

29th November 2017

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MUMBAI - 400 0051

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Dear Sir,

*Sub : Transcript : Kaveri Seed Q2 & H1 FY 2018 Result Conference Call on
31st October 2017 - Reg.*

Please find attached herewith Transcript of Kaveri Seed Company Limited Q2 & H1 FY 2018 Result Conference Call made on 31st October 2017. The same was displayed at our company's website : www.kaveriseeds.in

This is for your kind information and record.

Thanking you,

Yours faithfully,
For KAVERI SEED COMPANY LIMITED



C.Vamsheedhar
C.VAMSHEEDHAR
WHOLE TIME DIRECTOR

Encls: a/a.



Kaveri Seed Company Limited

Q2 & H1 FY18 Earnings Conference Call Transcript

October 31, 2017

Moderator Ladies and gentlemen, good day and welcome to the Kaveri Seeds Company Limited Q2 & H1 FY18 Earnings Conference Call. As a reminder, all participant 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 now hand the conference over to Mr. Vikram Rajput from CDR India. Thank you, and over to you, sir.

Vikram Rajput Thank you. Good afternoon everyone and thank you for joining us on Kaveri Seeds Company Limited's conference call. We are joined today by Mr. G.S. Satish, Chief Operating Officer 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 question-and-answer session.

Now, I will invite Mr. Satish to share his views.

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

The year started on a strong note for the sector as well as the Company and the momentum has sustained in Q2 as well. Overall rainfall was normal but witnessed wide variation. Dry spell in August impacted yield of crops like maize, soybean and other short duration crops. Late rains impacted crop in many areas. Late

withdrawal of monsoon helped moisture build up for Rabi season. For the Seed industry, seed sales of cotton and selection rice reported strong growth, while hybrid rice and bajra witnessed moderate uptick and maize and vegetables reported a decline.

Talking specifically about cotton, this has been one of the best years for cotton. Sowing happened much earlier than last year in Central and South India and the North cotton market growth was much higher than all India on the back of good crop last year. What has been unfavorable is the reported cultivation of Illegal Herbicide Tolerance in few states. September rains impacted quality and quantity for early picking in cotton. Pink Bollworm was reported in few places and preventive spray by farmers to control damage by pink bollworm has gone up. While commodity prices are at lower levels compared to last year, however, cotton still is the most profitable crop as compared to other crops.

In first half of season, maize hybrid market dropped as compared to last year due to shifting to other crops and less than adequate rainfall in key state of Karnataka. Telangana and Karnataka constitute more than 1/3 of organized market in Kharif hybrid maize seed sales. Further, farmer down traded in few states due to tough market conditions. Karnataka market recovered in the second half of the season due to late sowing. However, market was still lower than last year. Also, productivity of maize crop was impacted due to weather fluctuation.

Coming to our performance, if we look at specifics of each crop performance for Kaveri, in H1 FY18 we have sold 6.9 million cotton packets as compared to 5.4 million cotton packets last year, a 28% growth, reinforcing our cotton leadership. We are now the No.1 cotton seed player in India excluding the North region, with a market share of ~15%. This performance was enabled by significant gain in Gujarat, Maharashtra, and Karnataka. We have been progressively expanding footprint outside of Telangana/Andhra Pradesh and Karnataka; and have increased R&D effort in North. Our new hybrid Money Maker has been received positively. We launched 2 new cotton hybrids and 2 new cotton hybrids are under demonstrations with farmers.

We have been building a strong non cotton business, reducing dependence on cotton, as evidenced by increased revenue, higher product launches and notifications. Hybrid Rice volumes increased by 8% in H1 in spite of drop in govt business. New product went up from 1% to 15% of volume. Selection Rice Volume grew by about 41% on back of the decision to produce major quantity in Kharif season and additional plant capacity. Contribution of new products went up from 3% to 12%. Sunflower volume has doubled in H1 FY18 compared to H1 FY17. Bajra volumes are under pressure but it is worthwhile to note that new product contribution has gone up from 6% to 14% of volume. Coming to maize, as I mentioned earlier the market has been challenging where Karnataka degrew by 12% and Telangana by 23%. Telangana and Karnataka contributed to nearly 2/3 of KSCL's Kharif maize sales in H1 FY18. Another contributing factor for decrease in Maize volume was reduction in sales to government programs. In H1FY18, maize volumes declined from 8,200 metric tons to 7,200 metric tons. I am happy to state Q2 maize volumes improved by 13% YoY as Karnataka market recovered in the second half of the season due to late sowing.

