

kaveri seed company limited



21st October, 2016

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Scrip Code: 532899

Name of Scrip: KSCL

Dear Sir,

**Sub: Transcript - Kaveri Seed Q1 & FY 2017 Result Conference Call on Friday,
16th September 2016 - Reg.**

Please find attached herewith Transcript of Kaveri Seed Company Limited Q1 & FY 2017 Result Conference Call made on Friday the 16th September, 2016. The Same was displayed at our company's website: www.kaveriseeds.in

This is for your kind information and records.

Thanking you,

Yours faithfully
For KAVERI SEED COMPANY LIMITED.

C. MITHUN CHAND
Whole Time Director

Encls: a/a.



Kaveri Seeds Company Limited

Q1 FY17 Earnings Conference Call Transcript

September 16, 2016

Moderator: Good Day, Ladies and Gentlemen and Welcome to Kaveri Seeds Company Limited Q1 FY17 Earnings 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 this conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vikram Rajput from CDR India. Thank you and over to you, sir.

Vikram Rajput: Good Afternoon, everyone and thank you for joining us on Kaveri Seeds Company Limited's conference call. We are joined today by G.S. Satish – Chief Operating Officer of the Company and Mr. Vijay Kumar -- CFO of the Company.

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. Satish, who will share updates on the market environment and take you through the strategic imperatives of the Company. He will be followed by Mr. Vijay who will share his thoughts on the performance of the company during the review period. We will then have the forum open for an interactive Q&A Session. Now, I would like to invite Mr. Satish to share his views.

G.S. Satish: Good Afternoon and a warm welcome to all of you. I will start by giving you the industry backdrop and then spend time on our performance.

The Seed sector continues to be a key pivot for agriculture growth wherein product performance and farmer relationship still remain very critical. Though this year had its share of challenges but after two years of drought we have seen optimism returning to the rural sector and if you look at the sowing trend as on date, in most crops it is actually above average. Current sowing this Kharif is 105 million hectare as compared to 101 million hectare last year. But cotton sowing has been below normal and the acreage compared to last year has decreased by about 11%. Last year at the same time, the acreages were about 11.4 million hectares and this year it is about 10.1 million hectares.

The other thing that has not worked in our favor is about 25% to 30% drop in acreage in AP and Telangana which has been our strong hold markets. We had done farmer intention survey before the season by our internal teams and the

indications were very strong for growth in cotton acreages in both the states. But just before the season, some of the state governments had sustained campaigns, encouraging crops other than cotton which resulted in a last minute shift towards other crops from cotton in these two particular states. Also, as you all know, there has been a decrease in cotton seed prices which impacted our top line.

Rainfall prediction from the beginning from various agencies was very positive and the rainfall also has followed the pattern. Given these circumstances, the farmer sentiment was pretty positive right from the beginning of the year and also there has been improvement in the crop prices. Other than Cotton, the other crops have shown substantial increase in acreages.

But as on date, the commercial prices of cotton has been all time high and compared to other crops, the cotton crop performance is looking very good. We anticipate given these two factors of good commercial price and relatively better performance of cotton as compared to other crops, we expect that the cotton acreages would bounce back and probably increase in the coming season. We need to wait for the crop to harvest. But at this point, it is looking quite positive.

Other than cotton, the other crops acreages have gone up, particularly, Maize has shown an increase by about 11% which is positive because that is an important crop for us in Kaveri.

So against this backdrop, if we look at specifics of each crop performance for Kaveri, we have sold 5.2 million Cotton packets this year as compared to 5.4 last year, but you need to look from a background of industry decline of about 15% overall in volume. We have gained market share across states including AP and Telangana also. If you look at specifics, Maharashtra, we have done extremely well, our increase in volume has been about 30% in Maharashtra and in the states of Madhya Pradesh and Rajasthan, we have grown about 20%. Also, as indicated previously, we have also this time participated in the credit market in AP and Telangana. Even in AP and Telangana, in spite of the drop in the acreages, our market share has actually gone up.

In terms of our revenue in Cotton, this year is Rs.390 crore for the Q1 as compared to about Rs.480 crore last year same quarter. The most positive thing has been our performance in Maize; the volume has been about 6,500 tonnes as compared to 4400 tonnes. In terms of volume growth it is about 50%. This is not only due to acreages growth which happened across the states, but also that we were better positioned as compared to competition because of our supply position. We had a good production and anticipated the market to go up. So our supplies were quite good. Also, our portfolio is now moving towards high price product. So in terms of revenue growth in Maize, our revenue for first quarter is Rs.102 crore as compared to about Rs.65 crore for the first quarter last year. Whereas both for Hybrid Rice as well as Varietal Rice, both in terms of volume as well as revenue has been flat as compared to last year.

If you look at how things are looking from product portfolio perspective, we continue to introduce a lot of new products. We have given demos of three new Hybrids of Cotton this year. We expect them to launch next year and we have taken some substantial amount of production for these Hybrids and we expect these to be the growth engine for the coming year for Cotton. Other than Cotton, we have three new Hybrids for Maize. Couple of them addressing the markets of UP and Rajasthan where our presence at this point of time is much lower and one for South India which has always been our strong market for Maize. Other than Maize, Pearl Millet is a very profitable part of our business. We have three new Hybrids which we launched in this year Kharif. One new Hybrid Rice and one for the Research Rice also. Sunflower is a niche market for us but very profitable part

of our business, and we have a new Hybrid for Sunflower also. Our new product portfolio is looking very exciting and we are planning to ramp up the new hybrids for the coming year and these would be contributing to significant part of our growth in the coming year. So that is about our market and our new product introduction.

