

Estimate change

TP change

Rating change


Bloomberg	KSCL IN
Equity Shares (m)	63
M.Cap.(INRb)/(USD\$b)	43.4 / 0.6
52-Week Range (INR)	816 / 409
1, 6, 12 Rel. Per (%)	13/29/21
12M Avg Val (INR M)	235

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	10.4	11.6	12.6
EBITDA	3.0	3.3	3.6
PAT	3.1	3.4	3.8
EBITDA (%)	28.8	28.8	29.0
EPS (INR)	51.6	56.5	63.2
EPS Gr. (%)	19.7	9.5	11.9
BV/Sh. (INR)	206	256	310

Ratios

Net D/E	(0.5)	(0.5)	(0.6)
RoE (%)	28.3	24.4	22.3
RoCE (%)	30.0	27.6	25.2
Payout (%)	8.8	12.1	14.4

Valuations

P/E (x)	14.0	12.7	11.4
EV/EBITDA (x)	15.2	13.6	12.4
Div Yield (%)	0.6	0.8	1.1
FCF Yield (%)	5.1	5.5	7.6

*Consol

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	55.5	55.5	55.5
DII	8.5	12.2	10.7
FII	19.8	14.1	21.0
Others	16.2	18.1	12.7

CMP: INR720
TP: INR830 (+15%)
Buy

Higher than expected operating loss on higher fixed cost in 4Q

However, increased volume drives annual performance

- Revenue increased 11% in FY21 on account of growth in Hybrid Rice, Maize and Vegetable Seed segments, whereas Cotton Seed volumes fell 2%.
- Performance was below our estimates in 4QFY21. However, we increase our FY22E/FY23E earnings estimate by 6%/10%, owing to: a) increasing sales estimates in the non-Cotton segment, particularly Paddy, b) increasing realizations in Cotton, and c) higher other income on higher cash. We value the stock at 13x FY23E EPS to arrive at our TP of INR830. Maintain Buy.

Maize and paddy drive overall performance

- Revenue (standalone) stood at INR551m (est. INR567m) in 4QFY21, up 6% YoY. Operating loss increased to INR124m (est. loss of INR91m) in 4QFY21 v/s a loss of INR117m in 4QFY20. Gross margin stood at 56.7% in 4QFY21 v/s 42.8% last year. As a percentage of sales, employee cost/other expenses increased to 34%/45.2% in 4QFY21 v/s 26.8%/38.7% in 4QFY20. It reported a net loss of INR143m (est. loss of INR49m) in 4QFY21 v/s a net profit of INR94m in 4QFY20.
- Cotton seed volumes declined marginally by ~2% to 7.09m packets in FY21 due to lower sales in Andhra Pradesh and Telangana, leading to a revenue drop of 2.2% to INR4,404m. Contribution from new products rose to 25.2% of volumes from 23.8%.
- Hybrid paddy reported 56% revenue growth (to INR1,325m) in FY21 on 48% volume growth. Introduction of new hybrids – 7299, 471, and 473 – aided strong volume growth. Volume contribution from new hybrids rose to 68% from 51%.
- Revenue from maize seeds grew ~18% (to INR2,032m) in FY21 due to better product-mix and stable contribution from new products.
- Consolidated revenue/EBITDA/adjusted PAT grew 11%/18%/20% in FY21. KSCL generated a CFO of INR2.5b (up 31% YoY) in FY21 on the back of higher payables and lower receivables. This was offset by higher inventory.

Highlights from the management interaction

- Guidance:** Overall growth is expected to be in the 10-15% range, majorly driven by the non-Cotton segment, which is expected to record 15-20% growth in FY22, supported by growth in volumes and realizations.
- The Cotton segment is expected to grow at 5-7% in FY22 as acreages are expected to remain stable. Realization is expected to rise by 4-5% in FY22.
- Market share:** Other than Telangana and Andhra Pradesh, KSCL gained market share in the Cotton segment across all states. The company managed to gain 0.5% market share, taking its overall share to 17%. Market share in rice increased to 10% as the company managed to gain share in FY21, whereas the same in maize is currently close to 10-11%. The size of the domestic maize market is currently pegged at 85,000-95,000MT.

