

Monsanto India

BSE SENSEX	S&P CNX
25,580	7,655
Bloomberg	MCHM IN
Equity Shares (m)	17.3
M.Cap.(INR b)/(USD b)	30.8/0.5
52-Week Range (INR)	2,108/560
1, 6, 12 Rel. Per (%)	-20/137/115

CMP: INR1,785
TP: INR2,275
Buy
Financials & Valuations (INR m)

Y/E Mar	2014	2015E	2016E
Net Sales	5,819	7,353	9,068
EBITDA	1,450	1,910	2,446
Adj PAT	1,365	1,795	2,309
EPS (INR)	75.5	104.0	133.8
Gr. (%)	93.6	37.7	28.7
BV/Sh(INR)	199.6	268.6	367.4
RoE (%)	34.7	44.4	42.1
RoCE (%)	38.8	49.5	46.8
P/E (x)	23.6	17.1	13.3
P/BV (x)	8.9	6.6	4.8

■ **Strong performance in FY14:** Revenue for FY14 grew 31.5% to INR5.8b, driven by 30% growth in Seeds and 39% growth in Herbicides. The Seeds business, which constitutes 65% of revenue, witnessed 10% volume growth and 20% realization growth. The Herbicides business, which constitutes 35% of revenue, witnessed 30% volume growth and 10% realization growth. MCHM gained 100bp market share to 25% during the year. Margins expanded ~10pp to 24.9%, led by better sales forecasting and inventory management. Sales returns were lower at 6-7% against 15-20%, historically. PAT grew 94% to INR1,304m.

■ **Market share gains to drive growth in FY15:** We believe MCHM is on track to achieve strong 25% CAGR over FY14-16, led by new product launches. MCHM intends to regain lost market share in the Kharif segment. It is likely to target its new launches towards Karnataka, Andhra Pradesh, Tamil Nadu, and Maharashtra, which are 90% Kharif markets. Higher maize acreages, increasing hybrid penetration, and greater adoption of herbicides should propel growth further.

■ **Single cross, better inventory planning, lower sales returns to drive margins:** MCHM launched 4-5 new hybrids in FY14, most of which are single cross and enjoy 20% higher margins than two-way and three-way crosses. Also, it is now producing most of its inventory in the dry season, as production in the wet season is 2x costlier. Higher contribution of single-cross maize, better inventory management, and further reduction in sales returns should drive margins higher by ~100bp in FY15.

■ **Valuation and view:** We expect revenue to grow at 25% CAGR and PAT at 30% CAGR over FY14-16. We believe investments made during FY09-12 will start paying off for MCHM in terms of new product launches and market share gains. We remain excited about the huge potential in genetically-modified (GM) foods and MCHM's Roundup Ready Flex. The stock trades at 17.1x FY15E and 13.3x FY16E EPS. We maintain **Buy**; our target price is INR2,275 (17x FY16E EPS).

Quarterly performance

(INR Million)

Y/E March (Rs mn)	FY13				FY14				FY13	FY14	FY14	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	2,044	570	1,121	690	2,276	966	1,825	751	4,424	5,818	752	-0.1
YoY Change (%)	8.4	14.1	13.3	89.9	11.4	69.6	62.8	8.8	18.4	31.5	20.0	
Total Expenditure	1,518	690	846	674	1,637	847	1,157	726	3,728	4,367	728	
EBITDA	525	-120	275	16	639	120	668	25	697	1,451	24	5.1
Margins (%)	25.7	-21.1	24.6	2.3	28.1	12.4	36.6	3.3	15.7	24.9	3.1	0.2
Depreciation	24	28	29	28	28	32	30	29	109	119	32	
Interest	1	1	1	4	1	1	2	1	7	5	-4	
Other Income	38	39	46	46	28	28	41	33	169	129	77	
PBT before EO expense	539	-110	292	30	638	115	676	28	750	1,456	73	
Extra-Ord expense	0	0	0	0	0	0	0	69	0	69	0	
PBT	539	-110	292	30	638	115	676	-42	750	1,387	73	
Tax	52	11	-1	14	75	39	25	19	76	159	17	
Rate (%)	9.7	-9.7	-0.3	48.0	11.8	34.2	3.7	-45.8	10.2	11.4	22.6	
Reported PAT	486	-121	293	15	562	76	651	-61	673	1,229	57	-206.9
Adj PAT	486	-121	293	15	562	76	651	40	673	1,290	57	-29.2
YoY Change (%)	10.4	0.2	13.3	-120.2	15.6	-162.7	122.4	160.3	34.1	91.6	-95.6	
Margins (%)	23.8	-21.3	26.1	2.2	24.7	7.9	35.7	5.3	15.2	22.2	7.5	

