



## Kaveri Seed Company Limited Q3 FY20 Earning Conference Call Transcript February 06, 2020

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**Moderator:** Ladies and gentlemen, good day and welcome to the Kaveri Seed Company Limited Q3 and 9 months FY20 earning conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

**Rishab Barar:** Good afternoon everyone and thank you for joining us on Kaveri Seed Company Limited's conference call. We are joined today by Mr. Mithun Chand, the Executive Director.

Before we get started, I would like to point out that certain statements made or discussed on the conference call today may be forward-looking in nature and must be viewed in conjunction with the risks we face. The company does not undertake to update them. A statement in this regard is available for reference in the presentation.

We will begin the call with opening remarks from Mr. Mithun Chand who will share updates on the market environment and take you through the strategic imperatives of the company. He will also share his thoughts on the performance of the company during the review period. We will then have the forum open for an interactive question-and-answer session. Now, I would like to invite Mr. Mithun Chand to share his views. Over to you, sir.

**Mithun Chand:** Thanks, Rishab. Good day everyone and very warm welcome to all of you. The first 9 months, I have seen a good performance and strong revenue growth by about almost 15% and on quarter 3 financial year 20, the growth was 46.53%. The operating EBITDA margins excluding other income stood at 6.82% in quarter 3 FY 20 versus 0.18% in quarter 3, 19. Operating EBITDA growth for 9 months has also been noticeable and stands at 18.8%. On a consolidated basis, revenue has grown 43.91% in quarter 3 FY20 and 14.70% in 9 months FY20. Operating EBITDA margin stand at 8.5% compared to a loss in quarter 3 previous year. In 9 months for the current year, operating consolidated EBITDA growth stood at 22.1%, margins were



30.6% for 9 months of 20 compared to 28.78% compared to the previous year 9 months of 19.

Coming to the crops, we have witnessed an increase in acreages of cotton over last year. All other crops including Maize, Rice, Jowar and Bajra have shown some increase in acreages.

A little detail figure for the main crops of cotton and maize:

Overall, the cotton market has remained stable. The Rabi, Maize area has gone up in some states like Andhra Pradesh, Telangana, Bihar, Maharashtra and Karnataka. This is mainly due to good rains and better commodity prices. Where our crop wise performance is concerned, cotton volumes increased by about 18% in the first 9 months. Contribution of new products went up from 14% to 22% of volume. Money Maker was up across the market this year. Two new cotton hybrids are under demonstration with farmers. Performance of Money Maker was appreciated by farmers across market. Though Maize volumes were down by 3% in the first 9 months, the revenue was up 12% which was due to product mix and price gain. Non-cotton business has grown significantly by about 16%. It has been driven by volume growth in new hybrids and also price appreciation in three products. Hybrid rice volumes increased by 57% in the first 9 months. Introduction of new hybrid paddy 468 has helped translate to strong growth. In selection rice, there has been consistent performance across geographies.

In Q3 FY20, the revenue stood at Rs. 98.4 crore as against Rs. 67.18 crore in quarter 3, FY19, a growth of 46.53%. We had a strong operational performance. The operating EBITDA margins stood at 6.82% in financial year versus 0.18 in financial year 19. The other income component was low compared to previous corresponding quarters. In quarter 3 financial year 20, the EBITDA including other income stood at Rs. 14.43 crore as against Rs. 10.71 crore in quarter 3 FY19. In quarter 3 FY19, PAT was at Rs. 3.64 crore. In quarter 3 financial year 20, PAT was at Rs. 6.04 crore. In 9 months financial year 20, revenue stood at Rs. 931.33 crore as against Rs. 724.26 crore in the 9 months corresponding previous year, a growth of 14.78%.

The other income component was lower compared to previous 9 months. In 9 months 20, the EBITDA including other income stood at Rs. 266.32 crore as against Rs. 251.99 crore in 9 months financial year 19. In 9 months financial year 19, PAT was at Rs. 226.16 crore. In 9 months financial year 20, PAT stood at 241.91 crore. The balance sheet continues to remain strong. The total cash on books as on December 31st 2019 is Rs. 431 crore and as against Rs. 462 crore as on 31st March 2019 and Rs. 389 crore as on 31st December 2018.

We are happy with the way things are moving forward. We feel that commodity prices will continue to remain higher now keeping the farmer sentiment happy. We would like to add that our continuous focus on research continue to innovate and develop new products or crops or the outlook of vegetable like hybrid tomato, hot pepper, bitter gourd are positive.

On that note, I conclude my opening remarks. We would be happy to give our perspective at any questions that you may have. I would request the operator on this call to open question and answer session. Thank you.



**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Veeraj Kacharia from Securities Investment Management. Please go ahead.

**Veeraj Kacharia:** Basically, I had couple of questions on rice and maize. Starting with maize, just trying to get some idea of how the industry would have grown, say in Q3 or just in first 9 months, both in terms of volume and price, if you can provide some colour on that. And second, where is the growth coming for the industry, is it largely in our core markets because we have been introducing new products quite some time and even in the first 9 months we have seen a good acreage increase in our core markets, but somehow the volume performance for us has been quite muted, so just trying to understand where is the difference?