Valuation and view

- KSCL is on track to diversify from sales of cotton seeds by increasing the share of rice and vegetables (contribution of non-cotton seed sales to overall sales has increased to 58% in FY21 v/s 52% in FY20), which are growing at a faster pace and yielding a higher margin (v/s the Cotton segment).
- The management expects stable cotton acreages in FY22 and remains confident of growing the Cotton segment by 5-7% on the back of higher realizations and volume growth.
- Performance was below our estimates in 4QFY21. However, We increase our FY22E/FY23E earnings estimate by 6%/10% owing to: a) increasing sales estimate of the non-Cotton segment, particularly Paddy, b) increasing realizations in Cotton, and c) higher other income on higher cash.
- We value the company at 13x FY23E EPS (in line with its five-year average P/E) to arrive at a TP of INR830. Maintain Buy.

Quarterly standalone earnings

Y/E March	FY20				FY21				FY20	FY21	FY21E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	4QE			
Net Sales	6,555	774	984	519	7,485	834	1,001	551	8,833	9,870	567	-3
YoY Change (%)	12.6	3.0	46.5	16.1	14.2	7.7	1.7	6.1	14.9	11.7	9.2	
Total Expenditure	4,222	661	917	637	4,692	703	932	675	6,437	7,001	658	
EBITDA	2,333	113	67	-117	2,793	130	69	-124	2,395	2,869	-91	NA
Margin (%)	35.6	14.6	6.8	-22.6	37.3	15.7	6.9	-22.5	27.1	29.1	-16.0	
Depreciation	59	59	62	64	52	53	54	54	243	213	58	
Interest	0	0	1	1	0	2	0	1	2	4	1	
Other Income	43	30	77	315	241	111	82	46	466	480	80	
PBT before EO expense	2,317	84	82	132	2,982	187	96	-133	2,616	3,132	-70	
PBT	2,317	84	82	132	2,982	187	96	-133	2,616	3,132	-70	
Tax	28	15	22	39	72	-26	22	10	103	79	-20	
Rate (%)	1.2	17.5	26.2	29.3	2.4	-13.8	22.8	-7.5	3.9	2.5	29	
Reported PAT	2,289	69	60	94	2,910	212	75	-143	2,513	3,053	-49	NA
Adj. PAT	2,289	69	60	94	2,910	212	75	-143	2,513	3,053	-49	NA
YoY Change (%)	8.7	-41.9	65.8	NA	27.1	206.4	23.2	NA	17.0	21.5	-153	
Margin (%)	34.9	9.0	6.1	18.0	38.9	25.5	7.4	-26.0	28.4	30.9	-8.7	

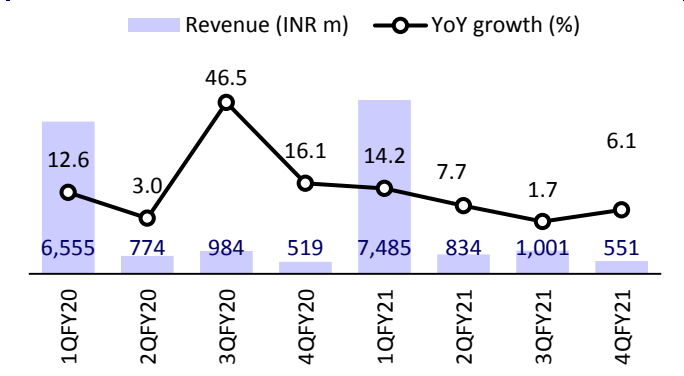
*Quarterly numbers are standalone and annual numbers are consolidated