Our Supply Chain is a differentiator as compared to other companies. We have invested in new conditioning facility. Our objective has been to improve upon our capabilities to synchronize supply to demand. We have very good processes set in place whereby we are producing to the demand. Our long-term relationship with our growers and farmers which has been built over the years is very difficult for any other company to replicate; it has helped us to ramp up some of the new Hybrids. We have great relationships with these growers and we not only provide them the technical support, we also provide financial assistance, they have been with us for long-long years. Given the strength in supply chain capabilities, we are very confident that we could ramp up the volumes of the new hybrids substantially.

Looking ahead, the full year guidance of Cotton Seed stands at 5.4 million packets whereas for the non-Cotton business driven by Maize, we would be growing about 15%.

The other thing I want to share with all of you is that, this year the offtake across crops has been extremely strong. We expect returns would be relatively lower as compared to last year. This should help us in terms of lower write-downs as compared to the previous year. We have made substantial improvements in our Sales returns as compared to the past.

As I earlier said, we expect to ramp up our new launch products and capture a higher market share. Our focus would be on Cotton leadership in AP, Telangana and Karnataka. We expect growth to continue in Maharashtra and Gujarat where our market share is relatively on the lower side and the competition there is relatively getting weaker. We expect our market share to continue to grow in Maharashtra in the coming years. Jadoo and ATM continue to perform quite well and we expect that these would still be strong choice for the farmers in near-term to medium-term.

On the non-Cotton side, Maize and Paddy operations will scale up as we have commissioned a new facility in Molangur in the first quarter. It is very close to our production location and we would have advantage both in terms of processing and shipment. So that would help us to increase our volumes in these two crops. We have started to focus on our Vegetable segment. It is a very small part of our business. Quarter-to-quarter comparison we have actually grown about 12x but on a relatively small base but that is a good beginning we are making and we expect to grow our Vegetable business in the coming years. Pearl Millet, is a very profitable part of business, with the three new products which we introduced, we are quite excited about it and we feel that there is a growth potential on market share gains in Pearl Millet.

To sum up, in a period where there has been significant competitive challenges and industry slowdown, we have been able to improve on our operational parameters and our financial parameters. We have been very strong in terms of our market share gains and our farmers' acceptance across the country. We expect that our strategy of multi-product portfolio, continued focus on our R&D, our product launch capabilities, our brand which is accepted across the country, relationship with the farmers, both at the grower and at customer end, our comprehensive supply chain capabilities, our distribution network, which is deep and across the country, our team and a strong financial position will be strong platform for our long-term success. We expect that we will continue our profitable

revenue and our cash flows and strong ROCE. So this is a brief update from my side.

I will turn it around to Vijay who will take you through our Q1 FY17 Performance Numbers.

G. Vijay Kumar:

Thank you, Satish. Good Afternoon and thank you all for joining us on the call today. I will start by recapping the financial highlights for the quarter and then provide you some flavor around the numbers and our journey forward.

In Q1 FY2016-17, revenue stood at Rs.493.9 crore as against Rs.539.4 crore in Q1 FY2016. Revenues declined primarily due to reduction in Hybrid Cotton Seed price along with moderation in Cotton Seed volumes. Satish has already detailed the reasons for our volumes performance, so I would not spend time on that. Selling price of Hybrid Cotton Seed has been reduced as per the Cotton Seeds Price (Control) Order 2015 and price notification issued by the Ministry of Agriculture.

In Q1 FY2017, EBITDA stood at Rs.163.6 crore as against Rs.227.2 crore in Q1 FY2016, translating to an EBITDA margin of 33.14% and PAT stood at Rs.153.3 crore as against Rs.219.1 crore in Q1 FY2016, resulting in a PAT margin of 31.25%. Profitability has been impacted by higher employee cost and the increase in depreciation on account of commissioning of new facility at our Molangur plant at Karimnagar District. The higher employee cost was on account of increased headcount and accumulation of employee benefits of Q1 in 2017. Going forward, these are expected to normalize to around historic averages. Please note in the FY2016, the company based on notification of various state governments short provided royalty by Rs.65.5 crore and the same has been included in contingent liability,

We have provided reconciliation between the profits as reported earlier under IndAS free cash profits for the quarter ended June 30, 2015 in our presentation as well as the results sent to the exchange. The biggest item to be impacted is Sales Schemes. Amount of "Sales Schemes" earlier grouped under "Other Expenses" representing amounts in the nature of discounts and rebates, now have been reduced from Net Sales as a result of Ind-AS adjustment for quarters ended June 30, 2016 and June 30, 2015. Schemes & incentives which typically would form 18-20% of Revenues would as per Ind-AS not form part of Revenues. That is the reason we have deducted and shown from the net sales. So the same amount in other expenses also come down. There is no impact on the PBT or PAT, only the regrouping was happened instead of other expenses this was reduced from the net sales.

I am pleased to share working capital management continues to remain strong and there is notable improvement in debtors' level. Debtors stood at Rs.125 crore as on 30th June 2016 whereas in the last year 2015 it was at Rs.188.34 crore whereas on 31st March 2016 it was at Rs.63.14 crore. Total cash on books stood at Rs.513.8 crore as compared to Rs.486.34 crore as on 31st March 2016. We are cognizant of the high cash figure on our books. As far as the usage of cash is concerned, we are judiciously and cautiously looking to create a long-term shareholder value. Distributing value to our shareholders is a corporate philosophy; however, given the uncertainties over the legal dispute with the Monsanto we are being conservative and waiting for the cases to settle.