Our steady investments to bolster R&D initiatives have translated into encouraging outcomes. We have launched new hybrids in our mandate crops. We launched 3 new hybrids in maize for Kharif season, 2 new hybrids in maize are to be launched in Rabi season and 2 new maize hybrids are under demonstration. We have 4 new hybrids in Bajra in Kharif season under demonstration. We have launched 1 new

hybrid in hybrid rice and have launched 4 new products in selection rice. 1 new hybrid in hybrid rice and 2 new products in selection rice are under demonstration. Our hybrid rice KPH 468 has grown 13x in this year and has shown consistent performance across geography. We are very confident to ramp up volumes and gain market share in hybrid rice with KPH 468

In terms of industry outlook, rains in September and late withdrawal of monsoon lead to soil moisture build up which will be helpful for a good Rabi season. Demand for seed production is likely to go up in Rabi as industry is likely to build up inventory. Maize area in Bihar looks positive. Vegetable sales expected to pick up in H2. For us, Rabi Maize acreage and export volumes looks positive. Plans in place for scaling up Rabi seed production. A big positive this season, has been that we have received returns well in time; and inventory profile is much better and discard likely to be lesser than previous years.

To sum up, a relatively better monsoon backed by several effective initiatives, enabled us to gain a favourable position. We have made concerted efforts over the last couple of years to truly derisk the Company and build a future ready organization. The pillars of which have been clearly identified including diversification, organizational capability, increased visibility and mindshare, supply chain and reinforcement of cotton leadership.

Further, most crucial to measure the success of a seed company is the product/product pipeline; which is a reflection of R&D's strength. We have had higher launches, demonstrations, notifications and increasing contribution from newer products. The product portfolio we are focusing on today will ensure sustained traction in revenue and earnings performance, largely capturing impact of transformative initiatives that we have taken in the past year. We have a stronger core team with a mandate to better our multi-crop portfolio, superior R&D, strong product launch capabilities, supply chain efficiencies, farmer relationships and comprehensive distribution network; all of which are cornerstones of a sustainable platform for long term success. We believe we are at the forefront to capture the sector opportunities going forward. We will continue to work through challenges and look forward to better our performance with an eye on creating value for all our stakeholders.

With that, I invite Vijay to take you through the Q2 and H1 FY18 performance.

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 half year and then focus on providing you some flavor around the numbers and our journey forward.

Against the backdrop detailed by Satish, we have delivered a strong financial performance with significant improvements in revenue, EBITDA and profit.

In H1 FY18, Revenues stood at Rs. 660.2 crore as against Rs. 561.8 crore in H1 FY17, marking an 18% growth. In Q2 FY18, Revenues stood at Rs. 69.6 crore as against Rs. 67.8 crore in Q2FY17. Strong topline growth contributed to by sales across both cotton and non-cotton.

In H1 FY18, EBITDA stood Rs. 242.3 crore as against Rs. 184.1 crore in H1 FY17, translating to an EBITDA margin of 36.7%. In Q2 FY18, EBITDA stood Rs. 31.1 crore as against Rs. 20.4 crore in Q2FY167, translating to an EBITDA margin of 44.7%. In H1 FY18, PAT improved by 38% YoY to Rs. 223.3 crore from Rs. 162.1 crore in H1 FY17, resulting in a PAT margin of 33.8%. In Q2FY18 PAT improved

by 170% YoY Rs. 20.9 crore as against a Rs. 7.7 crore in Q2FY17, resulting in a PAT margin of 30%. The strong improvement in quarterly profitability is a result of lesser stock write-offs, as compared to last year. Other income is lower as a result of lower redemptions.