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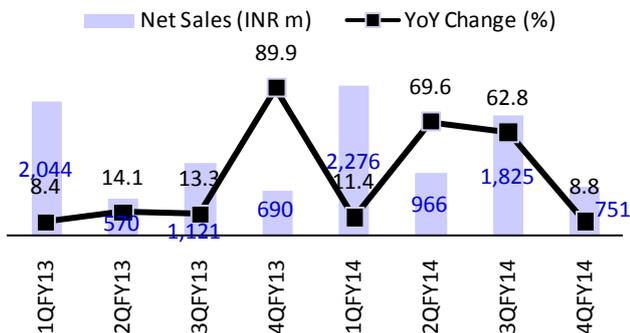
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FY14 ends on a firm note; new launches to drive strong growth in FY15

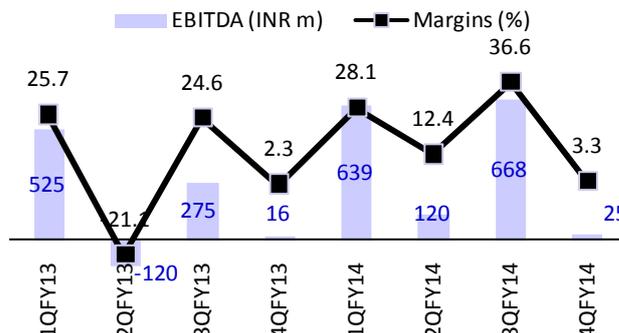
- Monsanto India (MCHM) reported revenue of INR5.8b in FY14 as compared to INR4.4b in FY13, marking a YoY growth of 31.5%. Growth was robust led by seed business (65% of revenues) which reported 30% growth (10% volume and 20% realization led by new products which were launches at higher prices) while herbicides segment (35% of revenues) also posted strong 30% growth (20% volume and 10% realization led by INR depreciation).
- With strong product launches, management has been able to reduce the age profile of the maize portfolio from 10 years to 8 years and is targeting an age profile of 6 years over the next couple of years.
- Additionally, MCHM has gained over 100bp market share (25% market share) in maize in FY14. With 4QFY14 being less than 15% of annual revenues, and prone to vagaries of the season, revenues for the quarter grew by 8.8% YoY to INR751m (est INR752m) in 4QFY14 as against 62.8% growth in 3QFY14.
- However, we believe a better way to assess MCHM's performance is to look at season performance – 1H (Kharif) and 2H (Rabi). While MCHM strong 24% growth in Kharif, it has reported better performance in Rabi with growth standing at 42%.
- We believe MCHM is on track to achieve strong 27% growth in FY15 led by new product launches especially in Kharif portfolio targeted towards KTK, AP, TN, Maharashtra which are 90% Kharif markets.
- Our interaction with the management indicated that volume growth will be more as compared to value growth in corn. Major challenges in corn are yields and diseases.
- Glyphosate market in India is expected to grow due to increase in labor rates. Thus farms in India are expected to become more mechanized. Management expects Glyphosate growth to be in the range of mid-teens.
- Poor monsoon always remains a risk in agriculture but seed being a insignificant cost in total cost of production will not affect the growth prospects for the company. Management believes that it has not witnessed any havoc in the business due to irregular monsoons
- Management expects corn acreages to increase up to 9mn hectare and hybridization in corn to increase from current level of 60%.
- Intellectual Property protections laws are strong in India. A good germplasm can be patented. However there has been some infringements but some of the major players, management believes that it is difficult to replica any germplasm.
- Farmers are generally willing to test the new seed in 15-20% of the land. If the yields are better compared to the competitors than from next season the new seed is replaced by the old seed across the farm
- Management does not foresee see any major M&A activity happening in the seed space primarily due to higher valuation expectation by the seed companies.
- MIL is currently exporting to Indonesia and Thailand, however it currently does not form a major portion of the overall revenue. Going forward if GM crop production is allowed in India then there is a significant opportunity in exports to the countries having similar climatic conditions like India, esp. in Philippines which has high demand for GM corn.

