

Estimate change 

 TP change 

 Rating change 
CMP: INR481
TP: INR560 (+16%)
Buy

Expansion in gross margin drives earnings

Operating performance better than our expectation

- KSCL clocked a better operating performance in 1QFY23, led by gross margin expansion of 420bp YoY, as the company was able to maintain the cost of production similar to 1QFY22 levels.
- All seed categories registered a volume growth, with cotton/hybrid rice/maize/selection rice growing by 8%/6%/24%/15%. Realization took a hit across segments due to higher discounts offered in 1QFY23.
- We largely retain our FY23 earnings estimate while we cut FY24 earnings estimate by 8% due to lower cotton seed sales volumes. We value the stock at 11x FY24E EPS to arrive at our TP of INR560 and maintain our Buy rating.

Volume growth across segments drives sales in 1QFY23

- Consolidated revenue rose 9% YoY to INR6.9b (est. INR7.3b) in 1QFY23. EBITDA grew 24% YoY to INR2.5b (est. INR2.3b). EBITDA margin rose 430bp YoY to 36%. Gross margin grew 420bp YoY to 48.3%. As a percentage of sales, employee cost/other expenses stood at 3.4%/8.9% (v/s 3.2%/9.2% YoY). Adjusted PAT grew 20% YoY to INR2.4b (est. INR2.3b).
- Cotton seed volumes increased by 8% YoY to 5.4m packets in 1QFY23, resulting in a 4% rise in revenue to INR3.2b. The contribution to volumes of new products in maize rose to 28.62% from 18.08%. Maize seed volumes fell 24% YoY to 5,411MT and revenue rose 14% to INR955m.
- Hybrid rice volumes rose 6% to 6,969m packets in 1QFY23, with revenue being flat YoY at INR1,652m. Introduction of new hybrids 7299, 425, 471, and 473 led to strong growth in this segment. Selection rice volumes grew 15% at 13,488MT in 1QFY23, with revenue up 6% YoY to INR907m.

Highlights from the management commentary

- The company maintained its market share of 16-17% in cotton, further penetrating into Haryana and Punjab, increasing its share in Gujarat, and maintaining its share in Telangana and Karnataka, although it struggled in Maharashtra.
- Realization growth was muted due to smaller players with lower realizations emerging, leading to additional discounts offered by KSCL.
- Adding new crops such as soya and wheat, which have a higher growth potential in the years to come, will be the next growth engine for KSCL.

Valuation and view

- KSCL is well on track to diversify from cotton seed sales by increasing the share of higher margin rice and vegetable seeds, which are growing at a faster pace.
- We largely retain our FY23 earnings estimate, while we cut our FY24 earnings estimate by 8% due to lower cotton seed sales volumes to 6.3m from 7m packets. We value the stock at 11x FY24E EPS to arrive at our TP of INR560 and maintain our Buy rating.



Bloomberg	KSCL IN
Equity Shares (m)	63
M.Cap.(INRb)/(USDb)	28.1 / 0.4
52-Week Range (INR)	735 / 468
1, 6, 12 Rel. Per (%)	-12/-8/-40
12M Avg Val (INR M)	119

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	9.7	10.4	11.6
EBITDA	2.0	2.6	3.0
PAT	2.1	2.6	2.9
EBITDA (%)	20.9	24.6	25.6
EPS (INR)	36.4	45.2	50.3
EPS Gr. (%)	(31.6)	24.0	11.3
BV/Sh. (INR)	220	256	297

Ratios

Net D/E	(0.4)	(0.5)	(0.6)
RoE (%)	16.8	19.0	18.2
RoCE (%)	18.4	19.8	20.5
Payout (%)	12.5	20.1	18.1

Valuations

P/E (x)	13.2	10.7	9.6
EV/EBITDA (x)	14.9	11.8	10.0
Div Yield (%)	0.8	1.6	1.6
FCF Yield (%)	2.9	9.3	9.3

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	57.4	57.4	55.5
DII	7.5	7.0	11.0
FII	19.2	19.1	16.4
Others	15.9	16.5	17.1