I am pleased to share the Balance Sheet continues to remain strong. Debtors stood at Rs. 255.6 crore as on Sep. 30, 2017 whereas it was Rs. 69.8 crore as on 31st March 2017 and 250.2 crore as on Sep. 30, 2016. Total cash on books stood at Rs. 422 crore as on Sep. 30, 2017 whereas it was Rs. 649 crore as on 31st March 2017 and 543 crore as on Sep. 30, 2016.

As a Company we continued to judiciously and cautiously create long term shareholder value. We firmly believe in Kaveri Seeds' long-term growth prospects and are committed to distributing capital to our shareholders. The Company's strong balance sheet and cash flows enable us to reward the shareholders, and that is also part of our corporate philosophy.

We remain on track to report top quartile performance profile in line with the transformation of our Company.

On that note I conclude my opening remarks. We would be happy to give you our perspective on 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. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Amy Truesdale from Jupiter Asset Management. Please go ahead.

Amy Truesdale Actually I have one. In the last year, there was some inventory write-offs and it would be good to hear from you how you see this panning out this year.

G. S. Satish The inventory write down was quite high last year and there has been a concerted effort to bring it down, which has already starting to reflect in our H1 numbers. If you compare our H1 numbers, last H1 we had an inventory write down of Rs. 39 crore. This year for H1, we are at Rs. 19 crore. So that is the improvement which we have done for the first half of the year. As I mentioned in my earlier part, the inventory profile is much better as compared to the past and we expect similar trend to continue for the second half of the year. So, we expect the inventory write down would be relatively much lower as compared to the previous year. But we do expect that there will be some inventory write downs for the rest of the year.

Moderator Thank you. The next question is from the line of Mononita Mitra from Stewart & Mackertich. Please go ahead.

Mononita Mitra Is there any capacity expansion plan sir going ahead this year?

G. Vijay Kumar We do not have much capital expansion. Whatever regular replacements are there will invest. We may acquire land for R&D purpose for which we already have taken approval in Q1 Board Meeting and anything further required for R&D expansion, that we will plan it in advance and will take Board approval.

Mononita Mitra What is the total expenditure incurred for the R&D this quarter and this half year of financial year '18?

- G. Vijay Kumar** Yearly, we are planning around 3-4% on the topline for the R&D expense. From capital expenditure point of view, we may acquire some land for the R&D purpose.
- Moderator** Thank you. The next question is from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.
- Amit Kadam** Sir, I have two questions. First question is on this Illegal Herbicide Tolerance seed which like according to the news which we read is almost like in this season, it was 15% of the volume. How the industry is going to tackle this particular issue and because the government has also like have taken this case and has started sampling and taking some action over it. How do we see this thing as an industry and also for a company like us?
- G. S. Satish** Amit, the current estimate by the industry is in the range of about 8% of the total volume, not in the range of 15% which you were mentioning. Yes, it is a big concern for the industry as well as the government. There has been a significant change in the stance of government and the activity which they have been taking in containing this cultivation. Most of the state governments before this season were not actively pursuing this case, but in the last couple of months, most of the state governments and the central government have taken a very strong view of herbicide tolerance cultivation. We expect strong deterrent for the players who actually indulge in this activity. So we expect that the government coming strongly on these activities and given those measures, we expect these volumes to actually come down in the coming year.
- Amit Kadam** Was it only a region specific or like geography specific thing because whatever things came into like news, it was started from the Western part of the India. So is it still restricted or has it like over the season has spread almost like Pan India level this particular issue, this 8% volume is only particular, you are counting about particular region specific, area specific or is actually on Pan India problem?
- G. S. Satish** It is Pan India, but it is localized to certain geographies within the state and it was reported in Gujarat to begin with and now, we have seen that reported in parts of Maharashtra and Telangana, but there are other states where there is no cultivation yet as per the industry. So it is very localized and concentrated in few pockets only.
- Amit Kadam** Okay. And this second question is on the cotton outlook like because not only in India but globally also, the cotton acreages have gone up and but then this hurricane thing actually rebalanced everything because then there was again some depreciation. Then in that pursuit, how do we look the next season or what will be our inventory stocking up strategy for the next season?
- G. S. Satish** This year, the cotton acreages have substantially gone up by nearly more than 20%. We expect the cotton to either remain at the same level or even if it comes down, it would be in single digit. So we do not expect the cotton acreages to go back to the 16 Kharif season acreages. Currently, if we look at the commodity prices and the yield of different crops, cotton still remains the most profitable crop for the farmers compared to the other crops. We still have to wait for another few months as harvesting starts coming into the markets and how much would the farmer finally be able to get. With a very strong push from the government to procure cotton at the minimum support price, cotton still remains the most profitable crop as compared to its other alternative crops which are available for the farmers. So we expect overall acreage level should remain same or marginally down compared to what we have for this year. So we are positive about the cotton acreages in the coming Kharif season.