**Mithun Chand:** If you take two crops basically rice and maize, if you take rice, as an industry, it has gone up by 7-8% in terms of the hybrid rice market, not in terms of the acreages but in terms of the hybrid rice market, it has gone up by 7-8% whereas as a company at Kaveri, we have grown by more than 55% in hybrid rice, so that is a very good growth. We have increased our market shares, basically the hybrids are performing well. And going forward also, we have introduced two more hybrids in two more segments, which is in the demonstration level and we are pretty confident that beating more than the market more than the growth of the industry is quite possible with us with the pipeline hybrids and the present set of hybrids. Coming back to maize, yes, the maize acreages has increased this year basically in the second half when compared to the first half as the monsoon was good and the Rabi acreages have come up very well. Even though it looks like we are down by 3% in terms of the volumes, but in fact we have reduced the government business. Compared to previous year, we have reduced the government business by more than 60%. I mean to say that the government businesses is like you participate in some tenders which is a onetime sale and this time we have not participated cautiously because we were not having those type of inventories for participating it. So, if you take the normal trade market in the areas where we operate leaving the government business but we have increased our market shares and most importantly, we have increased our market shares in areas like Maharashtra, Bihar, parts of UP and the other part where we are not strong. That is the reason you see a change in the product mix and the other important point to notice is that like we have increased our revenue by 12% even they are down by 3%. That is where we have seen the entire market shares.

**Veeraj Kacharia:** Just two followups. Sir, for maize, is the impact of government business completely out now or we still have some government business and how big is the government tender market typically?

**Mithun Chand:** No, it is a big market, but that all depends on the company whether to participate with it or not because that is not a continuous business. That is a onetime business. Sometimes you get couple of years or three years based on your tonnes and your offerings but this time we thought that we will not go and it is a low margin business actually when compared to the local market. And as a company we take a call in the season based on our inventory, based on the price.

**Veeraj Kacharia:** How the industry would have grown in maize?



**Mithun Chand:** Industry should have been, overall the seeing the acreages and the whole industry should have gone by 8 to 10%.

**Veeraj Kacharia:** Overall value terms?

**Mithun Chand:** Not value terms, in terms of the volume. Value, we don't track value assets, we track volume because in most of them, it will be a mix of those two things.

**Veeraj Kacharia:** And on rice, you said that we have got a good traction for the new launch, the view of hybrid variety we launched, so how does it differentiate into value proportion versus existing offering by us or other market offerings and which target states where we are kind of gaining this traction?

**Mithun Chand:** So, in terms of the rice, basically when the hybrid is gaining market share, it clearly shows that we are ahead of the existing hybrid, basically they measured through yields, so we have one of the best performing hybrids there. That is the reason we are increasing market share and if you take the entire hybrid market, basically the hybrid market is there in UP, Jharkhand, Chhattisgarh, these are the markets where most of the hybrid rice markets are concentrating and we are having the market shares in those areas. Even though we are selling in all other parts, but these are the major areas which contribute the majority of the hybrid rice markets.

**Veeraj Kacharia:** Has there been any further progress in terms of new launches in tapping the Punjab or Haryana market either by us or any other players in the industry?

**Mithun Chand:** It has been a continuous activity. We always launch new hybrids in different segments and where we are not present and we try to improvise our own hybrids or to increase the yield in the segments where we operate but for example like Punjab or Andhra, we are still trying it but these are much matured markets. But if you take out the other markets like in these two markets, there are huge markets to grow. If you take overall hybrid rice, only 3 to 3.5 million hectares is hybrid out of 4 million hectares, so there is huge scope to grow. We are working on that company and not only Kaveri, entire industry is working on that segment and that is the reason we see a decent growth in hybrid rice market and I think the growth will continue going forward.

**Veeraj Kacharia:** So, on rice, just to followup this new variety which we have seen a good traction, basically I tried to ask earlier sir, I am just trying to understand where is the value proposition? What the product does differently than the other existing offerings?

**Mithun Chand:** Basically, when you talked about the product, in terms of the yield, it needs to withstand the current conditions, sometimes it needs to be disease resistant or drought tolerant, I mean that is not exactly drought tolerant and made it should be a drought tolerant whereas here by withstanding the conditions, by the disease resistant, you need to get more yield. In the present condition, if some of the hybrid is performing better than the existing one, then the farmer prefers to go for the hybrid which is giving a more yield. In our case, in those segments, our hybrid is really doing well. That is the reason the farmers are adapting it.