Key performance indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Segment Revenue Growth (%)										
Cotton seed	7.2	87.3	(195.5)	(55.7)	4.8	(69.3)	(111.4)	34.2	12.5	(2.2)
Hybrid Rice	73.2	12.0	50.0	39.1	53.2	(65.7)	384.2	(68.1)	65.5	56.0
Maize Seeds	5.0	(29.1)	75.4	(4.3)	8.7	112.7	(27.7)	97.9	10.2	17.7
Cotton Seed Vol. (m packets)	6.7	0.5	0.0	0.0	7.0	0.1	(0.1)	0.1	7.2	7.1
Cotton Seed Realization (INR packets)	609	684	2,770	1,000	608	910	57	597	623	621
Cost Break-up										
RM Cost (% of sales)	53.6	45.3	52.5	57.2	55.8	44.0	49.7	43.3	52.9	53.5
Staff Cost (% of sales)	1.8	15.6	19.8	26.8	1.8	21.5	20.6	34.0	6.5	7.2
Other Cost (% of sales)	9.0	24.5	20.9	38.7	5.1	18.8	22.8	45.2	13.5	10.3
Gross Margin (%)	46.4	54.7	47.5	42.8	44.2	56.0	50.3	56.7	47.1	46.5
EBITDA Margin (%)	35.6	14.6	6.8	-22.6	37.3	15.7	6.9	-22.5	27.1	29.1
EBIT Margin (%)	34.7	7.0	0.5	-35.0	36.6	9.3	1.5	-32.3	24.4	26.9