- Amit Kadam** Just one last question on this particular piece. So on this maize strategy, so how do we look this particular piece because it has been little volatile for us and then what has been the market share in both the thing like in cotton and in maize by the end of this particular season.
- G. S. Satish** Let me answer your market share for cotton first because there is barely any cotton season left for the rest of the year. So, by our current estimate we should be around 15% of market share by the end of the year. Coming back to maize, as most of our business has been concentrated in AP, Telangana and Karnataka, so strategically we have been focused on expanding our maize business outside of these states. Just to take an example this year, Karnataka, there was a drop in acreages in the overall market size by nearly 12% whereas we have gained 3% volume in Karnataka. So that is the strength of our portfolio and our ability to gain market share. We are confident that as we have expanded beyond AP and Telangana and we would expand our volumes in maize. We would also be addressing an emerging segment which is the spring segment this year. So we are hopeful that our maize volumes will grow up in the coming year.
- Amit Kadam** This 15% sir in cotton has been like in this one of the best years for cotton like considering the acreages as such. We still not able to meet the earlier high of like where we were operating at almost 18%-19% market share. Is there any like visibility, how do we move towards that or this is the new normal where we were happy to be in that 15% like in the lights of increasing competition from the other brands and downtrading kind of thing?
- G. S. Satish** No, our ambition is still to hit higher market share and with the new products coming in and not much new introduction from the other companies, we are hopeful that we will be able to gain market share in the coming years. Yes, 15 is not our ambition, so we would like to go back to the earlier years of the volumes which we had.
- Amit Kadam** Sir like then the question is it is one of the best years where in the last 3 odd years or 4 years in fact where the acreage industry has actually reported good acreages. On the like-to-like basis when the acreages were like almost at this the current level maybe in 2014 odd, we were clocking like somewhere around 84 lakhs packet closer to that particular, but now we are not able to meet that thing, maybe permanent. I just wanted to understand where we are losing out or where other guys are. Is it credit or is it some other strategy or new competitor coming with a better seed. Just wanted to understand like-to-like when the acreages are there, our products are more or less, ATM in fact have ramped up quite well. Why we are not 18%-19% in this year itself?
- G. S. Satish** One thing we need to understand is the year when we sold the maximum the market size was much bigger than what it is even today basically because of re-sowing which happened. So one thing we need to recognize is the market size is much smaller than what it was couple of years back, but if you look at our market share gains, I think our market share gains have been there compared to what we had in the past. So one has to look from that perspective.
- Moderator** Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar** Two questions. One is with regard to cotton outlook for the upcoming year. Keeping in mind that we are now sitting on a very high base, what kind of expectation we should be having for this particular segment and second question is pertaining to 3-5-year horizon from now keeping in mind all the efforts that we are

putting in. You have taken special pain to put across in PPT all the kind of extraordinary effort the team is trying to put in. Where do you see Kaveri getting placed? Will it be seen as cotton company 5 years down the line. Will it be seen as mix of all corn, bajra, vegetable, any idea on that sir?