- Veeraj Kacharia:** And even the two new hybrids which you talked about, they also primarily we targeted towards the existing hybrid markets, right, the UP, Bihar and the like?
- Mithun Chand:** Existing hybrid markets, but there are different segments. I mean it is a different segment in the sense they are early maturity, medium maturity, late maturity, slender, bold, there are different segments in that. So, the new hybrid what we are launching are not from the same segment, they are from the different segment.
- Veeraj Kacharia:** And for maize, just had two more questions sir. What we understand typically the Rabi or the spring is the area where we have a gap in the portfolio, so now how would have market share been now?
- Mithun Chand:** Because I don't think it will change significantly but yes to some extent if you see the contribution from quarter 3 compared to last year, it has gone by more than 45-50% but we need to understand the fact that the first quarter will be a major quarter, as I said most of the India is under rainfed conditions and most of the cotton crop comes in the first quarter itself. So, that dominance will be there, but if you take out cotton and if you only compare maize, the maize contribution in the first half or you can say the first half to second half it can be comparable.
- Veeraj Kacharia:** So, basically that was my question was. See, the whole idea is that we are trying to also build a non-cotton portfolio and maize, rice is one of the core pillars of this?
- Mithun Chand:** And even the vegetables, even if you see the vegetables also we are growing. Vegetables is down the year and that basically comes from quarter 3 and quarter 4.
- Veeraj Kacharia:** Hence I was just trying to understand because traditionally what we understand, when we say Rabi or spring means the MNCs are the ones who typically have a very strong hold on those markets and in the past, various players including us have tried to launch but we have very limited gains in terms of the market share. So, just trying to get a flavour in terms of how has the traction been actually.
- Mithun Chand:** That is very much visible in the sales this year. Basically, if you recollect our calls in the last 3 or 4 years, we are always saying that we are targeting newer markets where we are launching the hybrids. The growth in those hybrids which we have launched in the last 2 to 3 seasons is actually reflecting now and we further feel that there is a huge scope to grow in those areas because hybrids are doing well. As rightly said, these are all dominated with some of the MNCs and if you say we are the only company in India who are giving or competing with MNC in these crops and that is how we stand differentiate from the other domestic companies. And as a company, we are basically focusing on the South condition, basically in the rainfed conditions. In the last 7-8 years, we have started focusing, little more than 7-8 years close to 10 years, we started focusing on the Rabi and these markets. Now, slowly we are getting hybrids in those markets. As you know it is very difficult get a launch in the first go, so we took some time to get the gains in these markets and now we are pretty confident by seeing the pipeline and by seeing the existing hybrid that we grow. For example like we said like we are



launching some hybrids in spring market which we have never done earlier, even though we are strong and we are almost there in the top 3 players, in maize we never targeted these type of markets. Now, we are launching these hybrids that is the reason we strongly believe that we will go in these markets and the effort what we have gone in the last 5-7 years and done for the maize breeding, we have spent a lot in R&D to develop these type of hybrids and that is why you see the product mix also. That is where it is changing. These are high price and high margin markets. That is the reason we want to target this but now I think we are in line to those things.

**Moderator:** Thank you. The next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

**Karthi Keyan:** How is the cotton outlook for next season, what is the seed inventory you are looking at?

**Mithun Chand:** I think the cotton acreages will be stable. I don't see much of a movement compared to this year because the cotton commodity price is good and later half, we have seen some impact due to pink bollworm in terms of the yields at the commercial level, but I don't think the sentiment is bad with the farming community. This area should remain. Here and there, some areas we think like for example, in Gujarat, we think it may go down to some extent next year, but in Telangana, in Maharashtra it may remain same. So, overall, I think it should remain a little sideways here and there.

**Karthi Keyan:** And how is your preparation in terms of inventory?

**Mithun Chand:** We have built up inventory for the next year. I think at least as we suggested earlier, 10 to 15% growth what we are anticipating, and we are in line with those. As of now, with the present condition, we think we can go into 10-15% for sure and to cater that we have enough inventory what we have produced. The inventory is still at the arrival stage, but the plan what we have taken I think we will have enough stock to do that.

**Karthi Keyan:** And there was no impact on seed output for you or for the industry because of these untimely rains and so on?

**Mithun Chand:** There will be some but basically, we plan in advance, we have some sort of buffering to do it. So, by seeing the present conditions, even our crops have been impacted especially by seeing bollworm and untimely rain, but some 5 to 10% loss will be there for sure, but we have that buffering and that is all we plan for entire crops. Sometimes we get more, sometime we get lower, but we have that buffering plan but by seeing the present condition, the part of it already has arrived into the system and I think we have enough, so we should not stop. Inventory should not be a concern for our growth.

**Karthi Keyan:** And what is the outlook for advances?

**Mithun Chand:** We have just basically for the advances, for cotton we have started a bit delayed compared to previous year. Usually, we used to start in the month of December that we have postponed that to the month of December - end of February. Cautiously we have taken that note because as we are taking more advances, we need to give more discounts to dealers, so we have just



postponed by 2 months. Now, we are taking the advance but if you take the advances by 31st March compared to previous year 31st March, it should be in line with that.

