

BSE SENSEX  
 37,312

 S&P CNX  
 11,029

**CMP: INR479 TP: INR575 (+20%)**
**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2019 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	KSCL IN
Equity Shares (m)	63
M.Cap.(INRb)/(USD\$b)	30.2 / 0.4
52-Week Range (INR)	660 / 376
1, 6, 12 Rel. Per (%)	13/-5/-21
12M Avg Val (INR M)	360
Free float (%)	44.9

**Financials & Valuations (INR b)**

Y/E Mar	2019	2020E	2021E
Net Sales	8.1	9.1	9.8
EBITDA	2.1	2.4	2.6
PAT	2.2	2.3	2.4
EPS (INR)	34.4	37.0	38.3
Gr. (%)	7.7	7.5	3.5
BV/Sh (INR)	159.5	172.5	182.0
RoE (%)	21.5	22.3	21.6
RoCE (%)	24.2	24.7	24.3
P/E (x)	13.9	12.9	12.5
P/BV (x)	3.0	2.8	2.6

**Estimate change**
**TP change**
**Rating change**


## Volume growth strong across segments

### But weak cotton realization drags performance

- Largely in-line performance:** Revenue grew 13% YoY to INR6,555m (our estimate: INR6,588m). EBITDA increased 15% YoY to INR2,333m (our estimate: INR2,306m), with the margin expanding 60bp YoY to 35.6% (our estimate: 35%) led by operating leverage. Adj. PAT was up 9% YoY to INR2,289m (our estimate: INR2,367m).
- Non-cotton business drives revenues:** Cotton revenue grew only 7% YoY to INR4,051m, despite volume growth of 13% YoY to 6.6m packets, due to lower realizations (-5% YoY to INR609/packet). Management expects volume spillover of 0.5-0.6m cotton packets into 2QFY20, which will likely support growth in the ongoing quarter. Non-cotton revenue grew 23% YoY to INR2,504m, led by a stellar improvement in hybrid rice (+73% YoY), partly offset by subdued maize revenue growth (+5% YoY). Notably, hybrid rice volumes increased 45% YoY owing to the introduction of new hybrid Paddy KPH 468.
- Valuation view:** As mentioned earlier, despite strong volumes, Cotton revenue growth was restricted by lower realization. Moreover, the company has maintained its volume growth guidance of 15-20% for Cotton and 20-25% for Non-cotton for FY20. Taking the ongoing trend into consideration, we lower our cotton seeds realization and volume assumption (by 7% to 6.6m packets), leading to a 9% cut in our FY21 earnings estimates. We value KSCL at 15x FY21E EPS, arriving at a TP of INR575. Maintain **Buy**.

**Quarterly - Standalone**

(INR Million)