- G. Vijay Kumar** Mr. Nitin, cotton, point of view next year also as mentioned by Satish, either it is a flat growth or maybe single digit decline we are expecting. But our company, we have already started performing well in western part. We will definitely grow further in the production stage and we will retain the market share and we will grow in cotton also. Coming back to 3 to 4 years or 5 years down the line, our growth plan will be we will definitely grow 15% to 20% in next 4 to 5 years and we want to reduce the cotton dependency, as on date 60% plus on cotton. We want to see increase in the other crop sales; we have already mentioned in the initial remarks also that lot of varieties of hybrids we are releasing in maize, paddy and all non-cotton crops. So we want to see that non-cotton combination of sales should be more than 50% to 55%, even possible to 60% and we have to mitigate the risk by reducing the cotton dependency.
- Nitin Gosar** So, we are seeing the share of cotton which is right now closer to 60 will get reversed down to non-cotton?
- G. Vijay Kumar** 40-45%.
- Moderator** Thank you. The next question is from the line of Abhijit Akela from India Infoline. Please go ahead.
- Abhijit Akela** Just any outlook you could offer on corn for the Rabi season. We have had bit of a subdued Kharif season for corn. But now with the ground water level have risen, what is the kind of growth rate you would be targeting for the second half?
- G.S. Satish** Overall, the corn acreage looks positive for the second half of the year. So these two markets are Bihar and Coastal Andhra Pradesh. Both the markets are looking positive. There might be a growth in Bihar but we don't expect the market to grow in coastal Andhra Pradesh, given that seed production acreage is going up. We are very hopeful that our growth will be there in Bihar. We would possibly like to maintain our volumes in coastal Andhra Pradesh. So we are expecting a growth in the range of 8%-10% as compared to last year in our second half of the year.
- Abhijit Akela** Got it. Thank you. Second if you could just comment on the condition of the cotton crop right now on the field, the Kharif crop both for BT players like yourself as well as for the illegal roundup ready cotton. How is the condition right now and how are the yields on the roundup ready cotton?
- G.S. Satish** Rains in the latter half of the season impacted early picking. So the early pickings were not in the same levels as compared to the previous year. But given the moisture condition, the second and third picking should compensate partly to the loss which the farmers had in the first picking. So overall we expect the produce to start coming more from the second and third picking. Overall, relatively cotton still is a better crop as compared to soybeans and maize which went through stress condition during the peak flowering and grain filling stage. So relatively maize and soybean crop was not as good or even pulses crop was not as good as cotton. I will not be able to comment on the illegal roundup ready cotton, because I think it is quite difficult to get to the farmers and understand how that performance is there because most farmers now are reluctant to share their cultivation practices if they have done illegal cultivation.

Abhijit Akela Got it. Thank you. One last quick question and I will get back in the queue. The presentation talks about significant increase in new product contribution across the range of crops. So how do you define this new product contribution, is it products launched in the last one year or is there a number of years that you look at and...?

G.S. Satish We look at 3 years including the this year. So if you have to say this year we are talking with 17-18. So we have taken 15-16, 16-17 and 17-18.

Abhijit Akela Right. Understand. And if I heard you correctly, I think vegetable season has declined so far this first half. Is there a seasonal pick up that you are expecting in the second half and how do you expect that to trend going forward? Thank you so much.

G.S. Satish Yes Abhijit. The whole industry went through a tough time in vegetables for the first half of the year. It is just not true for us but across different players in the vegetable sector. There is positive upswing in vegetable for the second half of the year for the industry. So our contribution was actually negative as compared to last year. We expect double digit in the range of about Rs. 10-15 crore contribution for the second half of the year.

Moderator Thank you. The next question is from the line of Nikesh Shah from Motilal Oswal Securities. Please go ahead.

Nikesh Shah Two questions. One is on the pricing part of it. How do you think the pricing is going to kind of share up going forward? Is it going to be every year government coming up and changing the pricing of the cotton seed part of it? That is number one and second is on the export part of it. Any strategy have you kind of formulated on the exports at least for the nearby countries closer to India?