**Moderator:** Thank you. Next question is from the line of Abhijit Akella from IIFL. Please go ahead.

**Abhijit Akella:** On the quarter, one question was about subsidiaries performance. We seem to have seen significant improvement in profit from the subsidiaries, so if you could comment on whether this was in the seed subsidiaries or is it the micronutrients business?

**Mithun Chand:** If you see in the subsidiary business, even though it is small, like for example the Aditya and Microtek, both have contributed to some extent for their profitability, even though that is small but if you see the Aditya sale, we are up by 30 to 40% in that and in terms of the Microtek profitability, we are up by other 30 to 40% in that. So, even that was smaller base that is the reason the percentages look higher, but even now going forward we think even the subsidiaries did contribute much because we have stabilized the entire business. As the business grows because most of the expenses are the same, the profitability should increase.

**Abhijit Akella:** And within the standalone business this quarter's revenues, other than maize, rice and cotton, it seems that this Rs. 36 crore is coming from all the other seeds put together, so if you could give some colour on which are the major categories from which this has come, vegetables or any other?

**Mithun Chand:** See basically, cotton, maize and vegetables have contributed to the majority of it. For example, if you take paddy, maize, cotton and vegetables have contributed close to Rs. 73-74 crore. The other crops like sunflower, a bit of bajra and a bit of pulses, mustard, wheat and everything and some production sales are also there in it, so this all contributed to Rs. 25 crore but if you take the other income, the total sales for this quarter stood at Rs. 98 crore, out of which close to Rs. 54 crore is contributed in the maize alone and vegetables contributed close to Rs. 7 crore.

**Abhijit Akella:** And on a full year basis, how much vegetable sales are we hoping to achieve?

**Mithun Chand:** Last year, we have done roughly around Rs. 14 crore. This time, we think that at least we have already done close to Rs. 15.5-16 crore and fourth quarter is usually the better quarter for vegetables in the crop where we operate especially like okra, so we think that we will grow at least in and around that Rs. 25 crore.

**Abhijit Akella:** Rs. 25 crore for this year?

**Mithun Chand:** Yes, against Rs. 13-14 crore last year, we should end up between Rs. 22 and 25 crore and we are hoping better results in vegetables, but it is too early to predict on that but we have very good hybrids, we are working really hard in vegetables and we have stabilized with market also now and we have identified hybrids. We have launched many new hybrids, we will definitely



going forward in the next 3 to 5 years, vegetables will be a very meaningful contribution to the bottomline as the margins are pretty high in vegetables.

**Abhijit Akella:** And one other thing, hybrid rice prices you mentioned in your opening remarks that they are up 57% YTD if I am not mistaken?

**Mithun Chand:** No, I said the volumes are up by 55% not the price.

**Abhijit Akella:** Out of the 65% revenue growth we have seen, 57% is from volumes?

**Mithun Chand:** Basically, majority of that is from volume and usually every year we increase the price of 1 or 2%. So, for hybrid rice, majority is from the volume growth.

**Moderator:** Thank you. We take the next question from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

**Chirag Dagli:** Sir, how has profitability in cotton moved for this year versus say a couple of years back?

**Mithun Chand:** Cotton in terms of the per packet margin, it all remains same, slightly up by Rs. 10 or Rs. 15 but as we are increasing the volume, the profitability in the cotton crop is also going up because all the other expenses are same, basically the plant operations and everything. That is the reason you see as combined as a whole if you only talk about the EBITDA margin, it has gone much better than the topline.

**Chirag Dagli:** Versus say in the past when we were selling about a crore packets and now we are selling much less?

**Mithun Chand:** We can't compare like apple to apple. We need to see the points like where the price was at Rs. 930, the Royalty was at Rs. 170, now the price itself is close to Rs. 730. The margins have definitely been squeezed from 3 years back to now. The margins have definitely considerably down in terms of cotton. Cotton was a very lucrative business when 4 years back, it is not right now but if you see compared to previous year to this year, we have slightly improved our margins.

**Chirag Dagli:** And the reason for that is the cost of production?

**Mithun Chand:** Not exactly the production. Once the Royalty is down compared to previous year by Rs. 8 to Rs. 9 and the distributor, we have given lower discounts. That is the reason if you say one of the questions answers saying that we have postponed advance bookings for quarter. Once we take the amount, we need to give more discounts. We know that the product will definitely sell and if you take advances, even the channel will not be satisfied if you take advance and don't give this chance. So, we have just postponed it. So, we are trying in all ways to increase the profitability in cotton whereas other crops, we enjoy margins that is not a worry at all. Even in production also, we are trying techniques where we can reduce the cost.

**Chirag Dagli:** And the non-cotton piece continues to be higher margin than company average?





**Mithun Chand:** Yes, because cotton is driving the margin. If you take cotton out, non-cotton will have a very good margin.

**Chirag Dagli:** And second question was on the R&D bit sir. If you can just talk a little bit about what you are doing now especially in Biotech etc., what R&D effort is going on and how soon can we see results?