I would like to share some other highlights. We have appointed leading auditors M. Bhaskara Rao & Co as internal auditors. Further, we have formed committee and also appointed consultants to revisit and redraft SOPs in line with Company's growth plans. This time we have also improved disclosures and provided more relevant data in our investor deck, for the benefit of the community at large.

On that note, I conclude my opening remarks. We would be happy to give you our concept on any questions that you may have.

- Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Abhijit Akela from IIFL. Please go ahead.
- Abhijit Akela:** First, just quickly get a sense for what the consolidated figures might be like because I think you have started disclosing only the standalone numbers in the quarter release, if you could just tell us what is the EBITDA and PAT for the consolidated entity would be like?
- G. Vijay Kumar:** Abhijit, we are going to declare consolidated results in second quarter only because of IndAS impact on balance sheet. SEBI has allowed us to declare first quarter results as per the standalone.
- Abhijit Akela:** So going forward, all quarters you will be showing consolidated?
- G. Vijay Kumar:** Yes, we have to.
- Abhijit Akela:** Could you just give us some sense of what the margins are on the different seeds. Cotton, you were talking about targeting around Rs.200 EBITDA per packet, so have you reached there and in non-cotton what are the EBITDA margins?
- G. Vijay Kumar:** Cotton margins are same flat only, non-cotton margins slight improvement is there.
- Abhijit Akela:** So can we assume that it is still north of 30%, 35% or so in the non-Cotton business?
- G. Vijay Kumar:** We can assume.
- Abhijit Akela:** Also, I just wanted to get a sense for the Rice Hybrids business. We were hoping for a good season, but we have not shown much growth. So what were the industry conditions like and how do you see that part of the business doing going forward?
- G.S. Satish:** You are right; actually the whole industry was expecting significant growth in Hybrid Rice. Few things which impacted the growth of hybrid rice. As you know, most of the Hybrid Rice market today is in the eastern part of the country and there was delay in the rainfall in the key markets of Chhattisgarh, Jharkhand and Bihar. So to that extent, the Hybrid market declined in these three markets. Also, in the State of Uttar Pradesh, there is a slight shift happening towards fine quality Rice. The other thing is the government support which was there for the Hybrid Rice in terms of subsidy program was lesser compared to past years
- Abhijit Akela:** We have heard Monsanto talking about withdrawing its application for new technology given its dispute with the government and we have also heard cases of the Pink Bollworm encountering resistance to BT Cotton. So in that context, how serious do you think this resistance problem can be for the BT Cotton industry over the next three to five years, do you see that as a serious threat? In that context could you talk a little bit about your new products that you are very optimistic about, what special characteristics do they have?
- G.S. Satish:** So coming to your first question about their withdrawing their technology from India, it is unfortunate. The farmer still has option of hand weeding or doing bit of inter cultivation by small implements or small tractors. Coming to your second question on the Pink Bollworm, the crop condition is extremely good as on date, there have been sporadic reports on Pink Bollworm in some of the epidemic area in

Gujarat, we have not seen that cutting across different states. The other good thing has been the government as well as the industry had taken a lot of effort in educating the farmers of how to identify the pest and what control measures need to be taken and the ground reports are clear that the farmers are taking preventive measures to control Pink Bollworm. So to that extent, the impact should not be as much as it was last year. We expect the yield to be much better as compared to last year given the good rainfall. We expect the farmers to come back growing Cotton next year in much larger area than what they did this year. Coming to your last question about the Hybrid which we have, they are addressing again the central and the southern market which is the biggest market. We are going to have crop tours in the next couple of months and we would then be in a much better position to share with you in terms of the performance and scale up in the next year for these new products.

Moderator: Thank you. The next question is from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

Dhires Pathak: Can you give the revenue mix of crop wise for the quarter?

G. Vijay Kumar: 64% is from Cotton, Maize is around 16%, Paddy is around 12%, and balance is from rest of crops.

Dhires Pathak: Just to understand better, in Q1 of FY17 royalty per packet in your expense line item would be Rs.49 while in Q1 of FY16 if you work it out backwards it was on an average Rs.70. Is that correct?

G. Vijay Kumar: This Q1 of current year Royalty was provided/ calculated as per the Central government notification, whereas last year various state governments issued different rates for the royalty, accordingly we provided, your figure is correct.

Dhires Pathak: When you show it in your P&L, you show it including taxes or you show it ex-taxes, would you include Rs.49 or would you adjust for taxes and show a lower amount in your P&L?

G. Vijay Kumar: No, P&L will show including service tax.

Dhires Pathak: Realization for Cotton, what is it that you are booking in the P&L per packet in this quarter?

G. Vijay Kumar: Around Rs.650.

Moderator: Thank you. The next question is from the line of Nitin Ghosar from Invesco Mutual Fund. Please go ahead.

Nitin Ghosar: The question was pertaining to the current investment. The disclosures have been fantastic for last four quarters. But just trying to understand if I were to work it on the other income piece and see how much it works as a percentage, it still looks miniscule. Could you please explain is there something that we are missing?