G.S. Satish The pricing by the government holds true for a year. The government is suppose to come up with new cotton order and pricing in the month of March. We expect the government to at least hold the prices which have been this year. We don't expect the prices to come down in the future given that the margins are already under pressure. Coming to your second question about exports, we already have a business in Bangladesh for Maize. We are exploring, expanding that business to rice and vegetables in the coming year. We started to do some of our testing in some of the African countries. We are also looking at exploring markets in South East Asia in the coming year.

Nikesh Shah Sure. And on the market share gain part of it, is it also safe to assume that the number one players which initially used to be Nuziveedu has obviously lost a bit of market share. So it is now largely Ajeet and Kaveri who will kind of neck to neck in terms of gaining share or launching new products aggressively in the market. Is that a right assumption?

G. Vijay Kumar New products, Rasi is competing, for some products Ajeet is competing like that. It is not that neck to neck only Ajeet with Kaveri.

G.S. Satish So in terms of our key competitors, it is Ajeet for sure in some geographies. Rasi has emerged as a new competitor. But if we have to say from a new product contribution and from a farmer intention of the product, from the brand choices which are there, we would come in the first top two, in all the markets which we operate. Compared to some of the other competitors we are present pan India except for North. So we are very strongly positioned at the farmer end in terms of the first two choices.

Moderator Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak So I am looking at the presentation and the slide number 16. So there cotton seed revenue of Rs. 462 crore and 69 lakh packets. So when we do the realization per packet, it is about Rs. 670. Now the cap was about Rs. 800, right? So then between 800 and 670, 130 is that the dealer and commissions and all those things? Is that the correct understanding?

G.S. Satish Yes. That is for the trade margin.

Dheeresh Pathak But when you look at year-over-year, this margin has gone down. So you have cut back on the commission that you give to the channel year-over-year?

G.S. Satish Yes, we have tried to rationalize the number of discounts and the type of discounts which we give. So we have tried to optimize wherever possible.

Dheeresh Pathak Is there any further scope to reduce it further or you think this 130 will remain, next year will be around 130?

G.S. Satish There is trade off by reducing that. We think we have reached to a point where there might not be significant reduction in the current trade margins.

Dheeresh Pathak Okay. And is this also linked to the advances that you take at the beginning of the year. So if you take more advances, then you will have to give more discounts, is that the correct understanding?

G.S. Satish Yes, you are right.

Dheeresh Pathak So this Rs. 130 per packet trade discount, this corresponded to what advances you are carrying as of 31st March 2017 for quarter?

G. Vijay Kumar This 130 is not only for advance, it is for many other schemes. Turnover discounts, volume discounts, kind of many things should be linked. We will normally launch around 4 to 5 schemes and the combination of all who participate in rest of the schemes we will pass on the discounts.

Dheeresh Pathak Right. Now I just want to understand that beginning of the season what were the advances that you were carrying beginning this season like as of 31st March 2017 what advances for cotton were you carrying from the dealer site in your balance sheet?

G. Vijay Kumar Total advances we received is around Rs. +200 crore. Around Rs. 150-160 crore against cotton.

Dheeresh Pathak Okay. And this was as of 31st March 2017?

G. Vijay Kumar Correct.

Moderator Thank you. The next question is from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker Sir, just wanted to understand on the cost side for cotton for the next season. How will that move to the farmers?

G.S. Satish Currently the cotton crop is in the field. So the harvesting will start from later half of November. So we will get an idea of recovery rates by the end of December. So the crop has been quite good for major part of the season. So it is quite early for us to predict in terms of the cost of goods of cotton for the coming year. Possibly by January we would have a fair idea where we would land up in terms of per cost.

Chetan Thacker Sir, then on the maize side for Rabi in Bihar, what would be the estimate for the total market share there in our market share?

G.S. Satish The market in Bihar in a good year could go up to 12,000 metric tons. On a normal year it is in the range of about 10,000-11,000 metric tons. We have a market share of about 8% there.

Chetan Thacker And with the expansion in distribution reach what would be the target that we would try to achieve there and who is another player who is strong in the Bihar market as such?

G.S. Satish The key players are Pioneer and Monsanto. So we would expect to reach the lower double digit numbers.

