

From Research Desk

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<i>Stock</i>	<i>Industry</i>	<i>Recommendation</i>	<i>CMP</i>	<i>Targets</i>
KSCL	Miscellaneous	Buy around 550---530	553	680---773+

IMV Equity Research Desk

www.indianmarketview.com

research@indianmarketview.com

0120-654-6555

KSCL

Recommendation: Buy

Kaveri is one of the fastest growing seed company in India with a large network of over 15,000 distributors and dealers spread across the country. With over 700 employees and a strong product line of hybrids. KSCL is one of the leading players in seeds industry with dominant poisonings in most of the key crops: cotton (20% market share), Corn (~13% market share), Bajra (13% market share) and Rice (~9% market share). With one of the largest anthology of crop germplasm in the country, Kaveri's draught and disease resistant as well as high yielding hybrid and varietal portfolio includes Cotton, Corn, Rice, Jowar, Bajra, as well as vegetable such as Tomato, Okra and gourds.

Stock Info	
BSE Code	532899
NSE Code	KSCL
CMP	553
Face Value	2
Market Cap(Cr.)	3796.65
Beta	1.33
Book Value	131.30
EPS	22.58
PE Ratio	22.55
52 Week High	552
52 Week Low	300

- Standalone Revenues de-grew by 2.7% YoY to INR 679mn in 3QFY17. The revenue growth was impacted due to lower maize volume and lower revenue from Government buying.

- In 9MFY17, Gross Revenue contribution: Cotton: INR 4,120mn down 16.8% YoY due to high reduction in hybrid cotton seed price ~15% YoY (Volume fell by 4% YoY), Maize: 1,880mn, up 26.2% YoY and Paddy: INR 760mn.

- Company reported an EBITDA of INR 34mn down 79.1% YoY due to higher CSR expenses of INR 52.2mn compared to INR 5.5mn in 3QFY16 and higher write off worth INR 70mn (mostly in sunflower seed). Depreciation expense de-grew 8.7% YoY INR 69mn and other income grew significantly by 318.4% YoY to INR 101mn. Higher other income has resulted in higher capital gains tax resulting in higher tax outgo, tax expenses stood at INR 30mn Vs. INR -7mn in 3QFY16. Net Profit stood at INR 36mn in 3QFY17 down 69.7% YoY.

- As of Dec 31st 2016, Cash + current investment stood at INR 5.38bn (40% of asset); and the management have highlighted their intent to distribute part of the cash to shareholders either as special dividend or buyback.

- Company is witnessing higher traction for its newly launched hybrids. Crop-wise new hybrids to be scale up in FY18; Cotton (1), Maize (1), millet (3) and Paddy (2).

Investment Rationale

- The performance of cotton varieties like Jaadoo and ATM has been better than competition. The company intends to scale up certain hybrids in FY18:
- 3 new cotton hybrids under demonstrators with farmers with 1 hybrid to scale up in FY18.
- 3 new hybrids launched in maize for Kharif season with 1 hybrid to scale up in
- FY18 and 2 new hybrids to be launched in upcoming Kharif.
- 3 new hybrids launched in pearl millet and Scale up of all 3 hybrids.

- 1 new hybrid launched in hybrid rice and research rice each and both to be scaled up in upcoming Kharif and 1 new hybrid and 2 new research variety to be launched.
- The average prices of cotton across key states have increased by average 17% in Jan 2017 on YoY basis and ~6% on QoQ basis. Against this, prices of Pulses and Soyabean have dropped.
- This is expected increase cotton acreages by 10-15% in upcoming kharif season. Additionally, cotton yields are projected to be higher by 10-12% YoY which shall aid increase in acreages.
- Management expects cotton seed segment to rebound to deliver 10-15% growth, aided by sharp recovery in cotton prices and low base.
- According to the management of the company, it foresees steady progress towards the execution of its growth oriented strategy outlined around market penetration, investment in solutions and platform for client successes and strategic focus on its cloud business.
- Demonetisation will be good for the organised players in the long-run. As for their business it only had a very limited impact, says Kumar.

Valuation and view:

In FY17, cotton sowing has been below normal, and overall acreage declined 12% with a sharper impact in AP (-29%) and Telangana (-27%). Since the price of cotton has increased sharply, we expect the acreages for the same to go up. The impact of demonetization is also now behind us. We continue maintaining estimates, with earnings growth of 22%/26% for FY18E/FY19E. We value the stock at 16x FY19E EPS.

The stock is trading at its good support level with good fundamental records and is expected to move up from this level. It made a 52 week low of Rs.300.00 and 52 week high of Rs.552. Buy around 550---530 with the target of Rs.773

Risks: Kaveri has high concentration risk and derives ~65% of its revenue from cotton seeds and lint.

Most seed companies including Kaveri report their earnings as agricultural income; hence they don't pay corporate tax. Any change in tax law could adversely affect the company's profitability and the return ratio

Technical Aspect



KSCL is finding support at 460 and resistance at 540. On weekly chart, KSCL is forming double bottom pattern while trading above 21 and below 55 days exponential moving average which is at 494 and 469 respectively while RSI and MACD too showing positive divergence which indicates that upper side seems certain in it. KSCL is likely to touch 50% and 61% projection level which stood at 680 and 773 respectively. Three consecutive close + weekly close above 540 will see nonstop rally in KSCL till 680---773+ mark in days to come.

Traders don't go for aggressive or positional selling at all because trend looks positive and we expect rally to remain continue till 680---773+++mark in coming weeks. For positional trade, stop loss seeing below 460 on closing basis which in unlikely to breach in near terms.

Recommendation:

Traders can buy and accumulate

Buy KSCL Future or cash around 550---530 for the initial upside target of 680---773++ mark with stop loss below 460 on closing basis.

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