G. Vijay Kumar: The other income, the instruments are matured only we are booking, because you must have seen all the investments are in mutual funds, because mutual fund investment income I cannot book, I can only account it whenever the maturity happens. The other income is showing whenever some maturities happen, particularly in that quarter I am accounting. So you cannot correlate the other income along with the income on investment.

- Nitin Ghosar:** But I was just working on the average yield also for the last three years when it comes to other income aided by average outstanding on current investment. Should that give me an answer?
- G. Vijay Kumar:** You cannot say like that, because many of the investments are continuously there, those are not maturing and not immediately utilizing. Other income is coming out particularly in that quarter in which investments matured or encashed for any utilization.
- Nitin Ghosar:** How periodically do you book the income part of the investment that you make?
- G. Vijay Kumar:** Now, as per the new accounting standard, I have to account it in (OCI) Other Comprehensive Income..
- Nitin Ghosar:** What is the yield according to you right now for the investments that we have done on this Rs.500 crore book on current investment?
- G. Vijay Kumar:** Gross level I can say 8%.
- Nitin Ghosar:** What is the difference between gross and net?
- G. Vijay Kumar:** The tax. It all depends upon long-term and short-term.
- Nitin Ghosar:** The tax number that we are seeing in your P&L, this is more to do with the tax that you pay on this other income part or with the general business operations?
- G. Vijay Kumar:** That is only on other income.
- Nitin Ghosar:** With regard to the Microtech Private Limited investment that has happened a year back, what is the nature of this business, why the investment has happened to such a magnitude like Rs.14-15 crore?
- G. Vijay Kumar:** We do micronutrients and supplements to the farms.
- Nitin Ghosar:** This business has been there with the organization for last couple of years.
- G. Vijay Kumar:** This business is with us for the last five-six years.
- Nitin Ghosar:** So the incremental investment which happened in 2015 of Rs.14 crore, this was with regard to increase in?
- G.S. Satish:** Not in '2015, in '2013-14 it happened.
- Nitin Ghosar:** What was the nature of investment – was it more to do with the structuring of the business?
- G.S. Satish:** Yes, it is structuring, it is now becoming an independent organization, previously it was a part of the company, now it is an independent subsidiary.
- Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.
- Chetan Thakkar:** Sir, just wanted to check how many packets have we sold in Maharashtra this quarter?

- G.S. Satish:** About 15 lakhs.
- Chetan Thakkar:** The last year, first quarter you have sold 14 lakhs in Maharashtra, right?
- G.S. Satish:** 11 lakhs last year.
- Chetan Thakkar:** So there were returns of 0.3 million then?
- G.S. Satish:** Yes.
- Chetan Thakkar:** Sir, continuing on the other income side, if I look at the last three years, FY'14 your average yield was working out to 9, FY'15 it was 8, but FY'16 it has come down to 4. So have you materially changed the investments where you invest?
- G. Vijay Kumar:** No, as I told you in the previous answer also, other income is not correlating directly with the income on the investments. Only whenever the investments are maturing, the profit we are accounting as an other income, because the mutual funds income we cannot account it on accrual basis or fair market value basis, we have to account it only whenever the maturity happens. So you cannot apply that percentage on that.
- Chetan Thakkar:** Has the maturity profile changed on the instruments?
- G. Vijay Kumar:** Maturity profile changes and we are also not maturing, only whenever there is requirement we are maturing and otherwise when the period is completed.
- Chetan Thakkar:** Sir, OCI Rs.6 crore what would be there in that?
- G. Vijay Kumar:** That is OCI fair market value difference between the last quarter and this quarter on the investments.
- Chetan Thakkar:** So we can fairly assume Rs.6 crore plus Rs.5 crore, right?
- G. Vijay Kumar:** Yes, you can assume.
- Moderator:** Thank you. The next question is from the line of Amit Vohra from PCS Securities. Please go ahead.
- Amit Vohra:** What is the current inventory that we have on Maize?
- G.S. Satish:** One of the reasons why we had a pretty good run in Kharif was we had supplies. Overall industry is running a bit short on it. We are fairly well placed in terms of our total inventory for the Rabi season. We have also taken a Kharif production which should come in time for our Rabi season. Overall for the Rabi season, we should be aiming about 4000-4500 MT of sale and we have adequate inventory for the products which are required for Rabi season. I think that gives us good comfort of significant growth in Maize for the Rabi season also.
- Amit Vohra:** Then why is our guidance for non-Cotton just 15% for the rest of the year and we have done almost 50% growth. So, these are the two things I am not able to connect. When you are saying that you have a decent inventory profile and Maize prices have been very strong and everybody in the industry is doing great in Maize, so why this 15% guidance for non-cotton?
- G.S. Satish:** You also need to consider other crops which also contribute to significant part of business, rice, Bajra, Sunflower, Pulses, Wheat, Mustard and other crops, .