Y/E March	FY19				FY20				FY19	FY20E	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Net Sales</b>	<b>5,819</b>	<b>752</b>	<b>672</b>	<b>447</b>	<b>6,555</b>	<b>1,220</b>	<b>883</b>	<b>469</b>	<b>7,690</b>	<b>9,128</b>	<b>6,588</b>	<b>-1</b>
YoY Change (%)	-1.5	8.0	-4.9	7.5	12.6	62.3	31.4	5.0	-0.4	18.7	13.2	
Total Expenditure	3,784	673	671	507	4,222	1,074	873	554	5,634	6,722	4,282	
<b>EBITDA</b>	<b>2,035</b>	<b>79</b>	<b>1</b>	<b>-59</b>	<b>2,333</b>	<b>146</b>	<b>10</b>	<b>-85</b>	<b>2,056</b>	<b>2,405</b>	<b>2,306</b>	<b>1</b>
Margins (%)	35.0	10.5	0.2	-13.3	35.6	12.0	1.2	-18.0	26.7	26.4	35.0	
Depreciation	53	47	53	59	59	59	65	67	212	250	65	
Interest	0	0	1	0	0	2	2	2	1	5	2	
Other Income	168	131	106	24	43	137	111	25	429	317	177	
<b>PBT before EO expense</b>	<b>2,150</b>	<b>162</b>	<b>54</b>	<b>-95</b>	<b>2,317</b>	<b>223</b>	<b>55</b>	<b>-128</b>	<b>2,271</b>	<b>2,467</b>	<b>2,416</b>	<b>-4</b>
<b>PBT</b>	<b>2,150</b>	<b>162</b>	<b>54</b>	<b>-95</b>	<b>2,317</b>	<b>223</b>	<b>55</b>	<b>-128</b>	<b>2,271</b>	<b>2,467</b>	<b>2,416</b>	
Tax	44	43	18	20	28	59	18	26	124	131	48	
Rate (%)	2.0	26.4	32.5	-20.9	1.2	26.5	32.5	-20.0	5.5	5.3	2	
<b>Reported PAT</b>	<b>2,106</b>	<b>119</b>	<b>36</b>	<b>-114</b>	<b>2,289</b>	<b>164</b>	<b>37</b>	<b>-154</b>	<b>2,147</b>	<b>2,336</b>	<b>2,367</b>	<b>-3</b>
<b>Adj PAT</b>	<b>2,106</b>	<b>119</b>	<b>36</b>	<b>-114</b>	<b>2,289</b>	<b>164</b>	<b>37</b>	<b>-154</b>	<b>2,147</b>	<b>2,336</b>	<b>2,367</b>	<b>-3</b>
YoY Change (%)	4.1	-42.9	-32.9	NA	8.7	37.2	1.7	NA	2.1	8.8	12	
Margins (%)	36.2	15.9	5.4	-25.6	34.9	13.4	4.2	-32.8	27.9	25.6	35.9	

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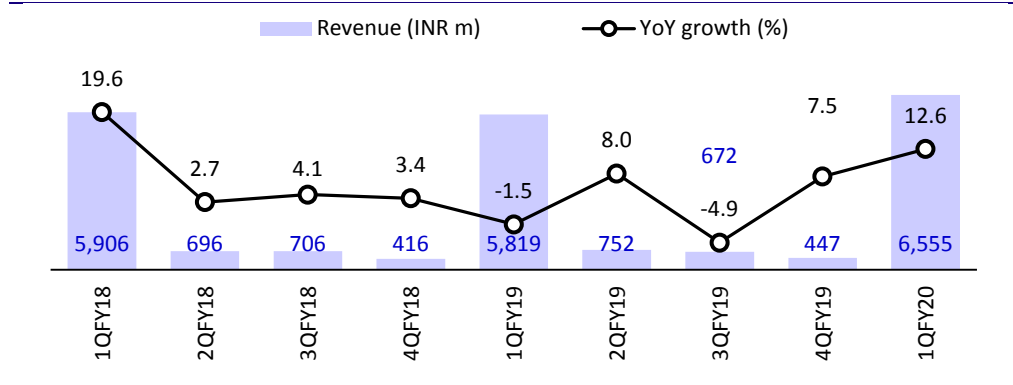
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**In line performance**

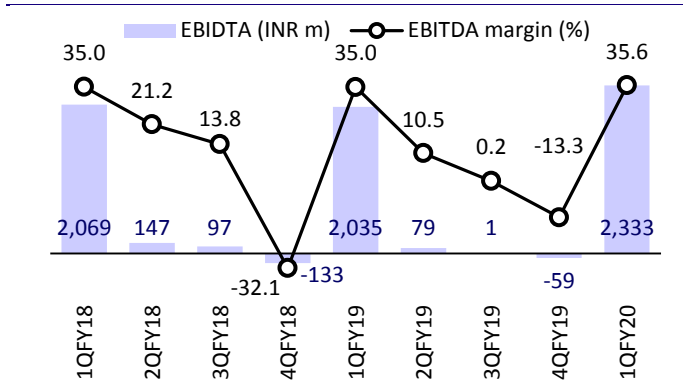
- Revenue of INR6,555m (est. of INR6,588m) was up 13% YoY.
- Operating profit stood at INR2,333m (est. of INR2,306m), up 15% YoY.
- Margin expanded 60bp YoY to 35.6% (est. of 35%) due to a reduction of (a) 45bp in other expenses to 9% and (b) 20pp in employee cost to 1.8%
- Consequently, adj. PAT grew 9% YoY to INR2,289m (est. of INR2,367m).