Quarterly - Consolidated

(INR m)

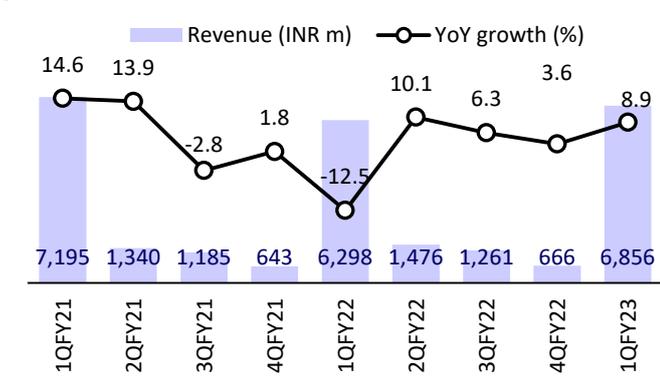
Y/E March	FY22				FY23				FY22	FY23E	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	6,298	1,476	1,261	666	6,856	1,466	1,299	730	9,700	10,351	7,280	-6
YoY Change (%)	-12.5	10.1	6.3	3.6	8.9	-0.6	3.1	9.6	-6.4	6.7	15.6	
Total Expenditure	4,302	1,412	1,187	775	4,390	1,362	1,211	839	7,674	7,800	4,948	
EBITDA	1,996	64	74	-109	2,466	105	89	-109	2,025	2,551	2,333	6
Margins (%)	31.7	4.3	5.9	-16.4	36.0	7.1	6.8	-14.9	20.9	24.6	32.0	
Depreciation	48	50	55	57	48	49	51	52	209	200	59	
Interest	0	0	0	0	0	0	0	0	1	1	1	
Other Income	151	151	68	43	75	150	70	45	413	340	160	
PBT before EO expense	2,099	165	87	-123	2,493	205	108	-116	2,228	2,690	2,432	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	2,099	165	87	-123	2,493	205	108	-116	2,228	2,690	2,432	
Tax	52	37	16	-5	44	12	6	-7	100	56	146	
Rate (%)	2.5	22.3	18.7	4.1	1.8	6.0	6.0	6.0	4.5	2.1	6	
MI & Profit/Loss of Asso. Cos.	-10	0	6	1	-11	0	7	1	-3	4	0	
Reported PAT	2,037	128	76	-118	2,438	193	108	-108	2,125	2,630	2,286	7
Adj PAT	2,037	128	76	-118	2,438	193	108	-108	2,125	2,630	2,286	7
YoY Change (%)	-31.0	-45.3	-16.1	32.2	19.7	50.3	40.8	-8.0	-31.6	23.8	12	
Margins (%)	32.4	8.7	6.1	-17.7	35.6	13.2	8.3	-14.8	21.9	25.4	31.4	

Key Performance Indicators

Y/E March	FY22				FY23				FY22	FY23
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Segment Revenue Growth (%)										
Cotton seed	(27.5)	87.4	(431.2)	45.4	3.9	20.0	20.0	13.8	(23.0)	5.2
Hybrid Rice	43.3	107.8	(62.1)	(280.8)	1.0	31.8	4.5	(252.9)	29.5	4.5
Maize Seeds	(7.8)	(38.3)	13.4	45.0	13.5	5.8	5.8	5.8	(7.7)	9.2
Cotton Seed Vol (mn packets)	5.0	0.3	0.0	0.1	5.4	0.3	0.0	0.1	(24.3)	9.4
Cost Break-up										
RM Cost (% of sales)	55.9	61.9	48.2	44.7	51.7	58.0	47.0	44.0	55.0	51.5
Staff Cost (% of sales)	3.2	15.4	20.9	32.8	3.4	16.4	21.2	32.9	9.4	9.5
Other Cost (% of sales)	9.2	18.3	25.1	38.9	8.9	18.5	25.0	38.0	14.7	14.4
Gross Margins (%)	44.1	38.1	51.8	55.3	48.3	42.0	53.0	56.0	45.0	48.5
EBITDA Margins (%)	31.7	4.3	5.9	-16.4	36.0	7.1	6.8	-14.9	20.9	24.6
EBIT Margins (%)	33.3	11.2	6.9	-18.5	36.4	14.0	8.3	-15.8	21.5	27.7