4Q is the relatively smaller quarter



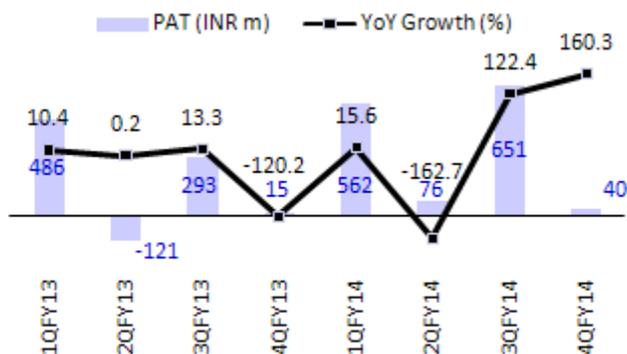
Source: Company, MOSL

EBITDA growth trend



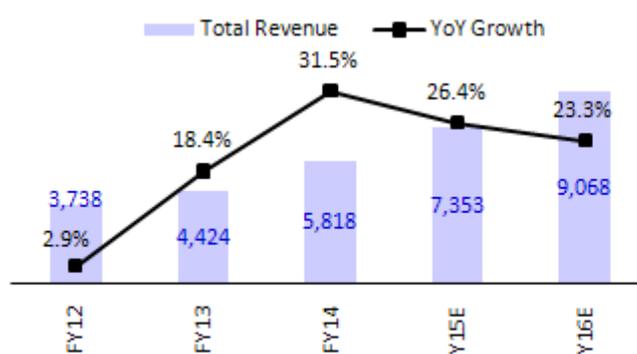
Source: Company, MOSL

Strong PAT growth continues



Source: Company, MOSL

Strong Sales growth on Annual basis

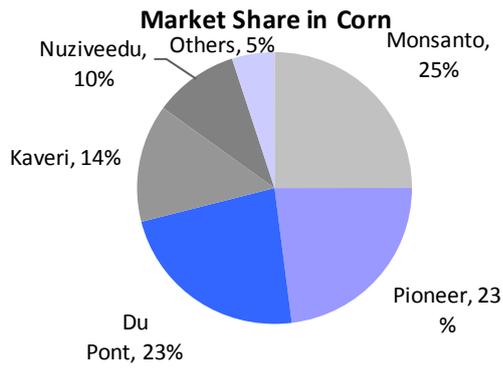


Source: Company, MOSL

Sales returns reduced to 7%; further reduction in returns in Kharif crop to drive margins higher

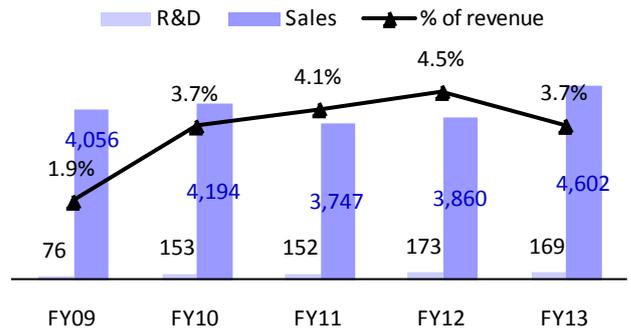
- MCHM reported strong margin gains in FY14 with margins expanding ~10pp YoY from 15.7% to 24.9%. EBITDA for FY14 grew by 108% to INR1450m while for 4Q grew by 58% to INR25m (est INR57m).
- Margin expansion for FY14 was largely due to better sales forecasting which resulted in sales returns going down to 6-7% (as against 20% historically).
- While rabi portfolio is working optimally, we believe there exists further scope to reduce returns in the Kharif portfolio which will drive margins higher to the tune of 100bp in FY15.
- Additionally to improve margins, management is cold storing inventories for 3 seasons by initiating it in the dry season as against earlier practice of initiating in wet season as well (which is 2x costlier).
- PAT for FY14 stood at INR1,304m, posting a growth of 94%, while 4QFY14 posted a loss of INR61m (est INR90m) on account of an exceptional loss (INR69m) on account write-off of Bellary unit gross block. Adjusted for exceptional loss, PAT for the quarter stood at INR40m (est INR90m).