**Exhibit 1: Revenue trend**



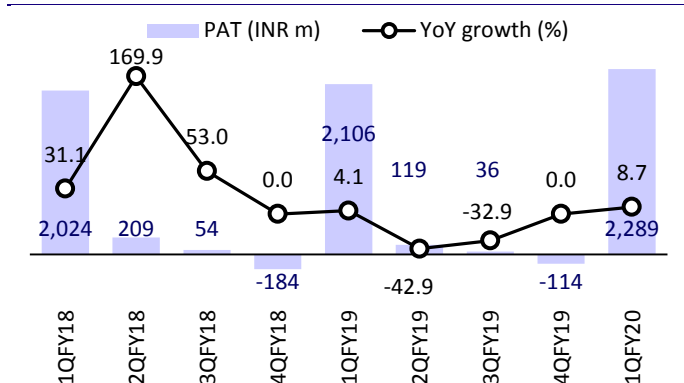
Source: Company, MOFSL

**Exhibit 2: EBITDA margin trend**



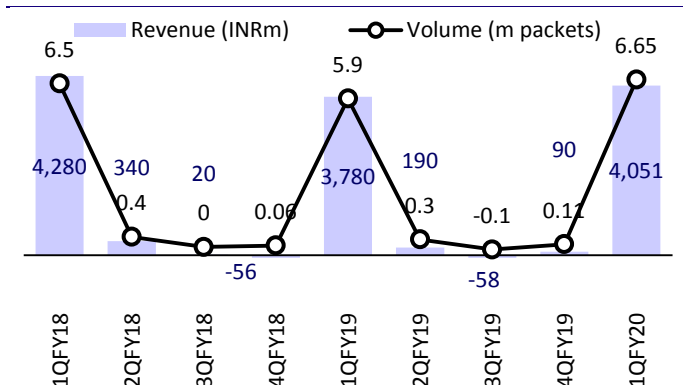
Source: Company, MOFSL

**Exhibit 3: PAT trend**



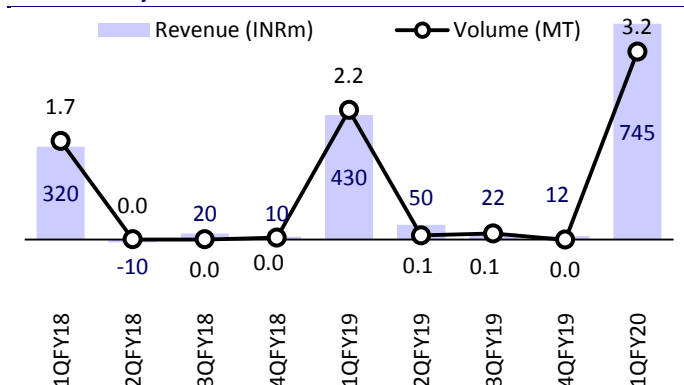
Source: Company, MOFSL

**Exhibit 4: Cotton seed revenue and volume trend**

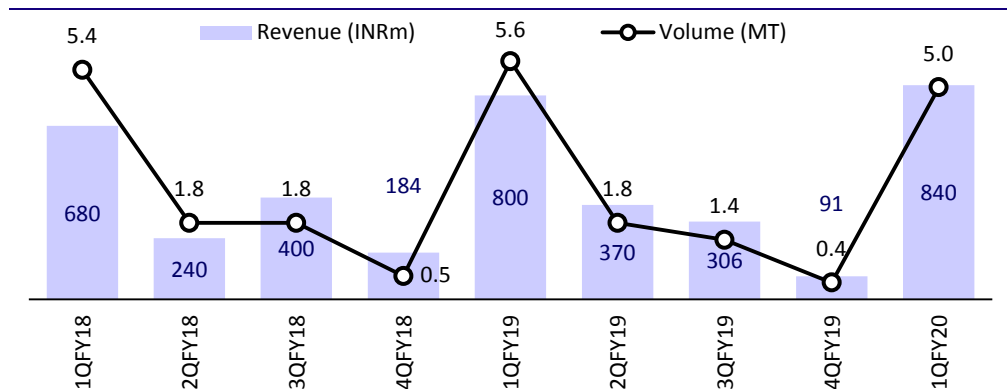


Source: Company, MOFSL

**Exhibit 5: Hybrid rice revenue and volume trend**



Source: Company, MOFSL

**Exhibit 6: Maize revenue and volume trend**

Source: Company, MOFSL

**Operational highlights**

- Overall cotton revenue grew 7% YoY to INR4,051m, mainly driven by volumes (+13% YoY to 6.65m packets) as contribution of new products rose to 33% (vs 21% in 1QFY19). This partially offset by weaker realization (down 5% YoY to INR609/packet). The company gained market share in Gujarat, Maharashtra and Northern markets.
- Maize volumes were down 11% YoY (to 5MMT) due to lower acreage in Telangana because of delayed arrival of monsoons. However, revenues grew 5% YoY to INR840m on account of improved realizations (up 19% YoY) and better product mix.
- Hybrid rice volumes increased by 45% in 1QFY20 (supported by introduction of new hybrid Paddy KPH 468) with realization growth of 19% YoY, leading to revenue growth of 73% YoY to INR745m.
- Selection rice volumes grew by 5% as contribution of new products went up from 14% in 1QFY19 to 18% in 1QFY20. Selection rice revenue grew 14% YoY to INR583m during the quarter. The scale up of new products has been done with robust growth in Coastal King, Elito & Shireen across markets.