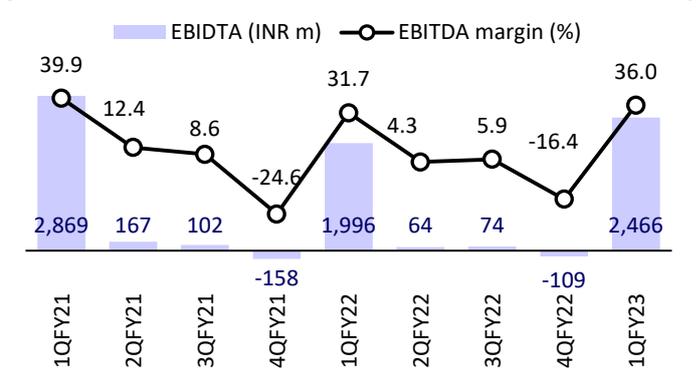
Key Exhibits

Exhibit 1: Revenue trend



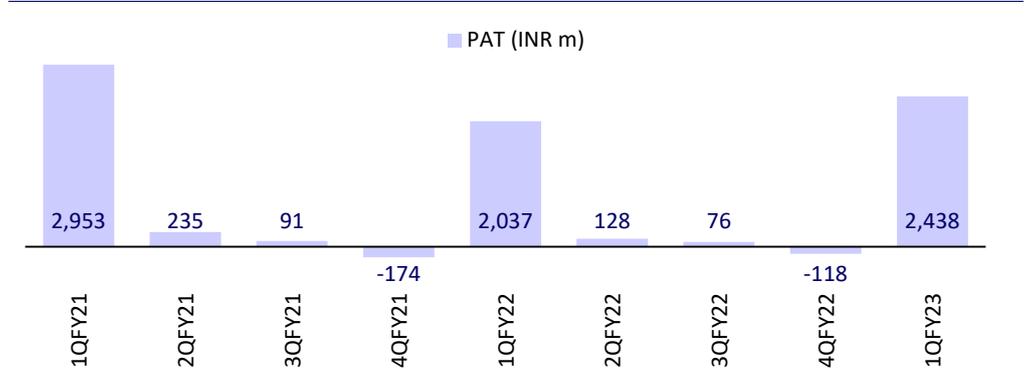
Source: Company, MOFSL

Exhibit 2: EBITDA margin trend



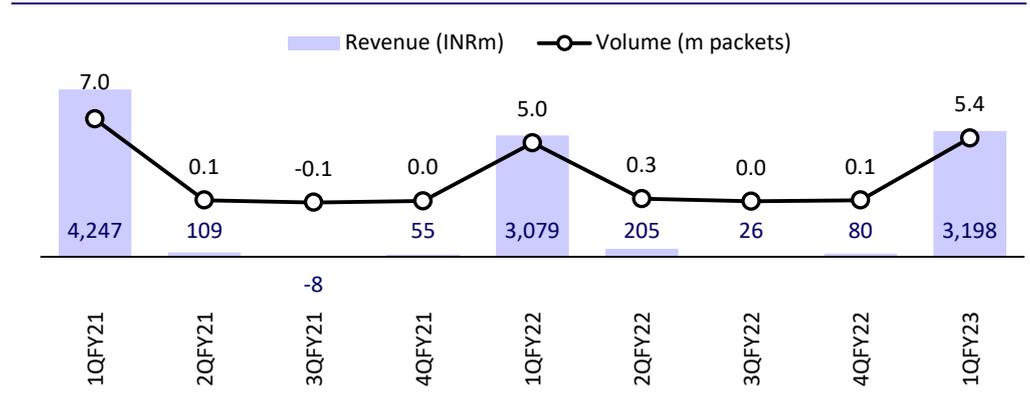
Source: Company, MOFSL

Exhibit 3: Adj. PAT trend



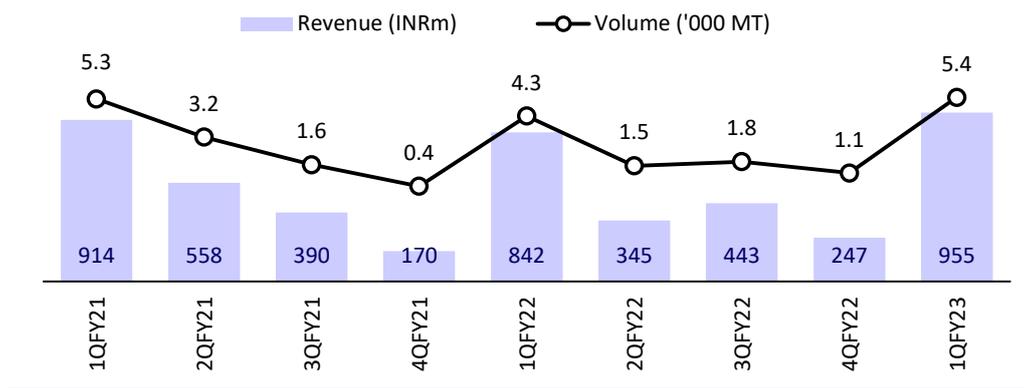
Source: Company, MOFSL

Exhibit 4: Cotton revenue and volume trends



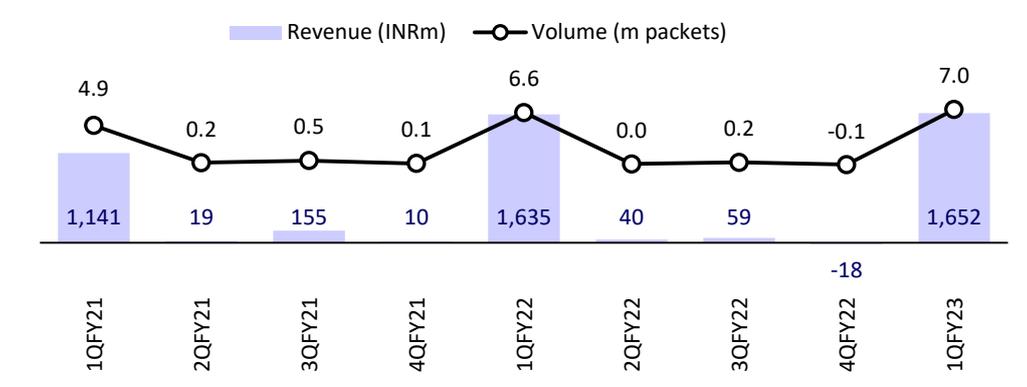
Source: Company, MOFSL

Exhibit 5: Maize revenue and volume trends



Source: Company, MOFSL

Exhibit 6: Hybrid rice revenue and volume trends



Source: Company, MOFSL



Highlights from the management call

Cotton

- KSCL registered volume growth of 8.33% in 1QFY23 in the cotton seed segment, with corresponding revenue rising 3.87% YoY over the same period.
- Prices of cotton per packet were up by INR40 YoY v/s last year, the company couldn't realize prices, but remains confident that discounts would be reversed in the next year due to lower illegal BT cotton share and better market sentiment overall.
- Growth was muted on account of increased competition in cotton due to smaller companies with lower realizations crowding the market, resulting in higher discounts given during the quarter and lower overall realizations
- Use of illegal cotton seed has come down and organized players have gained market share in cotton seed.
- Increased cotton acreage during the current year was driven by high cotton prices and market share gains.
- Higher area of Cotton acreage was reported from the states like AP, Maharashtra, Gujarat, Karnataka, Rajasthan, Orissa and Tamil Nadu and less area was reported from the states Telangana, Haryana, MP, and Punjab.
- Company maintained market share of 16% to 17% in cotton, further penetrating into Haryana and Punjab while increasing share in Gujarat and maintaining share in Telangana and Karnataka, although it struggled in Maharashtra.