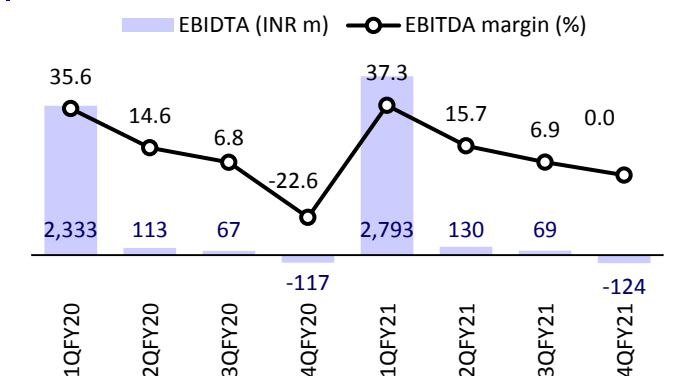
Key exhibits

Exhibit 1: Revenue trend



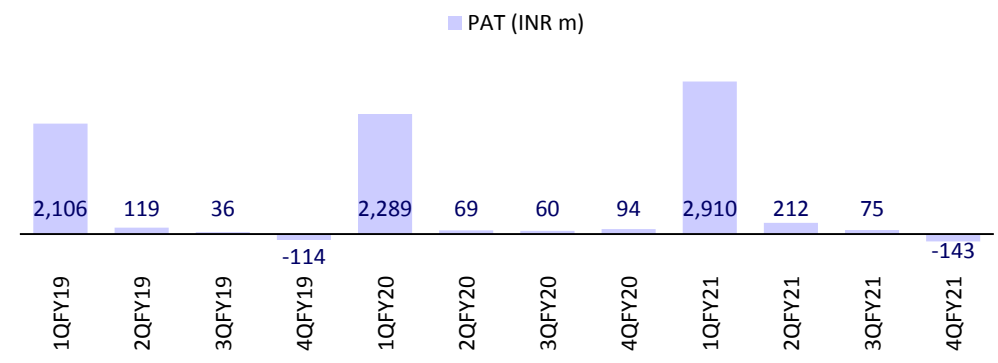
Source: Company, MOFSL

Exhibit 2: EBITDA margin trend



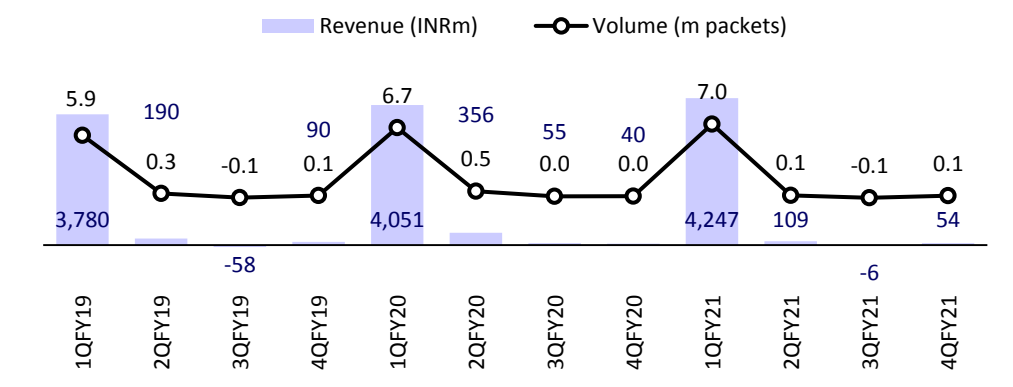
Source: Company, MOFSL

Exhibit 3: Adjusted PAT trend

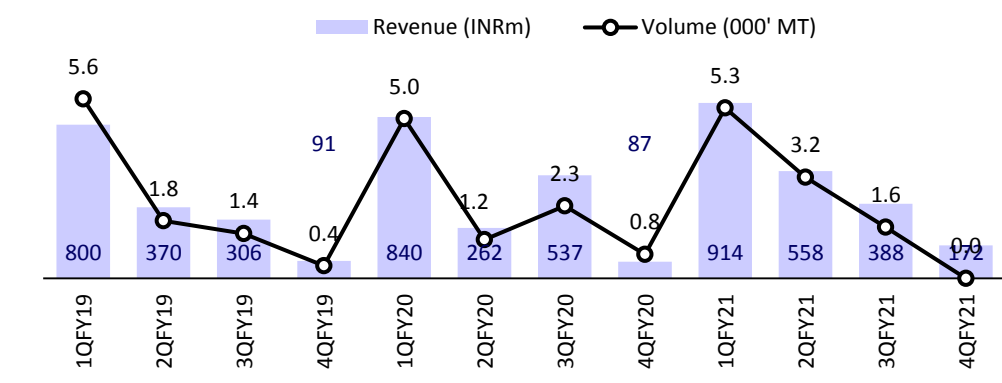


Source: Company, MOFSL

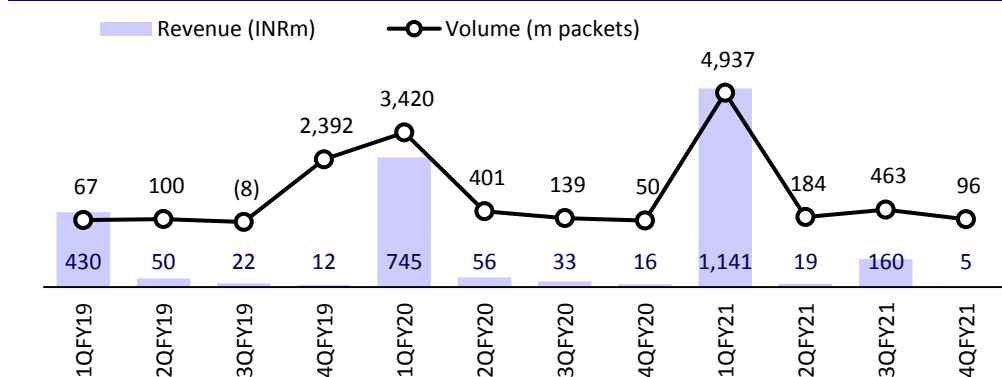
Exhibit 4: Cotton revenue and volume trend