**Concall takeaways**

- The company maintained its volume growth guidance of 15-20% for cotton business and 20-25% for non-cotton business for FY20.
- Spillover sales in 2Q for cotton seeds are expected to be 0.5-0.6m packets.
- Other income was lower as certain debt investments reached maturity in the quarter.
- Performance in vegetables was up 30% YoY (on a small base). The company expects growth will be maintained at 30-40%.
- Most of the sales in Maharashtra had already come through; hence there won't be any impact of the floods on the company's performance.
- Northern India is going to be major growth contributor in the coming years. Hybrid and select rice is mainly sold in Uttar Pradesh. The company has a good hold of selling bajara and rice in Uttar Pradesh and Rajasthan. Maize and cotton from these regions are expected to contribute meaningfully to revenues within 3-4 years.
- Currently, the south region is the biggest revenue contributor, followed by west and then north.

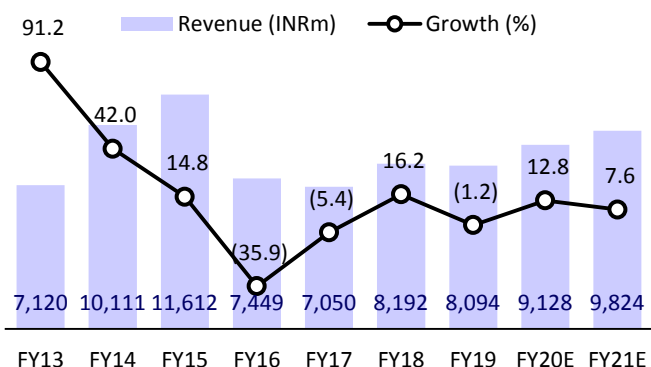
- The board has approved the payment of interim dividend at 150%, i.e. INR3 per equity share of face value of INR2 each.

#### **Valuation and view**

As mentioned earlier, despite strong volumes, Cotton revenue growth was restricted by lower realization. Moreover, the company has maintained its volume growth guidance of 15-20% for Cotton and 20-25% for Non-cotton for FY20. Taking the ongoing trend into consideration, we lower our cotton seeds realization and volume assumption (by 7% to 6.6m packets), leading to a 9% cut in our FY21 earnings estimates. We value KSCL at 15x FY21E EPS, arriving at a TP of INR575. Maintain **Buy**.