Maize

- Maize seed segment reported 24.43% volumes growth and 13.46% revenue growth during the quarter. Revenues came in lower due to reduced government subsidy during the quarter.
- The contribution from new products in Maize rose to 28.62% from 18.08% of volumes.

Hybrid rice

- Hybrid Rice volumes increased 6.09% in 1QFY23 along with a 1.02% revenue growth to INR1.7b in 1QFY23. The acreage under hybrid rice was lower which had a marginal impact on revenues.
- Despite a 15% decrease in rice acreage due to rain shortages in some regions of the nation, KSCL has surpassed the market in terms of volume growth.
- The contribution of new hybrid rice products rose to 23.49% from 18.02%.
- Selection Rice volumes grew by 15.20% in 1QFY23.

Vegetables

- Vegetables sales revenue decreased by 2.54% in 1QFY23, with volumes growing by 25.90% in 1QFY23.
- KSCL continues to see encouraging growth in vegetable seed acreage, volumes and revenue growth.
- Under the other segments, sunflower has contributed to 80% to 90% of growth due to increased acreage as oilseed prices continue to rise.
- Sunflower contributed to INR230m in revenues v/s INR70m compared to the previous year. Management believes that vegetable seed growth would be more robust as compared to sunflower, during the year.

- Introduced mustard seeds in FY21 and are confident about the growth as oilseed prices continue to rise and government continues to provide a push.
- KSCL is working on adding wheat and soya to the portfolio.

Other highlights

- The company has achieved pre-covid level revenues and is aims to achieve better volumes and revenue during the year.
- Delay in onset of monsoon across India has impacted sentiments of the farmers.
- Kharif crop sowing was delayed, although there hasn't been any slip over of crop yield to the next quarter.
- KSCL is expecting double digit growth in Maize, Rice, sun flower and vegetables in the second half of the year.
- KSCL has introduced new variants across all segments and has witnessed a growing contribution from new variants across the segments.
- **Cash:** Cash stood at INR5.59b in Jun'22 v/s INR4.68b as on Mar'22 and INR5.60b in Jun'21.
- **Bad debt:** KSCL has granted an additional provision for INR130m on account of the MP government. The accumulated bad debt has fallen to INR430m v/s INR490m provided in 1QFY23.
- **R&D:** KSCL has a target to increase R&D by 15% to 20% and is setting up an INR350m facility over the next 3 years for bio-tech and genome tech.
- **Capex:** KSCL had purchased land in FY21 for office use purpose and remaining spends were incurred under R&D and agricultural land acquisition, spends were not more INR300m to INR400m.
- **Guidance:** The management has guided for growth of 10% to 15% in profitability over the next 3 to 5 years, with better Rabi season to benefit maize, vegetable and overall growth in the fiscal.
- **Exports:** Overall exports have contributed to INR190m in revenues, expecting exports to contribute to significant share in the next year.

Valuation and view

- KSCL is well on track to diversify from cotton seed sales by increasing the share of higher margin rice and vegetables, which are growing at a faster pace.
- KSCL's operating performance was better than our estimate.
- We largely retain our FY23E earnings while we cut FY24E earnings by 8% due to lower cotton seeds sales volume from 7m to 6.3m packets. We value the stock at 11x FY24E EPS to arrive at our TP of INR560 and maintain BUY.

Exhibit 7: Change in estimates

Earnings Change (INR m)	Old		New		Change (%)	
	FY23E	FY23E	FY23E	FY24E	FY23E	FY24E
Revenue	11,202	12,983	10,351	11,644	-8	-10
EBITDA	2,410	3,050	2,551	2,985	6	-2
Adj. PAT	2,514	3,172	2,634	2,933	5	-8