- Amit Vohra:** I am just looking at this that last year we did around 9,000-odd tonnes for Maize. Is that right?
- G.S. Satish:** Yes.
- Amit Vohra:** So this year in totality, what is it that we are expecting that we will finish with Maize?
- G.S. Satish:** Around 10,500 tonnes.
- Amit Vohra:** What are the price increases that you have taken in Maize this year?
- G.S. Satish:** Price increase is in line with the inflation but a significant change is coming from portfolio change. We are selling more higher priced products as compared to the lower price products. That is contributing to the increase in our revenue side.
- Amit Vohra:** As we are already in the second quarter, what is the spillover that we will be having in all the crops that you have Cotton, Maize and Paddy?
- G.S. Satish:** Relatively much lower, we have accounted for most of it. There is very small market of Tamil Nadu and the spillover markets with I would expect it to be a quite small portion of our business.
- Amit Vohra:** Why is it that Mr. Mithun is not there on the call this time around?
- G. Vijay Kumar:** He is traveling.
- Moderator:** Thank you. The next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.
- Karthikeyan VK:** I had a couple of questions: One is the Corn business outlook beyond the current year, you mentioned in the initial remarks that the industry was slightly short in inventory and you were well supplied and therefore that gave you an opportunity, so the sharp jump that you have managed to achieve. How sustainable do you believe this is and could you share some thoughts on that please?
- G.S. Satish:** First of all, we need to look at the overall Maize acreages in the coming year. Commercial prices compared to the previous year are still holding quite good and in spite of the acreages increase, we do not anticipate that the commercial prices is going to drop substantially. To that extent there would be good remunerative prices for the farmers to continue to grow Maize. So that is from an overall crop perspective. From our portfolio perspective, as I said earlier, we have three Hybrids which we launched this year. Portfolio is looking quite strong. We are going to launch one more Hybrid in the Rabi season also. Some of these products are looking quite exciting. There is substantial pressure for production for Rabi season for sales for next year. We are more than confident that we will be able to achieve our production volumes for the next year given our relationship with the grower and also the dryer capacity. There is a rush towards production volumes but given our capabilities on supply chain we would be in a better position as compared to competition to produce for next year. So good product portfolio and our ability to get the production done gives us confidence of sustainable corn growth in the future years also.
- Karthikeyan VK:** A related question on the Cotton side would be, you said the net realization was Rs.650, right?
- G.S. Satish:** Yes.

- Karthikeyan VK:** The Cotton inventory what would have been the cost like, the historical number used to be in the Rs.350 range, where was it for the current quarter?
- G.S. Satish:** Just to give a little background about the Cotton production which happened last year, as you all know last year was a tough year for not only for the commercial farmers but also for the grower farmers because of the drought situation coupled with the Pink Bollworm. Our recoveries were relatively much lower as compared to the previous year which increased a lot our cost of goods for the production which we did last year which we are selling in this year. Current Kharif production for Cotton is looking very good and, we do not expect the same thing to happen. So our recovery should go back to the previous year. Rather it could be among the best years for production for Cotton. Compared to competition, we have taken the right production areas and we are very confident that the cost of goods this year would be relatively lower. Last year, yes, there has been an impact on lower recoveries on the cost of goods.
- G. Vijay Kumar:** The increase is Rs.30 to Rs.40 compared to previous year because of low recovery.
- Moderator:** Thank you. We take the next question from the line of Balwinder Singh from B&K Securities. Please go ahead.
- Balwinder Singh:** Firstly, you said that on the Cotton side production cost have gone up by 30 to 40 Rs That is for FY17?
- G. Vijay Kumar:** Yes, FY17.
- Balwinder Singh:** Despite that you have maintained your Cotton per packet margins?
- G. Vijay Kumar:** Yes.
- Balwinder Singh:** On the number side, you have done around 5.2 million and you expect to do 5.4 million for the full year, right?
- G. Vijay Kumar:** Right.
- Balwinder Singh:** So can you give a breakup of ATM, Jadoo and the state wise 5.2 million Cotton packet numbers?
- G. Vijay Kumar:** The Cotton for AP, Telangana is around 28.41 lakhs and Gujarat is around 2.4 lakhs, Karnataka is around 3 lakhs, Maharashtra is around 15 lakhs, Madhya Pradesh is around 2 lakhs, the balance is for the rest of country.
- Balwinder Singh:** Sir, of this 5.2 million packets, how much would be Jadoo and how much would be ATM?
- G. Vijay Kumar:** Major part is Jadoo only; I can say it is 60:40.
- G.S. Satish:** About 60% is still being contributed by Jadoo.
- Balwinder Singh:** ATM will be 25-30%?
- G.S. Satish:** Yes.
- Balwinder Singh:** I understand that it is too early to tell but you have been talking of a good season next year FY18. You initially indicated in your comments that good price of cotton

crop and high yields will lead to increase in acreages next year. Do you have target for FY18, how much we want to achieve or you want to give out a number on the guidance side that this we are looking for FY18 or we do not have anything on the drawing board as of now?

G.S. Satish: It is bit early to comment on that. Few things have to happen from now on. One is how will the commercial prices behave in the next few months. That is going to be very critical from a farmer decision on Cotton. Second thing at this point of time, our products are performing extremely well. So we are confident about it, but we still have to look at it how it pans out in the next few months. In terms of our production, as I said earlier also, it is looking quite good in terms of overall volume as well as quality recovery. I think it is a bit early for us to give you a number at this point in time for FY18 of what sort of Cotton numbers we are looking at. Hopefully, as the crop comes for harvest and our production start happening, we could give an indication at that point in time of how we could be looking at FY18.

Balwinder Singh: What is the Cotton inventory currently?

G.S. Satish: About 25 lakhs of Cotton.

Balwinder Singh: What production we are anticipating this year?

G.S. Satish: As I said it is a bit early to tell you, we have taken fairly good production, anticipating a significant amount of growth for Cotton for the coming year. So maybe next quarter we would be in a position to tell you the exact production volume, but rest be assured we have taken good amount of production for our key Hybrids and some of the new Hybrids also.