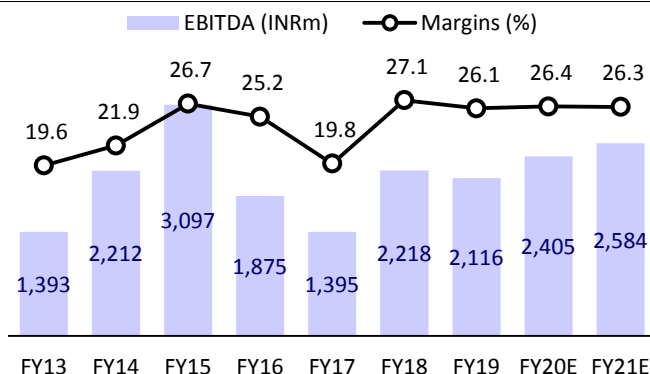
## Story in charts

**Exhibit 7: Revenues to post 10% CAGR over FY19–21E**



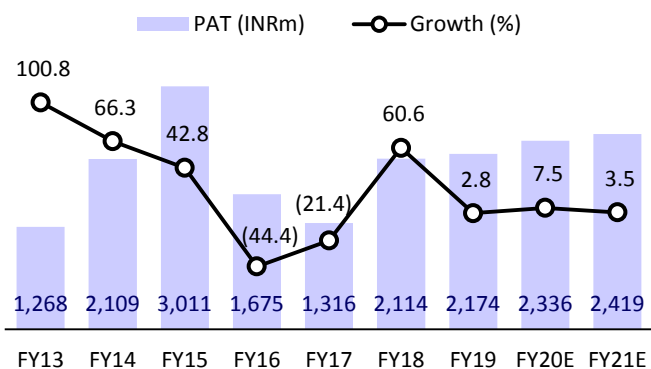
Source: MOFSL, Company

**Exhibit 8: Margins to expand 20bp over FY19–21E**



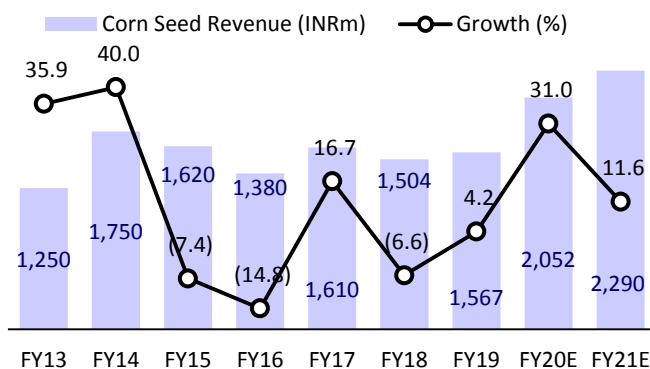
Source: MOFSL, Company

**Exhibit 9: PAT to post 5% CAGR over FY19–21E**



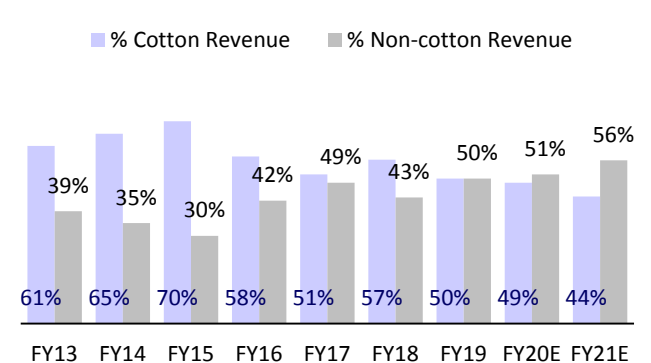
Source: MOFSL, Company

**Exhibit 10: Corn seed to post 21% rev. CAGR over FY19–21E**



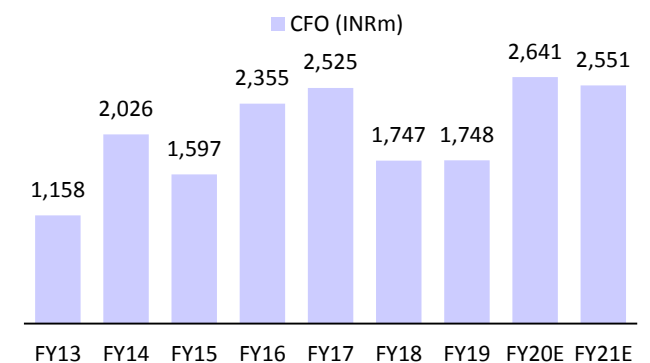
Source: MOFSL, Company

**Exhibit 11: Revenue mix trend**



Source: MOFSL, Company

**Exhibit 12: Cash flow from operations to remain strong**



Source: MOFSL, Company

## Financials and Valuations

Consolidated Income Statement							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Net Sales</b>	<b>10,111</b>	<b>11,612</b>	<b>7,449</b>	<b>7,050</b>	<b>8,192</b>	<b>8,094</b>	<b>9,128</b>	<b>9,824</b>
Change (%)	42.0	14.8	-35.9	-5.4	16.2	-1.2	12.8	7.6
Total Expenditure	7,899	8,516	5,574	5,654	5,974	5,978	6,722	7,240
% of Sales	78.1	73.3	74.8	80.2	72.9	73.9	73.6	73.7
