly, the market appears to believe there’s potential in hybrid seeds in general and Kaveri Seeds in particular. In the past one year, the stock price of Kaveri has climbed by 84% (as on April 12, 2013) and the consensus is that the stock is trading at 11 times its FY14 earnings. And despite the steep run-up in the stock price, analysts believe that the company will continue to outperform the industry. So, it does look as if the Jadoo will continue for now.

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