Leader in Corn segment



Source: Company, MOSL

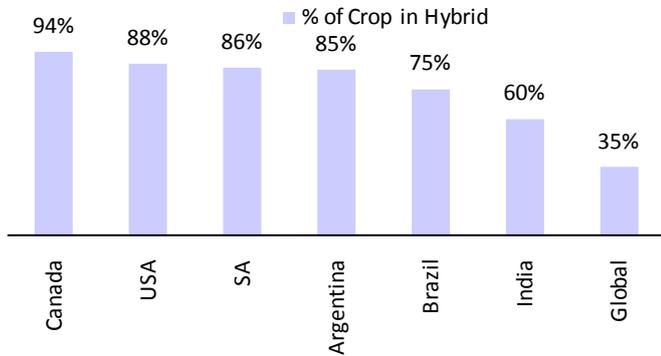
Strong R&D spend (INR m)



Source: Company, MOSL

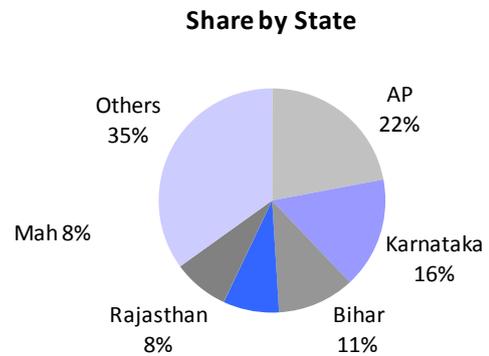
Story in charts

Corn hybridization still at nascent stage in India



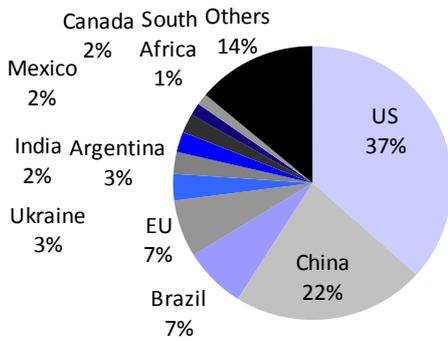
Source: Company

5 States contributing 65% of the total corn production in India



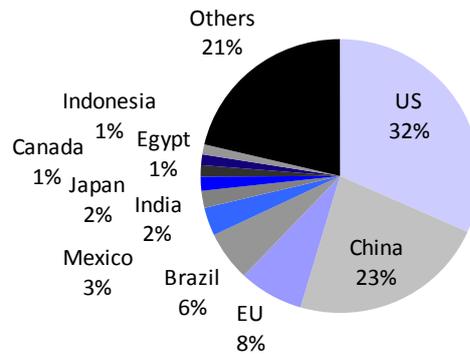
Source: Company

Worldwide Corn Production (mt)



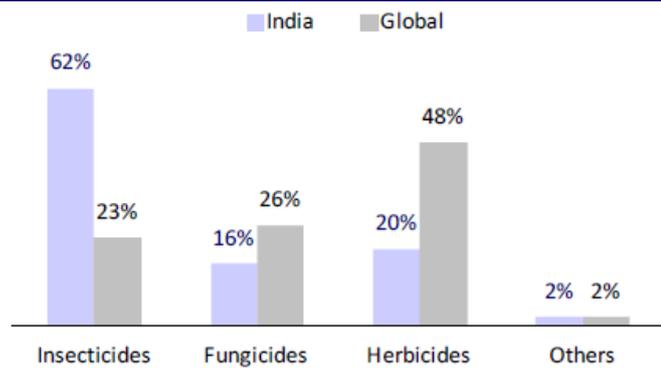
Source: Company, MOSL

Worldwide Corn Consumption (mt)