<b>EBITDA</b>	<b>2,212</b>	<b>3,097</b>	<b>1,875</b>	<b>1,395</b>	<b>2,218</b>	<b>2,116</b>	<b>2,405</b>	<b>2,584</b>
Margin (%)	21.9	26.7	25.2	19.8	27.1	26.1	26.4	26.3
Depreciation	164	149	274	302	251	230	250	336
<b>EBIT</b>	<b>2,048</b>	<b>2,948</b>	<b>1,601</b>	<b>1,093</b>	<b>1,967</b>	<b>1,887</b>	<b>2,156</b>	<b>2,248</b>
Int. and Finance Charges	2	2	2	2	6	5	5	7
Other Income - Rec.	97	157	131	344	237	430	317	332
<b>PBT bef. EO Exp.</b>	<b>2,143</b>	<b>3,103</b>	<b>1,729</b>	<b>1,435</b>	<b>2,198</b>	<b>2,311</b>	<b>2,467</b>	<b>2,574</b>
EO Expense/(Income)	0	-3	0	592	0	0	0	0
<b>PBT after EO Exp.</b>	<b>2,143</b>	<b>3,107</b>	<b>1,729</b>	<b>843</b>	<b>2,198</b>	<b>2,311</b>	<b>2,467</b>	<b>2,574</b>
Current Tax	37	93	58	75	87	117	148	154
Deferred Tax	-2	-1	-3	-5	-3	20	-17	0
Tax Rate (%)	1.6	3.0	3.2	8.3	3.8	5.9	5.3	6.0
<b>Reported PAT</b>	<b>2,109</b>	<b>3,014</b>	<b>1,675</b>	<b>773</b>	<b>2,114</b>	<b>2,174</b>	<b>2,336</b>	<b>2,419</b>
<b>PAT Adj for EO items</b>	<b>2,109</b>	<b>3,011</b>	<b>1,675</b>	<b>1,316</b>	<b>2,114</b>	<b>2,174</b>	<b>2,336</b>	<b>2,419</b>
Change (%)	66.3	42.8	-44.4	-21.4	60.6	2.8	7.5	3.5
Margin (%)	20.9	25.9	22.5	18.7	25.8	26.9	25.6	24.6