Source: MOFSL

Financials and valuations

Consolidated Income Statement									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	7,449	7,050	8,192	8,094	9,303	10,363	9,700	10,351	11,644
Change (%)	-35.9	-5.4	16.2	-1.2	14.9	11.4	-6.4	6.7	12.5
EBITDA	1,875	1,395	2,218	2,116	2,532	2,980	2,025	2,551	2,985
Margin (%)	25.2	19.8	27.1	26.1	27.2	28.8	20.9	24.6	25.6
Depreciation	274	302	251	230	257	222	209	200	237
EBIT	1,601	1,093	1,967	1,887	2,275	2,758	1,816	2,351	2,748
Int. and Finance Charges	2	2	6	5	5	5	1	1	1
Other Income - Rec.	131	344	237	430	456	457	413	340	374
PBT bef. EO Exp.	1,729	1,435	2,198	2,311	2,727	3,210	2,228	2,690	3,120
EO Expense/(Income)	0	592	0	0	0	0	0	0	0
PBT after EO Exp.	1,729	843	2,198	2,311	2,727	3,210	2,228	2,690	3,120
Current Tax	58	75	87	117	118	67	75	42	187
Deferred Tax	-3	-5	-3	20	10	31	25	14	0
Tax Rate (%)	3.2	8.3	3.8	5.9	4.7	3.1	4.5	2.1	6.0
Minority Interest	0.0	0.0	0.0	0.0	8.7	7.1	3.5	3.9	0.0
Reported PAT	1,675	773	2,114	2,174	2,590	3,105	2,125	2,630	2,933
PAT Adj for EO items	1,675	1,316	2,114	2,174	2,590	3,105	2,125	2,630	2,933
Change (%)	-44.4	-21.4	60.6	2.8	19.1	19.9	-31.6	24.0	11.3
Margin (%)	22.5	18.7	25.8	26.9	27.8	30.0	21.9	25.4	25.2

Consolidated Balance Sheet									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	138	138	132	126	121	121	117	117	117
Total Reserves	9,134	10,005	9,992	9,942	9,466	12,325	12,692	14,793	17,192
Net Worth	9,272	10,143	10,124	10,069	9,587	12,445	12,809	14,909	17,309
Minority Interest	-2	-7	-6	-6	2	10	13	13	13
Deferred Liabilities	0	0	168	202	182	157	168	182	182
Total Loans	16	46	29	68	58	16	11	6	6
Capital Employed	9,286	10,182	10,315	10,332	9,829	12,627	13,001	15,110	17,509
Gross Block	3,033	3,322	3,463	4,199	4,551	4,733	4,910	5,310	5,710
Less: Accum. Deprn.	1,018	1,320	1,571	1,800	2,057	2,279	2,489	2,688	2,925
Net Fixed Assets	2,015	2,002	1,892	2,399	2,494	2,454	2,421	2,622	2,785
Capital WIP	197	340	376	384	185	311	435	207	233
Total Investments	5,064	6,569	6,226	5,096	3,839	5,990	5,166	7,066	8,866
Curr. Assets, Loans&Adv.	6,327	6,358	6,153	7,626	9,255	10,850	10,751	11,730	12,959
Inventory	5,044	4,478	4,428	5,612	6,391	7,195	7,606	7,799	8,294
Account Receivables	804	854	859	846	1,180	1,057	1,107	1,163	1,308
Cash and Bank Balance	94	210	139	87	81	141	201	387	679
Loans and Advances	386	817	727	1,081	1,603	2,457	1,837	2,381	2,678
Curr. Liability & Prov.	4,320	5,095	4,340	5,180	5,957	6,993	5,801	6,542	7,361
Account Payables	4,237	3,026	2,202	2,411	2,669	3,584	2,297	2,919	3,286
Provisions	83	9	116	72	68	117	160	207	233
Other current liabilities	0	2,060	2,022	2,696	3,221	3,291	3,344	3,416	3,842
Net Current Assets	2,007	1,263	1,814	2,446	3,297	3,857	4,950	5,188	5,598
Appl. of Funds	9,286	10,182	10,315	10,332	9,829	12,627	13,001	15,110	17,509