Balwinder Singh: But maybe roughly around 6-7 million?

G.S. Satish: Yes, it is in that range.

Balwinder Singh: Sir, if you can just talk on the Cotton margins per packet what are it currently, I know you told it has been flat compared to last year, but if you can give a number that will be very helpful?

G. Vijay Kumar: Around 25-27% margins will be there on Cotton. 30% you can consider in non-cotton.

Balwinder Singh: Your guidance is 15% volume growth on non-Cotton side for this year?

G. Vijay Kumar: Correct.

Balwinder Singh: 5.4 million packets in Cotton this year?

G. Vijay Kumar: Yes.

Moderator: Thank you. The next question is from the line of Dipan Shankar from Trustline PMS. Please go ahead.

Dipan Shankar: In the initial discussion you have discussed that AP and Telangana, the Cotton acreages have reduced. So what could be the impact on overall volumes? Should Maharashtra compensate for this decline? How do we see any impact of margins due to this?

- G.S. Satish:** Yes, the decline which happened in AP and Telangana would be compensated that by the increase in Maharashtra by about 4 lakh packets plus some increase in other states. But in terms of the realization is pretty much in the same range across different state, from that perspective does not impact a lot.
- Moderator:** Thank you. The next question is from the line of Veena Patel from iWealth Management. Please go ahead.
- Veena Patel:** Sir, I just wanted to know your outlook on Paddy for the rest of the year also and the year going ahead?
- G.S. Satish:** As you know that Paddy is primarily a Kharif crop and most of the sales happens in the first quarter. So in the Rabi season, we do have plans for selection rice and we expect that to grow in the coming season. Coming to the next year outlook for Paddy, we expect that the Hybrid market will be able to grow especially in the Eastern states of Jharkhand, Chhattisgarh and Bihar. So that should bounce back and we expect the growth to happen. Coming to the selection rice, this year we were a bit short in terms of supply. So we have taken our production in Kharif season itself rather than depending on Rabi production and supplying right at the nick of the time to the market. So we have taken more than adequate production in this Kharif and the rains have been extremely good in the production location. So we should be having good supply. As we mentioned earlier, we have a new plant which primarily is dedicated towards rice because this place is in Karimnagar and the production location for rice is just around that plant. We are looking to grow our selection rice which is also quite profitable and we expect both Hybrid Rice as well as Selection Rice to grow. In terms of our product portfolio, we have one new Hybrid which we sold this year. We are expecting significant growth to come from that particular Hybrid. Actually also there is one more Hybrid which we gave for demos in Hybrid Rice this year. So these two products would address the key markets of UP, Bihar and Chhattisgarh. In Selection Rice, we gave a new hybrid which is going to address short-term maturity segment, we are quite positive on the rice business.
- Veena Patel:** But achieving a 10% growth seems to be quite possible this year itself?
- G.S. Satish:** I think we are quite confident that 10% growth in overall Hybrid portfolio is definitely possible in long term. This year I think we are too late, the remaining market is very-very less,
- Veena Patel:** In this particular quarter, we have around Rs.60 crore been contributed from Paddy roughly?
- G.S. Satish:** You are right actually.
- Veena Patel:** One final question on the CAPEX because you already commercialized one plant. Any further CAPEX?
- G. Vijay Kumar:** There is no immediate plan for any major CAPEX.
- Veena Patel:** So what would be the routine CAPEX for this year?
- G. Vijay Kumar:** Rs.20-25 crore already we have capitalized. No further major capex will be there.
- Moderator:** Thank you. The next question is from the line of Mohan Lal from Kotak Securities. Please go ahead.

- Mohan Lal:** I just wanted to understand the non-Cotton guidance a bit more. Last year second quarter we reported 50% fall in the revenues and that was also because of Rs.50 crore return of seeds and this year we are saying that we are not expecting much return. So should not the non-Cotton revenue grow much stronger next quarter as well?
- G. Vijay Kumar:** Rest of the year we are thinking that moderate write offs will be there.
- Mohan Lal:** Sir that is what I am trying to understand that should not in the second quarter of this year we should have benefit of at least Rs.40-50 crore extra which was a hit last year?
- G. Vijay Kumar:** I cannot comment on that but write-offs will not be there that much as compared to last year.
- Mohan Lal:** I believe that you strike off returns from your revenue itself. So if that is the case then non-cotton revenue should grow much stronger than 15% because first quarter anyways has been a good performance and second quarter...?
- G. Vijay Kumar:** As mentioned by Satish earlier, in the case of non-cotton growth you are seeing more growth from the Maize only. Other crops almost all are flat. Non-Cotton comprises Paddy, Bajra, Jowar, and those are all almost flat.
- G.S. Satish:** Last year second quarter we had a substantial amount of write-off, As Vijay was just saying that we do not anticipate that to happen this year. This year the rainfall was on time, the season was on right time whereas last year there was a bit of delay. So there is a little bit of spillover which happened in the second quarter which I do not think it is going to happen this year.
- Mohan Lal:** No, just one follow-up on that, this 50% growth in Maize revenues in this quarter, does it already include your lower anticipated returns?
- G.S. Satish:** Yes.
- Moderator:** Thank you. The next question is from the line of Jatin Karani from Enam Holdings. Please go ahead
- Jatin Karani:** My question was related to the royalty issue. So just if you can give us an update on exactly where we are on that and is it now completely sorted out in terms of the legal cases going on between Monsanto and the various seed companies, I believe the case is still going on, so how does this play out and what could be the future implications of this, if you could just help us understand the industry structure as of now?
- G. Vijay Kumar:** With respect to '2016-17, you know that Central Government of India has issued a price notification. Accordingly, we are charging Rs.49/-per packet. On that one, the legal battle is between the Monsanto and the Government of India. So we are not in the picture. In the past cases last year that is all in the judiciary. We are waiting for the outcome. As on date, we cannot comment on that.
- Jatin Karani:** But your current contract with Monsanto if you can help us understand what is the timeframe for that and what happens if Monsanto does not agree with this royalty structure, do we have any contingency plans, do we have any other trade providers who we are working with?
- G. Vijay Kumar:** This is applicable to all the seed companies, not only for us, and the Government of India is already discussing with Monsanto.