Moderator Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK Couple of things. One is could you give me the breakup of volumes for cotton that is between co-marketing and hybrids?

G. Vijay Kumar Out of total 69 lakh packets sold , 9 lakh packets sales is from co-marketing and 60 lakh packets sales is from direct sales.

Karthikeyan VK You know Mr. Satish, you have done brilliantly well in 3 key markets which is Maharashtra, Karnataka and Gujarat on the cotton side. So is this pace of growth sustainable given that these are fairly largest markets, in those markets that is to say?

G.S. Satish If you look at the market shares in some of these markets I think it is still on a low side, like Gujarat where we just reached a double digit number. So we will have room to grow in Gujarat. Maharashtra is the biggest market in the Country and again if you look into it, the overall market share is lesser than our overall country market share. So we still believe that there is still room for us to grow in these markets. Karnataka has done extremely well this year, sustaining the market share in the mid-20s is something which is our goal. But Maharashtra and Gujarat are still a growth market for us.

Karthikeyan VK Right. And the other question I had was AP, Telangana combined it seems that we are flat to down How do you see the outlook for specific markets over there? Is there scope for improving in that place? How is the credit behavior there?

G.S. Satish We have consciously avoided the credit markets for the last couple of years and we continue to strategically not go into those market to just chase volumes. That has impacted our overall volumes but that is reflected in a better collection as compared to the past.

Karthikeyan VK How big would that market be, your assessment?

G.S. Satish That market would be in the range of about 20-25 lakhs.

Karthikeyan VK Okay. So you have vacated a 22-25 lakhs packets market effectively?

G.S. Satish Yes. So we are already on a high market share in AP, Telangana and again the strategy is to continue to maintain our market share in these two states, in these two geographies which we participated.

Karthikeyan VK Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh Maybe I missed this. But for the year as a whole, what percentage of your revenues will come from cotton?

G. Vijay Kumar Around 60% from cotton.

Shekhar Singh And maize, corn how much will that be?

G. Vijay Kumar Maize is around 20%.

Shekhar Singh And sir, this dispute which you had with Monsanto that has not been resolved, what is the status over there?

G. Vijay Kumar Already resolved in the last quarter itself.

Shekhar Singh So nothing is pending over there, right? Whatever payment has been made that is already done?

G. Vijay Kumar Payment also done. Everything is done. We have accounted it in Q4 FY17 and we have paid all the money last quarter.

Moderator Thank you. The next question is from the line of Amit Vora from PCS Securities. Please go ahead.

Amit Vora What is the status in terms of Pink Boll worm infestation this time around?

G.S. Satish The Pink Bollworm attack in Gujarat has been relatively much lesser as compared to the past years partly because of the cultivation practices which the farmers have adopted and also very strong awareness program from the department. The Pink Bollworm attack is relatively on a higher side in Maharashtra. But the government has taken very proactive steps of trying to control and educate the farmers about it. So overall if I have to say Gujarat has been much lesser, Maharashtra is little higher as compared to the previous year.

Amit Vora And any new instances in any other region like Karnataka or?

G.S. Satish Karnataka has also been lesser compared to the previous year.

Amit Vora Okay. And one question on the balance sheet, you have this time around classified in the inventory, two types of inventory. One is biological inventory and normal inventory, biological assets. So is that the standing crop that we have?

G. Vijay Kumar Yes. As per IndAS I have to value the standing crop also. That is the new format, we have to separately show, we have shown that. In the past we used to club it, now we have shown separately.

Moderator Thank you. The next question is from the line of Saurabh Ginodia from SMIFS. Please go ahead.

Saurabh Ginodia Sir our gross margins in the quarter has gone up from 39% last year to 64.5% this quarter. Sir, what would be the reason for the gross margin improvement?

G. Vijay Kumar The main reason is write offs are almost all zero in this quarter. Last year the same period we had sizeable write offs.

Saurabh Ginodia So apart from write off, is there any other reason for this kind of a gross margin improvement?

G. Vijay Kumar The production in the last year monsoon is good. That is the reason of the share cost of production also bit lesser and the recovery percentage also improved, those have impacted the gross margins.