**Mithun Chand:** We have already invested a lot in R&D and still we are probably continue to invest on that. If you see our R&D, it is more than 160 people as of now, more than 160, close to 170, every day we are hiring in R&D and recently we have launched Biotech plant because the breeding techniques have moved on and we want to combine the additional breeding into biotechnology. So, we are already working on this and now you see the results also and we are adding many crops in that. For example, in the last when we are talking about 6-7 years back, we are talking about vegetable breeding activity, later we said maize breeding activity, now we are launching new hybrids in rice. Within the rice within new segments, so everywhere we are increasing our scope and we are doing excellent work in R&D and we are pretty confident that we will be coming out with some new products going forward.

**Chirag Dagli:** You said sir, 160 people in R&D?

**Mithun Chand:** Yes, more than 160 people.

**Chirag Dagli:** Versus say a couple of years back where would this number be?

**Mithun Chand:** It was around 110-115, some few numbers here and there but 110-115 definitely we are up by 30-40% in the last 3-4 years.

**Chirag Dagli:** And what is your annual spend sir on R&D now that we have got fully blown Biotech center as well?

**Mithun Chand:** There are two aspects in that. One is the recurring and one in the capital thing. If you take the capital expenditure, last we invested close to Rs. 10 crore to Rs. 12 crore in the Biotechnology lab, but most of the assets are our own. That is the reason that we will not reflecting in the actually capital spending. For example, lands are our own lands, the building where we have constructed the entire there was a huge band in the plant premises, and we have constructed a Biotech lab. If you want to construct that plant by taking the land and everything, it should be close to Rs. 40 odd crore. So, if you take out the capital expenditure which we can't compare because anyhow is our company owned asset, so we don't do it but the actual money spend in providing getting the lab is close to Rs. 10 to 12 crore and moreover that, the R&D expenses are close to around Rs. 23 or 25 crore, I just need to get back to those exact numbers, but we are considerably increasing the R&D spend year-on-year.

**Chirag Dagli:** And this Rs. 25 crore should go meaningfully up from here as well or do you think now it is stable?

**Mithun Chand:** It will go but in the last 3-4 years, it has gone up much than what we have grown as a topline but going forward as we are increasing more, it should not be proportionately there because most of the asset is our own asset what I



have said and only the manpower cost is what we need to add to it. The manpower cost should be negligible, but I mean to say definitely there will be increase in the staff and as I said that we don't work on the gene technologies which is not capital expenses. Most of the work what we do is like breeding activity which is not that high. It doesn't take much capital expenditure. Its only cost is the employee cost that should be in proportion to that.

**Moderator:** Thank you. Next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

**Rohit Nagraj:** Sir, on the vegetables front, you just mentioned that this year, we made touch about say, Rs. 25 crore which gives year-on-year growth rate of about 70%, how do you foresee growth for FY21 onwards given that the base has now increased to Rs. 25 crore?

**Mithun Chand:** Basically, because of the small base, it was like 60-70% but if you take Rs. 25 crore at the base, definitely we think that we can go in between 30+% year-on-year for the next 3 to 5 years because vegetable market is a very big market and we have very good products and the segments where we are operating like hot pepper or hybrid tomato or okra, these are the major contributors of the vegetable markets and we have very good pipeline hybrids in those sector. So, 30% with the baseline of Rs. 25 crore year-on-year in vegetable should not be an issue for the next 3 to 5 years.

**Rohit Nagraj:** Sir, on the cotton front, you have said that there are two cotton hybrids which are currently under demonstration, so any idea about how the results have been and when those would be commercialized, is there any potential?

**Mithun Chand:** It is in the initial stages, but initial looks are good. That is the reason we are saying that where we have demonstrated, I mean that feedback is really good but we need to test that in volumes which we are pretty confident that we will do. Basically, these hybrids are supports in Northern India where we are not present, so definitely we think that it will have some sort of an impact in the next 2 to 3 years in terms of these new launches.

**Rohit Nagraj:** And on a strategy perspective, so the last 3 years we have taken buyback to reward the shareholders and from next year onwards again our cash flows will be stronger, so from a relatively longer term strategy what is our thought process that will be going only for buyback or may be for acquisition or diversification, so just a broader strategy from the management perspective?

**Mithun Chand:** Basically, we were saying the same thing for the last 5 years as we said that we require 300 crore of war chest and over and above that whatever we have we want to reward the shareholder that we are continuing it. Yes, one point if you really see the meaningful business, any capital deployment will do it, but as of now we don't have anything to deploy it and as a business it is not that capital expense, most of the infrastructure is already there. We can almost with a few crore of rupees year-on-year at the most for example, yearly Rs. 20 to Rs. 30 crore of CAPEX year-on-year, somewhere more or less compared to year-on-year, we think that we can grow our business by 15 to 20% year-on-year, so I don't think as a company we don't require much cash and as we were continuing to give the reward the shareholder might be in terms of the buybacks of the dividend. I think as of now, still our intention is to



reward the shareholders with subject to the board approval but in principle we want reward as we don't have any much use of this cash.