Source: Company, MOFSL

Exhibit 5: Maize revenue and volume trend

Source: Company, MOFSL

Exhibit 6: Hybrid rice revenue and volume trend

Source: Company, MOFSL



Highlights from the management interaction

- **Non-Cotton:** The business has grown significantly, up 26%. Driven by volume growth in new hybrids and also price appreciation in key products.
- **Maize:** Area under cultivation is almost stable, with a slight increase of 1%. The same in the Kharif season was higher v/s that in Rabi due to poor commodity prices. Acreages increased in Karnataka, Punjab, and Tamil Nadu. Timely rainfall helped increase the area under cultivation in many states in the Kharif season, though the area reduced significantly in Gujarat, Andhra Pradesh, and Telangana. Discouragement by the state government in Telangana and poor commodity prices have impacted the area under cultivation in many other states in the Rabi season.
- Maize volumes increased by 9% YoY, whereas revenue growth stood at 18% YoY, on the back of stable contribution from new products.
- **Rice:** Area under cultivation has increased 8.1% YoY. An increase has been witnessed in the main states of Telangana, West Bengal, Madhya Pradesh, Jharkhand, and Bihar. Cultivation of bajra/sunflower is up ~2.4%/~11%, while jowar is down ~6.6%. Area under wheat cultivation increased by 3%.
- **Hybrid rice:** Volumes increased by 56% in FY21. Introduction of new hybrids – 7299, 471, and 473 – aided strong growth. The contribution of new hybrids rose to 68.2% in FY21 from 51% in FY20.

- **Selection Rice:** Volumes grew by 47% in FY21. There has been a consistent performance across geographies. Scale up in new products has been on the back of growth in Chintu, 828, Sampurna, and KV99.
- **Vegetables:** The management has intensified the R&D pipeline in the last few years, which has led to the development of a strong pipeline in tomatoes, okra, etc. The Vegetables segment is growing at a faster pace v/s other crops and continues to be a key area of focus.
- **Cotton** acreages were marginally higher on a YoY basis by 1.9%, which is equivalent to 0.24m acres in FY21. Acreages increased in Telangana, Karnataka and Punjab, but was lower in Andhra Pradesh, Gujarat, Tamil Nadu, and Maharashtra.
- **Cotton prices:** The government has allowed for an MRP increase of INR37 (5% higher as compared to last year) for FY22. Of which, INR17-20 is expected to be retained by KSCL and is expected to flow directly to profit.
- **Guidance:** Overall growth is expected to be in the 10-15% range, majorly driven by the non-Cotton segment, which is expected to record 15-20% growth in FY22, supported by growth in volumes and realizations.
- The Cotton segment is expected to grow at 5-7% in FY22 as acreages are expected to remain stable. Realization is expected to increase by 4-5% in FY22.
- **Market share:** Other than Telangana and Andhra Pradesh, KSCL gained market share in the Cotton segment across all states. The company managed to gain 0.5% market share, taking its overall share to 17%.
- Market share in rice increased to 10% as the company managed to gain share in FY21, whereas the same in maize is currently close to 10-11%. The size of the domestic maize market is currently pegged at 85,000-95,000MT.
- **Products:** Currently, Money Maker is the largest revenue contributor in the Cotton segment. ATM is expected to continue as a fungus contributor for the next 2-3 years. Viplav and other hybrid products are expected to support revenue growth.
- **Presence:** KSCL has a pan-India presence, with the largest distribution network as compared to its peers. Currently, the company operates across 26 states and has a strong presence in South India. It has a lower presence in Goa and J&K.
- **Employee cost:** Continuous investment on R&D, along with the addition of new personnel in the R&D department, led to an increase in employee cost. A slight increase was due (INR40-50m) to disbursement of ESOPs. The number of permanent employees increased to 1,050 in FY21 from 930 in FY20. Majority of the employee addition took place in R&D, supply chain, and marketing segments.

Other highlights

- **Exports** were lower as compared to last year. KSCL saw a 10-12% decline in exports in FY21. In the next four years, exports are expected to grow at 15-20% CAGR.
- **Buyback:** By the end of 2QFY21, the company plans to finalize its buyback program. Total cash on the books stood at INR5.33b as on Mar'21.
- Rice is expected to grow at 20% CAGR over the next five years. The Vegetables segment is expected to record a similar growth CAGR over the next few years.
- No new players are expected to enter this industry as the gestation period is very high in the industry.

Valuation and view

- KSCL is on track to diversify from sales of cotton seeds by increasing the share of rice and vegetables (contribution of non-cotton seed sales to overall sales has increased to 58% in FY21 v/s 52% in FY20), which are growing at a faster pace and yielding a higher margin (v/s the Cotton segment).
- The management expects stable cotton acreages in FY22 and remains confident of growing the Cotton segment by 5-7% on the back of higher realizations and volume growth.
- Performance was below our estimates in 4QFY21. However, we increase our FY22E/FY23E earnings estimate by 6%/10% owing to: a) increasing sales estimate of the non-Cotton segment, particularly Paddy, b) increasing realizations in Cotton, and c) higher other income on higher cash.
- We value the company at 13x FY23E EPS (in line with its five-year average P/E) to arrive at a TP of INR830. Maintain Buy.