Saurabh Ginodia And what kind of inventory write off do we pencil in our numbers for the full year?

G. Vijay Kumar First half, we have already written off around Rs 19.19 crore, going forward it will not be in the same range of last year. It will be there but lesser than the last year. Last year, we have written off around Rs. 66.56 crore for full year, this year only Rs. 19 crore written off till date. It will be much much lower than the last year.

Moderator Thank you. The next question is from the line of Vishnukumar from Spark Capital. Please go ahead.

Vishnukumar Sir there was a news announcement stating that Mr. Chandrababu Naidu, our CM is planning to set up a 650 acre seed park and calling in almost about 100 odd companies across the globe to set up shops there. Just wanted to understand whether this is an opportunity or a threat and if at all if there is any fiscal benefits from this? Just wanted to hear your views on this.

G. Vijay Kumar See, he wants to establish a seed park in 650 acres in Kurnool area and whereas we normally will take more than a lakh acres for that lease purpose. In the same coast and same districts we will get more than 20,000 acres on lease. It will not impact much. This 650 acres will no way benefit to us. They are calling many industries and it will not benefit us. Anyhow there is no tax benefits available for this industry. It is already we are enjoying the tax free benefits. I don't think that for us any great benefit will come.

Vishnukumar Okay. But one of them, they are also saying that they want to establish AP as a seed exporter per se. So does this help you indirectly? Just from the government push side I am trying to understand. Is the government going to be supportive in the material way compared to the other states from that site?

G. Vijay Kumar hat AP CM is projecting that part of land is more fertile and most of the companies will take lot of land in lease. He wants to give some space for the corporate office, establishment because they can be near to the cultivation area. For exports point of view that even Hyderabad is same distance for the ports and all the proposed area not close to any coastal districts. So any new company which is entering into India that would be beneficial. For existing company like Kaveri it will not make any difference.

Moderator Thank you. The next question is from the line of Abhijit Akela from India Infoline. Please go ahead.

Abhijit Akela Just a couple of quick clarification. In 2Q was there any cotton lint sales and if so how much was it?

G. Vijay Kumar The cotton lint sale in Q2 of this current year is zero.

Abhijit Akela Okay. Second, did I hear you correctly that you said this year you are planning to spend about 3-4% of sales on R&D, is that the right number?

G. Vijay Kumar Yes, we are now giving lot of thrust to R&D and we are spending a lot.

Abhijit Akela So I think until last year, it was around 2% or less than that, is that right?

G. Vijay Kumar Yes 2%. Now we want to increase that.

Abhijit Akela So that is a substantial increase. And any specific areas you are targeting or is it across the Board?

G.S. Satish So most of the expenditure in R&D is towards people and other technologies. Most of this additional investment would go to hiring more people. We have hired significant amount of additional manpower in R&D in the last 6 months. We have also signed up few agreements for germplasm acquisition from different institutions. So that is some additional expenditure. We are looking for going for a customized software for R&D. So the most of this expenditure would go into these areas. As Vijay indicated little earlier, we are also looking out for additional land for expanding our R&D activities.

Abhijit Akela That is great. And lastly one quick clarification. The GST status on seeds I believe there was some ambiguity earlier in the year. So has that been resolved and what is the final rate that is applicable to seeds and what has Cauvery accounted for in the first half?

G. Vijay Kumar Abhijit, that was clarified by the government of India by releasing corrigendum in July. There is no tax on sowing seeds. Prior to corrigendum, there is an ambiguity by packet and branded crops, there is a 5% GST. Post that they released specific corrigendum after representation made by the seed industry. There is no GST on any seeds which are going for sowing.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Satish for his closing comments.

G.S. Satish Thank you. 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 continue interest and support. If you have any further questions or would like to know more about the company kindly reach our Investor Relations desk. Thank you from myself and Vijay.

G. Vijay Kumar Thank you everyone.

Moderator Thank you. Ladies and gentlemen, on behalf of Kaveri Seed Company Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

- ENDS -

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