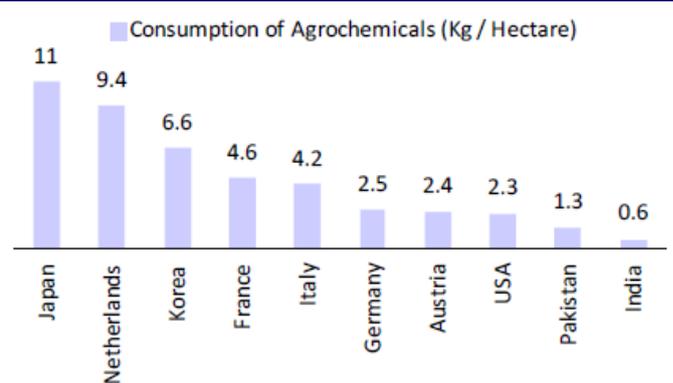
Source: Company, MOSL

Herbicide penetration (%)



Source: Company, MOSL

Consumption of Agrochemical is lowest in India



Source: Company, MOSL

Monsanto India: an investment profile

Company description

Monsanto India limited (MIL), the flagship company of Monsanto company, is a subsidiary and the only listed Monsanto entity outside the United States. MIL has partnered with farmers for over four decades. In India, the Monsanto group operates through 3 entities i.e. (1) the listed entity Monsanto India Ltd (MIL) which is primarily involved in Maize seeds and Herbicides; (2) 50:50 JV between Mahyco and Monsanto Holdings Pvt. Ltd known as Mahyco Monsanto Biotech (MMB) which is sub-licensed to distribute BT cotton technology in India; and (3) Monsanto Holding.

Key investment argument

- Monsanto has launched 7-8 hybrids in last 2 years leading to regain of market share from players like Pioneer and DuPont which are around 20-23% market each
- Monsanto India currently derives 40% of its revenues from products launched in last 2 years.
- Operational efficiencies and consolidation measures have helped reduce seed write offs to less than 7% of revenues from an average of 20% for last 3 years.
- Farmers choosing maize hybrid seeds have contributed to increasing maize production by approximately 93 per cent in the last 11 years.

- Monsanto has a ~60% market share in the global USD5.4b glyphosate industry and ~25% market share in the Indian INR8b glyphosate industry selling products under the 'Roundup' brand.

Key investment risks

- Failure of performance of the product.
- Competitor product starts giving better yields.
- Farmers choosing other crops like cotton etc over maize resulting in decrease in acreages.

Valuation and view

- We expect revenue to grow at 25% CAGR and PAT at 30% CAGR over FY14-16. We believe investments made during FY09-12 will start paying off for MCHM in terms of new product launches and market share gains. We remain excited about the huge potential in genetically-modified (GM) foods and MCHM's Roundup Ready Flex. The stock trades at 17.1x FY15E and 13.3x FY16E EPS. We maintain **Buy**; our target price is INR2,275 (17x FY16E EPS).

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco
1,785	2,275	27.5	Buy

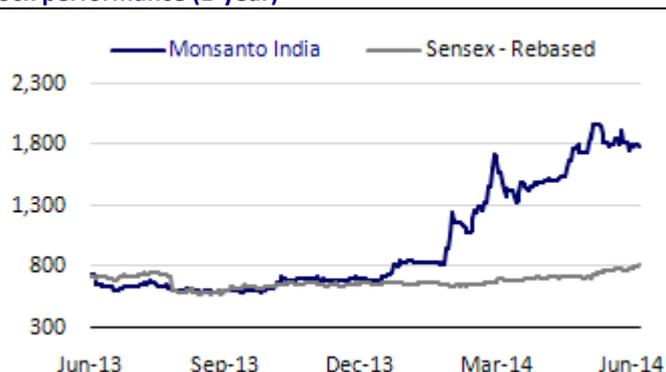
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY15	104.0	99.2	4.9
FY16	133.8	125.2	6.9

Shareholding pattern (%)

	Mar-14	Dec-13	Mar-13
Promoter	72.1	72.1	72.1
Domestic Inst	2.5	2.1	2.1
Foreign	1.7	1.4	1.4
Others	23.7	24.4	24.3

Stock performance (1-year)