**Rohit Nagraj:** Just last question on FY21 guidance, so does the guidance persists 15-20% overall revenue growth in cotton, may be 10-15?

**Mithun Chand:** We still stick to the same guidance of 15 to 20% growth with cotton between 10 to 15% and non-cotton 20 to 25%.

**Moderator:** Thank you. The next question is from the line of Nandan Vartak from Wealth Managers. Please go ahead.

**Nandan Vartak:** My question is on rice market, so if you could give some number or size of volume or value whichever is available, or which would be helpful?

**Mithun Chand:** Yes, the hybrid rice market should be close to around 45,000 to 50,000 tonnes market as of now. I am talking about the hybrid rice market, not the entire market.

**Nandan Vartak:** So, what would be selection rice total market, so what I am trying to understand is percentage of hybridization currently?

**Mithun Chand:** So, if you take out that one, the total rice market is close to 43 million hectares, out of which roughly around 2 to 3.5 million hectares in hybrid rice. If you take it in that way, close to 40 million hectares.

**Nandan Vartak:** And seed requirement under hybrid and selection, it is similar to each other or is there a major difference between?

**Mithun Chand:** It is different. It is different from based on the area they do it, but the seed rates and seed required for acreage are altogether different.

**Nandan Vartak:** Can you quantify a bit?

**Mithun Chand:** That all depends like such in some areas, for normal varieties, some go with 30 kg, some go with 10 kg, some go with 6 kg. Hybrid rice usually is 3 kg, so it all depends.

**Nandan Vartak:** And if you could just give an idea about total vegetable seed market, so you said that it is a big market so what would be the range of market size?

**Mithun Chand:** The vegetable seed market should be in between Rs. 2500 to 3000 crore and it is increasing year-on-year. There are many companies who operate in vegetables. There are many smaller companies who do operate in vegetables. That is the reason there should be a slight difference in the market calculation but we think which should be in between Rs. 2000 and 3000 crore. I am just talking about the hybrid vegetable market.

**Nandan Vartak:** And hybridization would be higher in vegetables?

**Mithun Chand:** It is much lower, in some crops it is higher, in some crops it is very lower.

**Moderator:** Thank you. We take the next question from the line of Nehal Jham from Edelweiss. Please go ahead.

**Rohan:** Rohan here. Mithun, just first question is on this change in industry structure, you were talking about that now you have postponed the sale to the distributor and waiting more closer to the season while earlier historically, this have been more driven by the distributor booking in the month of November, December and that used to drive cash flows for the company and also used to ensure the sale in the mid season. As of now, there is a change in strategy, I understand that you are doing this to go away with the cash discount which you used to offer to the dealers and distributor but that also increases the risk in terms of market penetration or in the peak season we may losing out on sales if the product is not rightly placed in the market, so do you see that there is a change in the business strategy or that involves more risk if the season is volatile?

**Mithun Chand:** I will just correct the statement saying that we have not postponed the sale. We have only postponed taking of advances. See as I said 3 or 4 years back, cotton seed was very lucrative for the companies and for the distributors and we were taking advances, they were willing to pay in advance to book the seed because they get the majority of the discounts. In the last 3-4 years, what we have seen is that even though whether you take advance or not, farmer is picking up the seed and you have the guarantee sale. In that segment, yes, to some extent I agree with you, we need to book with the dealer to safeguard our business, therefore we just postponed the taking of advance by 2 months. Now, we already started advances now and we are doing it. It is not only from our end but most of the industry players are also coming in the same direction. Leaving apart one or two companies, most of them are doing in the same direction and if you recollect my first answer, I said as on 31st March, the advances what we have collected last year should be comparable in this year and this is the strategy only for cotton whereas non-cotton crops, we have already locked it, we are doing it like what we have done in the previous year.

**Rohan:** So, in this way that margins are likely to shift from the hands of distributor to the companies across the industry?

**Mithun Chand:** No, actually we have also received the entire margin. If you see, even though the prices are down by so much and the production cost has gone up, our margin still have better than compared to the industry even in cotton because we are not giving so much of margins like other players because seed is in demand and every farmer is ready to pay for it.

**Rohan:** No I was asking that in terms of advance booking which earlier used to be paid by the distributors and they used to take heavy volume discount by paying money in two months in advance that 10% extra margin which they were pocketing?

**Mithun Chand:** No, we already cut down those types of margins in the last 2 to 3 years and we were not giving such margins. That is the reason, even the distributors were saying that you are taking advance and not giving margin. That is the reason we are taking this.

**Rohan:** And by the end of March, you are saying that the total money collected from the distributor will almost remain same that what it was last year?

**Mithun Chand:** Yes.

**Rohan:** So, it is just only postponement of probably one or two months?.

**Mithun Chand:** Yes and we have taken that step. Keeping in mind, we have taken a very cautious step. We have analysed everything saying that our demand will not have any impact by doing this, in fact the dealer will be very happy to sell us because he is not paying advances and he will get seed and will get much better margin without paying it.