Consolidated Balance Sheet							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	137	138	138	138	132	126	126	126
Total Reserves	5,018	7,410	9,134	10,005	9,992	9,942	10,764	11,365
<b>Net Worth</b>	<b>5,155</b>	<b>7,548</b>	<b>9,272</b>	<b>10,143</b>	<b>10,124</b>	<b>10,069</b>	<b>10,890</b>	<b>11,491</b>
Minority Interest	4	2	-2	-7	-6	-6	-6	-6
Deferred Liabilities	1	0	0	0	168	202	184	184
Total Loans	9	14	16	46	29	68	68	68
<b>Capital Employed</b>	<b>5,169</b>	<b>7,564</b>	<b>9,286</b>	<b>10,182</b>	<b>10,315</b>	<b>10,332</b>	<b>11,136</b>	<b>11,737</b>
Gross Block	2,033	2,351	3,033	3,322	3,463	4,199	4,599	4,999
Less: Accum. Deprn.	596	743	1,018	1,320	1,571	1,800	2,050	2,386
<b>Net Fixed Assets</b>	<b>1,436</b>	<b>1,608</b>	<b>2,015</b>	<b>2,002</b>	<b>1,892</b>	<b>2,399</b>	<b>2,549</b>	<b>2,613</b>
Capital WIP	117	617	197	340	376	384	0	0
<b>Total Investments</b>	<b>2,783</b>	<b>2,950</b>	<b>5,064</b>	<b>6,569</b>	<b>6,226</b>	<b>5,096</b>	<b>6,115</b>	<b>6,115</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,944</b>	<b>6,994</b>	<b>6,327</b>	<b>6,358</b>	<b>6,153</b>	<b>7,626</b>	<b>8,257</b>	<b>9,203</b>
Inventory	4,972	4,943	5,044	4,478	4,428	5,612	5,807	6,252
Account Receivables	653	1,768	804	854	859	846	1,000	1,077
Cash and Bank Balance	67	66	94	210	139	87	172	499
Loans and Advances	253	216	386	817	727	1,081	1,278	1,375
<b>Curr. Liability &amp; Prov.</b>	<b>5,114</b>	<b>4,608</b>	<b>4,320</b>	<b>5,095</b>	<b>4,340</b>	<b>5,183</b>	<b>5,796</b>	<b>6,204</b>
Account Payables	4,882	4,362	4,237	3,026	2,202	2,411	2,670	2,875
Provisions	233	245	83	9	116	72	81	88
Other current liabilities	0	0	0	2,060	2,022	2,700	3,044	3,242
<b>Net Current Assets</b>	<b>830</b>	<b>2,386</b>	<b>2,007</b>	<b>1,263</b>	<b>1,814</b>	<b>2,443</b>	<b>2,462</b>	<b>2,999</b>
<b>Appl. of Funds</b>	<b>5,169</b>	<b>7,564</b>	<b>9,286</b>	<b>10,182</b>	<b>10,315</b>	<b>10,332</b>	<b>11,136</b>	<b>11,737</b>