- Jatin Karani:** So in terms of the contract I believe if we have the inventory for the next year whatever happens we can still sell the production for next year, right, is that how the contract is drafted?
- G.S. Satish:** You are right, the contract still runs for a few more years. As per the contract, we will be allowed to sell whatever inventory plus whatever production we have taken. We do not anticipate that a situation will arise to terminate us.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.
- Girish Raj:** Specific to Andhra and Telangana decline of 23% Cotton acreage, which other crop have the farmers move to, any idea?
- G.S. Satish:** The governments had encouraged cultivation of short duration dry crops to farmers. Maize has gone up substantially in the state. So one of the reasons why our Maize growth is there is basically because of the growth which happened for us in Telangana. The other crop which has gained is pulses; the commercial price is very good and the government was emphasizing a lot on pulses production. So Maize and Pulses areas have gone up in Telangana. But Maize crop has undergone a severe stress in Telangana and the decision of many farmers who went from Maize did not turn out to be what they had expected. That is the reason also we feel that the Cotton if it is going to come back next year strongly in Telangana and A.P.
- Girish Raj:** What exactly did go wrong for the Maize?
- G.S. Satish:** There was a long dry spell at the critical stage of flowering and grain filling. Cotton to that extent is a much better crop in terms of the stress tolerance, it recovers when the rains come back. So Cotton is looking quite good but Maize crop productivity is not as per expectation
- Moderator:** Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.
- Jigar Valia:** Sir, if you can give some color on the competition and also more particularly for Nuziveedu? I think despite the termination of the contract they still had the inventory of about 63 lakhs packets and another 40 lakhs Kgs of unpacked. So clearly there would be a lot of push on that side into the market.
- G.S. Satish:** Competition is inevitable but we expect to gain some market share over our other key competitors both in AP as well as in Maharashtra. Some of the leading Hybrids in Maharashtra are declining and we could gain some customer base from them to us this year and we expect the trend to continue for the coming year also.
- Jigar Valia:** Any noteworthy changes in the market practice versus last year from competition perspective?
- G.S. Satish:** There are positive for us because a couple of old hybrids of competition are not doing well, our products will continue to do quite well. I think there is a threat from a new hybrid from competition which seems to be gaining some traction but we believe that ATM and Jadoo still have enough fire power to combat them. We are hopeful that the new hybrids which we are launching would be better than what the competition has and we have good plans to ramp up the volumes of our new hybrid.

- Jigar Valia:** In this Rs.650 net realization, how would it compare with last year – would it be similar?
- G.S. Satish:** Realization if you compare to last year to this year would be in the similar range if you take away the MRP impact.
- Jigar Valia:** More particularly with the AP, Telangana belt, is it that we had some benefit because of shift to Maize, can you quantify how much was the benefit in Maize from the market?
- G.S. Satish:** The key gain for Maize has been in the states of Telangana, there has been a growth of a more than 50% over last year, Karnataka was another good story for us; so there we gain about 30%, we could double our volumes in MP. I think the good story again coming from new market which we focus this year. UP, that market has grown quite good and our growth has been about 3x but yes, albeit on a very small base,
- Moderator:** Thank you. The next question is from the line of Alok Deshpande from HSBC. Please go ahead.
- Alok Deshpande:** I had a question on the lot of prospects of Hybrid Maize in India. From what we understand the penetration of Hybrid Maize is to the extent of 60-65% and there are many states like Maharashtra, AP, Karnataka who have already got hybrid to the extent of 100%. So how do you see this sector growing? How this category growing? Will the states like Rajasthan, M.P., UP, the penetration there grow more or is the sector going to grow more because of better quality and more in terms of value rather than volumes?
- G.S. Satish:** I think it would be a combination of both. Given the good commercial prices, farmers are now coming back to Maize. Lot of companies working in the states of UP, Rajasthan and M.P., we expect that these markets would very rapidly convert into Hybrid. UP is a great story, UP has grown substantially and now occupies nearly 10% of the total Hybrid market. So we expect these states to continue to grow and even when you look at this year rainfall patterns there have been quite good rainfall in M.P. and Rajasthan. The farmers would really get benefit of using hybrid seed in these states and we expect hybridization percentages to rapidly growing in these markets. The other thing also in terms of the value going up because the farmers are going to move on to better hybrid. We have clearly seen farmers choosing single cross which are much better in terms of productivity. So Maize market looks very exciting given the growth happening from the poultry sector. So the market is going to grow both in terms of hybridization and farmer going for high priced products. So I think it looks pretty exciting for the future to come.
- Alok Deshpande:** But, historically can you just give some color on what has been the key challenge in these states not having higher hybrid penetration because at one end you have states like Maharashtra and Karnataka which are at 100% penetration of Hybrids and then you have these other states which are at 15, 20%, so is there a couple of main challenges which have not allowed the states to adapt to Hybrid Maize?
- G.S. Satish:** Education and awareness with the farmers about the benefit of hybrid cultivation has been a barrier in adoption of hybrids. Especially in parts of Rajasthan, M.P., and parts of Gujarat also which has typically been a tribal belt. But now with the government and companies putting extension effort, the market is transforming. In the past few years the government had taken lot programs where by hybrid seeds were given at a very subsidized price. The farmers have seen the benefit of it. The government are withdrawing from supporting a subsidy program. So we have seen farmers coming back and buying from the market itself. Second also in terms of the