Exhibit 7: Change in estimates

Earnings change (INR m)	Old		New		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11,069	11,867	11,552	12,551	4%	6%
EBITDA	3,177	3,465	3,327	3,637	5%	5%
Adj. PAT	3,212	3,473	3,409	3,814	6%	10%

Source: MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	7,449	7,050	8,192	8,094	9,303	10,363	11,552	12,551
Change (%)	-35.9	-5.4	16.2	-1.2	14.9	11.4	11.5	8.6
EBITDA	1,875	1,395	2,218	2,116	2,532	2,980	3,327	3,637
Margin (%)	25.2	19.8	27.1	26.1	27.2	28.8	28.8	29.0
Depreciation	274	302	251	230	257	222	271	293
EBIT	1,601	1,093	1,967	1,887	2,275	2,758	3,055	3,343
Int. and Finance Charges	2	2	6	5	5	5	1	1
Other Income - Rec.	131	344	237	430	456	457	572	715
PBT bef. EO Exp.	1,729	1,435	2,198	2,311	2,727	3,210	3,626	4,057
EO Expense/(Income)	0	592	0	0	0	0	0	0
PBT after EO Exp.	1,729	843	2,198	2,311	2,727	3,210	3,626	4,057
Current Tax	58	75	87	117	118	67	218	243
Deferred Tax	-3	-5	-3	20	10	31	0	0
Tax Rate (%)	3.2	8.3	3.8	5.9	4.7	3.1	6.0	6.0
Reported PAT	1,675	773	2,114	2,174	2,599	3,112	3,409	3,814
PAT Adj. for EO items	1,675	1,316	2,114	2,174	2,599	3,112	3,409	3,814
Change (%)	-44.4	-21.4	60.6	2.8	19.5	19.7	9.5	11.9
Margin (%)	22.5	18.7	25.8	26.9	27.9	30.0	29.5	30.4

Consolidated Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	138	138	132	126	121	121	121	121
Total Reserves	9,134	10,005	9,992	9,942	9,466	12,325	15,322	18,588
Net Worth	9,272	10,143	10,124	10,069	9,587	12,445	15,443	18,708
Minority Interest	-2	-7	-6	-6	2	10	10	10
Deferred Liabilities	0	0	168	202	182	157	157	157
Total Loans	16	46	29	68	58	11	11	11
Capital Employed	9,286	10,182	10,315	10,332	9,829	12,622	15,620	18,885
Gross Block	3,033	3,322	3,463	4,199	4,551	4,733	5,133	5,533
Less: Accum. Deprn.	1,018	1,320	1,571	1,800	2,057	2,279	2,551	2,844
Net Fixed Assets	2,015	2,002	1,892	2,399	2,494	2,454	2,582	2,689
Capital WIP	197	340	376	384	185	311	231	251
Total Investments	5,064	6,569	6,226	5,096	3,839	5,990	7,890	10,390
Curr. Assets, Loans and Adv.	6,327	6,358	6,153	7,626	9,255	10,850	11,889	13,132
Inventory	5,044	4,478	4,428	5,612	6,391	7,195	7,627	8,286
Account Receivables	804	854	859	846	1,180	1,057	1,266	1,375
Cash and Bank Balance	94	210	139	87	81	141	224	459
Loans and Advances	386	817	727	1,081	1,603	2,457	2,772	3,012
Curr. Liability and Prov.	4,320	5,095	4,340	5,180	5,957	6,997	6,988	7,592
Account Payables	4,237	3,026	2,202	2,411	2,669	3,584	3,207	3,484
Provisions	83	9	116	72	68	117	85	92
Other current liabilities	0	2,060	2,022	2,696	3,221	3,296	3,697	4,016
Net Current Assets	2,007	1,263	1,814	2,446	3,297	3,852	4,901	5,540
Appl. of Funds	9,286	10,182	10,315	10,332	9,829	12,622	15,620	18,885