**Rohan:** Sir, second question is on that we have seen that this year Kharif was poor but Rabi has well started on time and ample availability of water, so Rabi is likely to go smooth, do you see that some impact of this next year in Kharif also, the Kharif season will start on time or any crop rotation do you see from current changes which you are seeing in Rabi?

**Mithun Chand:** Basically, if you add this point of time, I don't see any major changes, but the farmer sentiment is really positive because of the good monsoon last year, the groundwater levels are up, most of the dams are full. The sentiment is very good but at the end of the day, it all depends on the monsoon arrival. If the monsoon arrives in time, everything will go right. If it gets delayed or if it is preponed, then there might be a slight shift in the cropping pattern which we can't predict as of now, but at this present juncture we think that crops will remain same.

**Rohan:** Do you see that still as far as the Kharif is concerned, we still remain on, I mean dependency still remains of the next year monsoon, so like some people or some companies are mentioning that there is enough water available so that even Kharif sowing can start on time, you do not see that trend happening?

**Mithun Chand:** No, usually that is not the case because we require most of the Indian condition, most of the Kharif crops is the rain fed crop, so they need to have enough moisture. After the rainfall only, they will have moisture and then sow it. This is true for those who are doing cultivation under wells or tanks. Especially for crops like paddy, they can go for nursery and then transplant after the good rainfall but for crops like maize and cotton or some other crops which are dependent on the Kharif, they definitely need to wait for monsoon and then only they can sow it. As you know that most of the Indian cultivation is only under rainfed conditions, it is not under the irrigation segment.

**Moderator:** Thank you. Next question is from the line of Chetan Thacker from ASK Investment. Please go ahead.

**Chetan Thacker:** The cost outlook on the cotton seed business?

**Mithun Chand:** The cost should not go compared to the previous year. You are talking of the production cost or selling price?

**Chetan Thacker:** Production cost.

**Mithun Chand:** For sure, it should not go up from the previous year. We did some techniques this year, wherein I think the cost should reduce, but it is too early for me because as I have not received the entire stock, I could not comment on it but as of now it looks like it should not go up, it should only come down.

**Chetan Thacker:** And from a medium term point of view because of the new process introduced next year should be a lower cost compared to this year?

**Mithun Chand:** Yes.

**Chetan Thacker:** So that is Kharif 2021?

**Mithun Chand:** For Kharif 2021 only, I mean to say Kharif 2021 as I said like you are talking about June 20 or June 21?

**Chetan Thacker:** June 21?

**Mithun Chand:** Definitely, these are the techniques which we follow and definitely we are trying to decrease the production cost and again, I can only comment on the year end because that all depends on the rainfall and everything. We have introduced new business wherein we can reduce the production cost that we are witnessing this year that will reflect in June 20 sale.

**Moderator:** Thank you. We take the next question from the line of Amit Vora from PCS Securities. Please go ahead.

**Amit Vora:** One question is on, any write-offs that we have had during the quarter, I am sorry if I am repeating this?

**Mithun Chand:** Every year we have the continuous thing, every quarter we write-off. The cost of goods includes the write-off also.

**Amit Vora:** So, what would be that in this quarter because last quarter you had given that number?

**Mithun Chand:** I don't have the exact number, but it should be something close to Rs. 4 to 5 crore. That is the regular activity what we do for the quarter basis and is compared to previous year.

**Amit Vora:** And what is the cotton inventory that we are standing on right now for the coming season?

**Mithun Chand:** I answered this question earlier also but again I will repeat. We are still in the process of getting the inventory. We will have enough inventory for that which will be in between 9 to 10 million hectares, the 10 to 15% subject to the availability, as of now we are seeing that there should be no issue with the inventory.

**Amit Vora:** Sorry, I joined the call a bit later, so I repeated it. One bit on, what is the impact of pink bollworm, how has it been after the harvest and everything?

**Mithun Chand:** We have seen the pink bollworm issue in the later half, not in the first half as it was continuously raining, even the farmers not at the production level also either at the commercial level, they were unable to spray any pesticides to control that. There is some impact on it but anyhow not a major impact but for sure, there is some impact of pink bollworm.

**Amit Vora:** But you don't see that escalating in the coming Kharif?

**Mithun Chand:** Kharif in the sense pink bollworm issue in the Kharif?

**Amit Vora:** Yes.

**Mithun Chand:** The farmers are very much aware about this pink bollworm and they already made their mind set to control by spraying pesticides, so I think they are very much aware and it can be controlled. It should not be like a surprise for them.

**Moderator:** Thank you. Next question is from the line of Veeraj Kacharia from Securities Investment Management. Please go ahead.

**Veeraj Kacharia:** Just had two questions. On maize, was there any impact of Fall armyworm in terms of sowing or anything, first?

**Mithun Chand:** Compared to the previous year, not much but they have seen some instances here and there but if you will ask what has been last year now and also the farmer is like I said, is now spraying for pink bollworm is willing to spray for Fall armyworm.