right products for this market. These markets are typically rain-fed markets and developing the right products appropriate to their farmer needs is critical. We have launched two hybrids which are specifically in UP and Rajasthan. Other thing is also in terms of the distribution network, these markets are growing, the distribution network is critical. We have seen significant penetration and point of sales going up. We are very confident that these markets are going to grow. The experience of UP is a good example the market has really moved in the last few years and we are very confident that the same thing is going to happen for the Rajasthan and M.P. Also in the last three years, the commercial prices of Maize were stagnant, but in the last seven to eight months, we have seen significant increase in the commercial prices and Maize is very profitable crop for the farmers to grow. We hope the trend is going to continue and next year is going to be a good year for Maize.

Alok Deshpande: Just one question on Cotton. So a couple of years back there was a lot of talk on how high density planting and mechanical harvesting will sort of come in a very big way. So where do we stand today on those fronts, what has been the progress so far on Mechanical Harvesting, High Density Planting, can you give some color on that?

G.S. Satish: We had launched 3x1, cotton hybrid a couple of years back, which we had good sales this year against small base last year. We are seeing good repeat purchase of the farmers and the adoption rate for High Density Planting has been going up. So we expect the trend to continue for High Density Planting. In terms of Mechanical Harvesting, definitely the labor cost is a big constraint if you look at the total cost of production for the farmers, the biggest cost is labor. So any solution towards Mechanical Harvesting is going to be the next big thing, but at this point in time no hybrids are there in the market, not only just for us, but for the industry. Definitely given the labor shortages, the labor cost and availability of labor at the right time, Mechanical Harvesting is going to definitely pick up. The market is waiting for the right technology to come in. As and when it is available I am sure this concept will pick up.

Alok Deshpande: What you are saying is as of now there are no hybrids developed by any of the companies which can be directly launched for Mechanical Harvesting?

G.S. Satish: You are right, yes.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment. Please go ahead.

Gagan Thareja: Bayer also released their hybrid cotton seeds and seems to have done well in the recent past especially in Telangana, AP and Bayer has also gone ahead and acquired Monsanto. What implications do you see from this acquisition? Also, have you seen them gaining market share in your traditional markets in Cotton Hybrids?

G.S. Satish: I think the consolidation in the global industry has continued, it was first Dow and DuPont, now it is Bayer and Monsanto. We need to still watch out how this whole integration pans out; there have been earlier experiments by various companies of integrated offerings, in some cases it has not worked so successfully, there is still room for specialized verticals also. At the end of the day, the farmer is going to choose what the best offering in the market is. We will continue to focus on to bringing up products, which are the first choice for the farmers. In terms of access to traits, there could be limitation because as they consolidated our access to some of these technologies could be limited to it. But hopefully the regulators are going to look into that matter.

- Gagan Thareja:** In Maharashtra, your growth of market share has been on the back of which are the products – Jadoo, ATM or is there another product which is largely responsible for the market share growth in Maharashtra and for that matter in Madhya Pradesh and Gujarat?
- G.S. Satish:** This year our growth from Maharashtra has been both from Jadoo and the ATM but both the products have actually grown but most of the growth has come from ATM. So as I was talking earlier about the new product which we are launching for next year that is also primarily addressed for the state of Maharashtra and parts of Telangana. We will continue to grow our market share in Maharashtra and going forward we will continue to maintain Jadoo and grow in ATM in Maharashtra.
- Gagan Thareja:** Just an update on whether contingent liabilities for the royalty which is in dispute and what is the amount and also what is the status on the SEBI audit?
- G. Vijay Kumar:** We have shown Rs.65.5 crore as contingent liability in last financial year. Still that is there in the judiciary only between various companies and Monsanto in the courts. We are waiting for the outcome, it takes some time to get outcome. With respect to SEBI audit the auditors have sought information and from our side we have submitted. We are yet to hear.
- Gagan Thareja:** For the first quarter this year you have not created any contingent liabilities for the royalty?
- G. Vijay Kumar:** No, the first quarter again Government of India has issued a price notification and they have capped the selling price at Rs.800 and Rs.49 as a royalty per packet , for the same invoice also raised by the Monsanto, there is no requirement of any contingent liability. The dispute is between central government of India and Monsanto, not with us.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Mr. Satish for his closing comments.
- G.S. Satish:** Thanks a lot. It has been a pleasure interacting with all of you over the call. We really want to thank you for taking the time out and engaging with us today. We are happy to see your continued interest and support. In case if you have any other further questions or you would like to know anything more about the company, kindly reach us at our investor relationship desk.
- G. Vijay Kumar:** Thank you very much to all.
- Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on behalf of Kaveri Seeds, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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