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)								
EPS	27.8	21.8	35.0	36.0	43.1	51.6	56.5	63.2
Cash EPS	32.3	26.8	39.2	39.8	47.3	55.3	61.0	68.1
BV/Share	153.7	168.1	167.8	166.9	158.9	206.3	256.0	310.1
DPS	5.0	3.0	3.0	3.0	3.0	4.0	6.0	8.0
Payout (%)	24.7	32.2	11.7	11.3	9.5	8.8	12.1	14.4
Valuation (x)								
P/E				20.0	16.7	14.0	12.7	11.4
Cash P/E				18.1	15.2	13.0	11.8	10.6
P/BV				4.3	4.5	3.5	2.8	2.3
EV/Sales				5.6	4.9	4.4	3.9	3.6
EV/EBITDA				21.5	17.9	15.2	13.6	12.4
Dividend Yield (%)				0.4	0.4	0.6	0.8	1.1
FCF per share				8.5	29.3	36.6	39.7	54.4
Return Ratios (%)								
EBITDA Margin (%)	25.2	19.8	27.1	26.1	27.2	28.8	28.8	29.0
Net Profit Margin (%)	22.5	18.7	25.8	26.9	27.9	30.0	29.5	30.4
RoE	19.9	13.6	20.9	21.5	26.4	28.3	24.4	22.3
RoCE	21.2	16.0	22.5	24.2	28.9	30.0	27.6	25.2
RoIC	42.0	33.8	61.5	47.9	45.4	47.7	48.1	47.1
Working Capital Ratios								
Fixed Asset Turnover (x)	2	2	2	2	2	2	2	2
Asset Turnover (x)	0.8	0.7	0.8	0.8	0.9	0.8	0.7	0.7
Inventory (Days)	247	232	197	253	251	253	241	241
Debtor (Days)	39	44	38	38	46	37	40	40
Creditor (Days)	208	157	98	109	105	126	101	101
Working Capital Turnover (Days)	94	55	75	106	126	131	148	148
Leverage Ratio (x)								
Current Ratio	1.5	1.2	1.4	1.5	1.6	1.6	1.7	1.7
Interest Coverage Ratio	670	453	326	345	476	546	2,824	3,091
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net P/L Bef. Tax and EO Items	1,729	1,435	2,198	2,311	2,727	3,210	3,626	4,057
Depreciation	274	302	251	230	257	222	271	293
Interest and Finance Charges	2	2	6	5	5	5	1	1
Direct Taxes Paid	58	75	87	117	118	67	218	243
(Inc.)/Dec. in WC	407	860	-621	-1,150	-952	-852	-966	-404
CF from Operations	2,355	2,525	1,747	1,279	1,918	2,519	2,715	3,704
EO Expense	467	-245	0	0	0	0	0	0
CF from Operating incl. EO	2,822	2,280	1,747	1,279	1,918	2,519	2,715	3,704
(inc.)/dec. in FA	-262	-432	-177	-744	-153	-308	-320	-420
Free Cash Flow	2,560	1,848	1,570	535	1,765	2,211	2,395	3,284
(Pur.)/Sale of Investments	-2,114	-1,505	343	1,130	1,257	-2,151	-1,900	-2,500
Others	-4	-5	2	438	21	286	0	0
CF from Investments	-2,380	-1,943	168	824	1,125	-2,173	-2,220	-2,920
Issue of Shares	-5	0	-2,000	-2,000	-2,404	0	0	0
(Inc.)/Dec. in Debt	2	30	-18	39	-10	-47	0	0
Interest Paid	-2	-2	-6	-5	-5	-5	-1	-1
Dividend Paid	-414	-249	-247	-247	-247	-274	-411	-548
CF from Fin. Activity	-415	-221	-1,985	-2,156	-3,049	-285	-412	-549
Inc./Dec. in Cash	28	116	-71	-52	-6	60	83	235
Add: Beginning Balance	66	94	210	139	87	81	141	224
Closing Balance	93	210	139	87	81	141	224	459

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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