**Veeraj Kacharia:** Of the total maize market, what will be the share or the size of spraying in Rabi, maize, I mean just to get a colour?

**Mithun Chand:** If you take that way, 50:50 is the volume, 50% comes in the first half and 50 comes in second half for maize.

**Veeraj Kacharia:** There is sizable difference in terms of realization, right?

**Mithun Chand:** Because usually when you talk about the Rabi crop, it is most of the control conditions, like control in the sense like you are not dependent on the rain because you have enough water source, most of that will do under the irrigation segment. So, he knows and he goes for a high yield and he spends a lot on that whereas Kharif crops basically they depend on the rainfall, they don't know about the rainfall and they just anticipate a good monsoon and do it, so the yields are also lower in Kharif when compared to Rabi.

**Moderator:** Thank you. Next question is from the line of Abhijit Akella from IIFL. Please go ahead.

**Abhijit Akella:** The employee cost in the standalone P&L is up sharply this quarter by almost 19.5 crore, so what is driving the big increase there?

**Mithun Chand:** Basically, this quarter we are given incentives and increments in this quarter. Usually, we do it in the previous quarter, but this year we are bit late and we have done this year. That is the reason there is a onetime impact on the

employee cost and the other part is that definitely the employee cost has gone up because we added more people in this year. So, if you take technically every quarter it should be between the Rs. 14 to 15 crore going forward for the next year starting from fourth quarter. The Rs. 19 crore should be Rs. 14 or 15 crore, I mean to say in quarter one and quarter two if you give some quarter 4 for sure Rs. 14 or 15 crore, quarter 1 and if you give the increment that will add, otherwise it should not be Rs. 19 crore because we have given most this thing in this quarter. That is the reason there is a huge price. That is the onetime thing.

**Abhijit Akella:** But will every year's third quarter then have?

**Mithun Chand:** Usually not, usually we give it in the first or second quarter itself, but this time it got delayed in this quarter.

**Abhijit Akella:** And in terms of the cotton seed regulatory scenario, there has been some talk about some demands from the government to cut the cotton seed price again for upcoming Kharif while the industry on the other side has been lobbying for a price increase in cotton seed, so what is your scenario and what is happening out there?

**Mithun Chand:** That is always there. As an industry we want to increase, as a government they want to decrease, it is always there, but it is too early, or I don't have any input to comment on it. Again, that will be a mutual committee which will take a decision. We are a part of that discussion .

**Abhijit Akella:** And lastly, the new production technique you mentioned for cotton, if you could just comment on exactly how it is different and how much reduction it can lead to in terms of cost per packet?

**Mithun Chand:** Basically, we are going with the GMS technology wherein the cost of production will be lower basically in terms of the pollination segment. Those are the new techniques and we have entered to some of innovative techniques like proper crop care, proactive control and to say like educating farmers coactively, taking coactive steps and it is a combination of 6 or 7 processes what we are doing including choosing of locations. We have done enough research where we can get a good yield compared to the present production area, so it is a combination of all those things. It is slowly translating into the actual cost reduction. That will continue for the next 2 to 3 years, this year will be a slight decrease and overall it will be for the next 2 to 3 years and still we are continuing on many other things, we are trying on many other techniques where we can further cut down the cost.

**Abhijit Akella:** Your production cost is probably in the range of may be Rs. 350 or Rs. 400 packets today, so how much lower can it trend down as a result of all these initiatives?

**Mithun Chand:** We are still trying it but for sure that is 10 to 15, it should further go down.

**Moderator:** Thank you. Next question is from the line of Deepak Kolhe from B&K Research. Please go ahead.

**Deepak Kolhe:** Sir, how we are seeing the cotton and non-cotton seed mix going forward?





- Mithun Chand:** As of now, it is like glasses of 52-48, 52 of cotton and 48 of non-cotton. This year, it should be 50-50 and going forward in the next 2 to 3 years, we said that like 40 from cotton and 60 from non-cotton and by the hybrids and by the areas where we are operating, we think we can achieve it.
- Deepak Kolhe:** When you say that non-cotton will be higher in coming year, so the share of vegetable to go up or you will concentrate more on the rice side or paddy?
- Mithun Chand:** Every hybrid, everything apart from cotton, we are concentrating on it. That is including vegetables, maize, rice, bajra and all other crops.
- Deepak Kolhe:** And sir, what is the CAPEX plan for the next year if you can give us?
- Mithun Chand:** As I told earlier, year-on-year Rs. 20 to 30 crore should be enough for us for the next 2 to 3 years. We don't see major CAPEX plans.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the floor back to the management for closing comments.
- Mithun Chand:** It has been a pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We value your continuous interest and support. If you have any further questions or like to know more about the company, kindly reach our investor relations desk. Thank you.
- Moderator:** Thank you. On behalf of Kaveri Seed Company Limited that concludes this conference. Thank you all for joining, you may now disconnect your lines.