## Financials and Valuations

Ratios								
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>30.7</b>	<b>43.7</b>	<b>24.3</b>	<b>19.1</b>	<b>32.0</b>	<b>34.4</b>	<b>37.0</b>	<b>38.3</b>
Cash EPS	33.1	45.9	28.2	23.4	35.8	38.1	41.0	43.6
BV/Share	75.0	109.6	134.3	146.9	153.2	159.5	172.5	182.0
DPS	4.8	7.5	5.0	3.0	14.5	15.7	18.4	22.1
Payout (%)	18.3	20.6	24.7	32.2	56.3	59.2	64.8	75.2
<b>Valuation (x)</b>								
P/E			19.7	25.1	15.0	13.9	12.9	12.5
Cash P/E			17.0	20.4	13.4	12.6	11.7	11.0
P/BV			3.6	3.3	3.1	3.0	2.8	2.6
EV/Sales			4.0	4.3	3.7	3.7	3.3	3.0
EV/EBITDA			16.1	21.5	13.6	14.3	12.5	11.5
Dividend Yield (%)			1.1	0.6	3.0	3.3	3.9	4.6
FCF per share			37.1	26.8	23.8	15.9	41.6	34.1
<b>Return Ratios (%)</b>								
EBITDA Margins (%)	21.9	26.7	25.2	19.8	27.1	26.1	26.4	26.3
Net Profit Margins (%)	20.9	25.9	22.5	18.7	25.8	26.9	25.6	24.6
RoE	49.0	47.4	19.9	13.6	20.9	21.5	22.3	21.6
RoCE	50.5	50.2	21.2	16.0	22.5	24.2	24.7	24.3
RoIC	100.5	98.9	42.0	33.8	61.5	47.9	47.2	47.8
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	5	5	2	2	2	2	2	2
Asset Turnover (x)	2.0	1.5	0.8	0.7	0.8	0.8	0.8	0.8
Inventory (Days)	179	155	247	232	197	253	232	232
Debtor (Days)	24	56	39	44	38	38	40	40
Creditor (Days)	176	137	208	157	98	109	107	107
Working Capital Turnover (Days)	28	73	94	55	75	106	92	93
<b>Leverage Ratio (x)</b>								
Current Ratio	1.2	1.5	1.5	1.2	1.4	1.5	1.4	1.5
Interest Cover Ratio	839	1,732	670	453	326	345	397	332
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated Cash Flow Statement							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net P / L Bef. Tax and Eo Items	2,143	3,100	1,729	1,435	2,198	2,311	2,467	2,574
Depreciation	164	149	274	302	251	230	250	336
Interest & Finance Charges	2	2	2	2	6	5	5	7
Direct Taxes Paid	54	93	58	75	87	117	148	154
(Inc)/Dec in WC	-230	-1,561	407	860	-621	-682	67	-211
<b>CF from Operations</b>	<b>2,026</b>	<b>1,597</b>	<b>2,355</b>	<b>2,525</b>	<b>1,747</b>	<b>1,748</b>	<b>2,641</b>	<b>2,551</b>
EO Expense	-94	-150	467	-245	0	0	0	0
<b>CF from Operating incl EO</b>	<b>1,932</b>	<b>1,447</b>	<b>2,822</b>	<b>2,280</b>	<b>1,747</b>	<b>1,748</b>	<b>2,641</b>	<b>2,551</b>
(inc)/dec in FA	-255	-819	-262	-432	-177	-744	-16	-400
<b>Free Cash Flow</b>	<b>1,677</b>	<b>628</b>	<b>2,560</b>	<b>1,848</b>	<b>1,570</b>	<b>1,003</b>	<b>2,625</b>	<b>2,151</b>
(Pur)/Sale of Investments	-1,464	-33	-2,114	-1,505	343	1,130	-1,019	0
Others	95	16	-4	-5	2	0	0	0
<b>CF from Investments</b>	<b>-1,624</b>	<b>-836</b>	<b>-2,380</b>	<b>-1,943</b>	<b>168</b>	<b>386</b>	<b>-1,035</b>	<b>-400</b>
Issue of Shares	0	0	0	0	-2,000	0	0	0
(Inc)/Dec in Debt	0	5	2	30	-18	39	0	0
Interest Paid	-2	-2	-2	-2	-6	-5	-5	-7
Dividend Paid	-387	-621	-414	-249	-1,190	-1,288	-1,515	-1,818
<b>CF from Fin. Activity</b>	<b>-384</b>	<b>-613</b>	<b>-410</b>	<b>-221</b>	<b>-1,985</b>	<b>-2,185</b>	<b>-1,521</b>	<b>-1,825</b>
<b>Inc/Dec of Cash</b>	<b>-76</b>	<b>-1</b>	<b>33</b>	<b>116</b>	<b>-71</b>	<b>-52</b>	<b>85</b>	<b>326</b>
Add: Beginning Balance	143	67	66	94	210	139	87	172
<b>Closing Balance</b>	<b>66</b>	<b>65</b>	<b>98</b>	<b>210</b>	<b>139</b>	<b>87</b>	<b>172</b>	<b>499</b>

NOTES



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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