Financials and valuations

Income statement		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
Net Sales	4,424	5,819	7,353	9,068	
Change (%)	18.4	31.5	26.4	23.3	
EBITDA	697	1,450	1,910	2,446	
EBITDA Margin (%)	15.7	24.9	26.0	27.0	
Depreciation	109	119	133	147	
EBIT	588	1,331	1,778	2,299	
Interest	7	5	0	0	
Other Income	169	129	221	272	
Extraordinary items	0	-69	0	0	
PBT	750	1,524	1,998	2,571	
Tax	76	159	203	262	
Tax Rate (%)	10.2	10.4	10.2	10.2	
Reported PAT	673	1,365	1,795	2,309	
Adjusted PAT	673	1,304	1,795	2,309	
Change (%)	34.8	93.6	37.7	28.7	
Min. Int. & Assoc. Share	0	0	0	0	
Adj Cons PAT	673	1,304	1,795	2,309	

Balance sheet		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
Share Capital	173	173	173	173	
Reserves	3,902	3,272	4,463	6,169	
Net Worth	4,074	3,445	4,636	6,341	
Debt	0	0	0	0	
Deferred Tax	-36	0	0	0	
Total Capital Employed	4,038	3,445	4,636	6,341	
Gross Fixed Assets	1,541	1,678	1,878	2,078	
Less: Acc Depreciation	674	793	925	1,073	
Net Fixed Assets	868	885	952	1,005	
Capital WIP	24	0	40	49	
Investments	2,509	2,667	2,667	2,667	
Current Assets	2,503	2,523	4,021	6,188	
Inventory	1,394	1,692	2,073	2,495	
Debtors	412	330	685	845	
Cash & Bank	203	85	393	1,787	
Loans & Adv, Others	494	416	870	1,062	
Curr Liabs & Provns	1,866	2,668	3,082	3,606	
Curr. Liabilities	1,440	1,934	2,211	2,681	
Provisions	427	734	871	925	
Net Current Assets	637	-145	939	2,582	
Total Assets	4,038	3,445	4,636	6,341	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
Basic (INR)					
EPS	39.0	75.5	104.0	133.8	
Cash EPS	45.3	82.4	111.7	142.3	
Book Value	236.0	199.6	268.6	367.4	
DPS	22.0	30.0	30.0	30.0	
Payout (incl. Div. Tax.)	65.8	44.2	33.6	26.2	
Valuation(x)					
P/E	45.6	23.6	17.1	13.3	
Cash P/E	39.2	21.6	15.9	12.5	
Price / Book Value	7.5	8.9	6.6	4.8	
EV/Sales	6.2	4.7	3.7	2.8	
EV/EBITDA	39.3	19.0	14.2	10.6	
Dividend Yield (%)	1.2	1.7	1.7	1.7	
Profitability Ratios (%)					
RoE	17.0	34.7	44.4	42.1	
RoCE	19.1	38.8	49.5	46.8	
Turnover Ratios (%)					
Asset Turnover (x)	1.1	1.7	1.6	1.4	
Debtors (No. of Days)	32.7	19.9	32.7	32.7	
Inventory (No. of Days)	115.0	106.1	102.9	100.4	
Creditors (No. of Days)	101.5	115.3	103.4	102.3	
Leverage Ratios (%)					
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	

Cash flow statement		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
OP/(Loss) before Tax	750	1,455	1,998	2,571	
Depreciation	109	119	133	147	
Others	0	0	0	0	
Interest	-3	-124	-221	-272	
Direct Taxes Paid	93	159	203	262	
(Inc)/Dec in Wkg Cap	253	664	-776	-250	
CF from Op. Activity	894	1,886	931	1,935	
(Inc)/Dec in FA & CWIP	-86	-112	-240	-209	
(Pur)/Sale of Invnt	-3,840	-158	0	0	
Others	3,450	-1,125	221	272	
CF from Inv. Activity	-476	-1,395	-19	63	
Inc/(Dec) in Net Worth	0	0	0	0	
Inc / (Dec) in Debt	-47	0	0	0	
Interest Paid	-3	-5	0	0	
Divd Paid (incl Tax)	-345	-604	-604	-604	
CF from Fin. Activity	-395	-609	-604	-604	
Inc/(Dec) in Cash	23	-118	308	1,394	
Add: Opening Balance	180	203	85	393	
Closing Balance	203	85	393	1,787	

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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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