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)									
EPS	28.7	22.6	36.2	37.3	44.4	53.2	36.4	45.2	50.3
Cash EPS	33.4	27.8	40.5	41.2	48.8	57.1	40.0	48.6	54.4
BV/Share	159.0	173.9	173.6	172.6	164.4	213.4	219.6	255.6	296.8
DPS	5.0	3.0	3.0	3.0	3.0	4.0	3.9	7.7	7.7
Payout (%)	24.7	32.2	11.7	11.3	9.5	8.8	12.5	20.1	18.1
Valuation (x)									
P/E	16.8	21.3	13.3	12.9	10.8	9.0	13.2	10.7	9.6
Cash P/E	14.4	17.3	11.9	11.7	9.9	8.4	12.0	9.9	8.9
P/BV	3.0	2.8	2.8	2.8	2.9	2.3	2.2	1.9	1.6
EV/Sales	4.1	4.3	3.7	3.8	3.3	2.9	3.1	2.9	2.6
EV/EBITDA	16.2	21.6	13.6	14.3	12.0	10.2	14.9	11.8	10.0
Dividend Yield (%)	1.0	0.6	0.6	0.6	0.6	0.8	0.8	1.6	1.6
FCF per share	37.1	26.8	23.8	8.5	29.3	36.6	13.7	44.9	45.0
Return Ratios (%)									
EBITDA Margins (%)	25.2	19.8	27.1	26.1	27.2	28.8	20.9	24.6	25.6
Net Profit Margins (%)	22.5	18.7	25.8	26.9	27.8	30.0	21.9	25.4	25.2
RoE	19.9	13.6	20.9	21.5	26.4	28.2	16.8	19.0	18.2
RoCE	21.2	16.0	22.5	24.2	28.9	30.0	18.4	19.8	20.5
RoIC	42.0	33.8	61.5	47.9	45.4	47.7	28.4	32.8	38.4
Working Capital Ratios									
Fixed Asset Turnover (x)	2	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	0.7
Inventory (Days)	247	232	197	253	251	253	286	275	260
Debtor (Days)	39	44	38	38	46	37	42	41	41
Creditor (Days)	208	157	98	109	105	126	86	103	103
Working Capital Turnover (Days)	94	55	75	106	126	131	179	169	154
Leverage Ratio (x)									
Current Ratio	1.5	1.2	1.4	1.5	1.6	1.6	1.9	1.8	1.8
Interest Cover Ratio	670	453	326	345	476	546	1,425	2,397	3,779
Debt/Equity	0.0	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	FY24E
Net P / L Bef. Tax and Eo Items	1,729	1,435	2,198	2,311	2,727	3,210	2,228	2,690	3,120
Depreciation	274	302	251	230	257	222	209	200	237
Interest & Finance Charges	2	2	6	5	5	5	1	1	1
Direct Taxes Paid	58	75	87	117	118	67	75	42	187
(Inc)/Dec in WC	407	860	-621	-1,150	-952	-852	-1,261	-52	-118
CF from Operations	2,355	2,525	1,747	1,279	1,918	2,519	1,102	2,797	3,052
EO Expense	467	-245	0	0	0	0	0	-4	-4
CF from Operating incl EO	2,822	2,280	1,747	1,279	1,918	2,519	1,102	2,793	3,048
(inc)/dec in FA	-262	-432	-177	-744	-153	-308	-301	-172	-426
Free Cash Flow	2,560	1,848	1,570	535	1,765	2,211	801	2,621	2,622
(Pur)/Sale of Investments	-2,114	-1,505	343	1,130	1,257	-2,151	824	-1,900	-1,800
Others	-4	-5	2	438	21	286	138	0	0
CF from Investments	-2,380	-1,943	168	824	1,125	-2,173	661	-2,072	-2,226
Issue of Shares	-5	0	-2,000	-2,000	-2,404	0	0	0	0
(Inc)/Dec in Debt	2	30	-18	39	-10	-42	-5	-5	0
Interest Paid	-2	-2	-6	-5	-5	-5	-1	-1	-1
Dividend Paid	-414	-249	-247	-247	-247	-274	-265	-530	-530
CF from Fin. Activity	-415	-221	-1,985	-2,156	-3,049	-285	-1,703	-536	-530
Inc/Dec of Cash	28	116	-71	-52	-6	60	61	186	292
Add: Beginning Balance	66	94	210	139	87	81	141	201	387
Closing Balance	93	210	139	87	81	141	201	387	679

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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