



Kaveri Seed Company Limited

Q1 FY16 Earnings Conference Call Transcript

August 14, 2015

Moderator Ladies and gentlemen good day and welcome to the Kaveri Seeds Q1 FY16 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 the 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 of CDR India. Thank you and over to you, sir.

Vikram Rajput Good afternoon everyone and thank you for joining us on Kaveri Seed Company Limited's conference call. We are joined today by Mr. Mithun Chand - Executive Director of the Company. I trust you have acquainted yourself with the highlights of the Company's results as shared in the presentation.

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 risk and uncertainties 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 Mithun, who you take you through the strategic imperatives and performance of the Company during the period and the review. We will then have the forum open for an interactive question-and-answer session.

Now I would like to invite Mithun, to share his views.

Mithun Chand Good afternoon and very warm welcome to all of you. Kaveri Seeds is poised very favorably in the seed industry and is partaking in an exciting growth opportunity. We have continued to grow despite economic and sector headwinds and we believe we have the levers in place to consolidate our position meaningfully.

It will be my endeavor over the course of discussion to give you some perspective on the Company's performance in this quarter and way forward in what has started out to be challenging year for the sector. As many of you are aware FY15 was a drought year and FY16 is expected to follow a similar path as per IMD forecast and we are already witnessing it now.

Cotton volumes and acreages have dropped significantly. Further the segment was impacted by discounted selling by unorganized players, MRP cut by Maharashtra government and crop rotation in favor of pulses and soya. This season also turned out to be one of the shortest seasons in terms of the selling window available. A window that as you know has a duration of 3 – 4 weeks, this year lasted for just 10 days.

Against the backdrop, the Company has reported an encouraging performance with revenues of Rs. 6,644.7 million. In Q1 FY16, we have sold around 54 lakh packets in cotton against 73 lakh packets in Q1 FY15. Cotton volumes moderated due to low acreages in some market like Guntur, Rayalaseema, and Karnataka, which are Kaveri strongholds and where we have more than 60% market share. Even though the volumes are low we have maintained market share there. And we have increased the market share in the non-credit markets of MP, Gujarat and Maharashtra. Kharif acreage witnessed a decrease leading to a decrease in maize volumes by around 8%. And in terms of the tonnage we have done 4,500 tonnes compare to 4,900 tonnes last year. In terms of the revenues it is Rs. 65 crore this year compare to Rs. 71 crore last year. Hybrid rice reported healthy growth compared to previous year. We have down around 1,850 tonnes compared to 1,450 tonnes last year.

I am pleased to share the profitability profile of the Company improved during this quarter with EBITDA margin at 34% to 600 basis points year-on-year enhancement and PAT margins and 32.9% a 500 basis points year-on-year enhancement. Margins have benefited from a strong focus on non-credit markets which has deliver better than the industry average realizations. Additional emphasis on 'Cash & Carry' segment has helped margins as well as receivable management. The quarter also witnessed lower royalty payments, which were calculated on the prices submitted by recommended institutions to relevant state governments.

Total debtors as on 30th June 2015 stood at around Rs. 210 crore and the total cash balance on 30th June 2015 was close to Rs. 350 crore against Rs. 300 crore on 31st March 2015. Usually we have high cash balances on 31st March and the balances are low on 30th June but this time they have been managed well in terms of the receivables. We are focused more on Cash and Carry because two back draught years may have impacted our receivables. So that was our strategy this year which helped us manage receivables well.

Looking ahead, we believe the current scenario is a temporary slowdown and the long term cotton story remains intact with the advent of high-density planting, mechanical harvesting and the likely approval of BG2RRF. We are optimistic of maintaining our cotton market share position in Telengana and expect to make meaningful gains in the non-credit markets of MP, Gujarat and Maharashtra. We have already successfully introduced two products in cotton, gaining meaningful traction. On the non-cotton side, we have a sizeable portfolio which has witnessed increasing acceptance in the marketplace.

The success of the established products like Jaadoo, ATM and the newly launched one has already safeguarded growth of the Company from 3-5 years perspective. For the longer-term, we have strong confidence in our R&D capabilities and remain focused on developing high performance hybrids which will be future leadership products in their respective segments.

To sum up, the structural drivers of Kaveri will continue to strengthen. Our superior R&D, strong product launch capabilities, brand salience, farmer relationships, human capital efficiencies, and strong financial position have placed us on a firm

footing to capture emerging sector prospects and drive sustainable long-term growth.

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 very much, sir. Ladies and gentlemen we will now begin the question and answer session. Thank you. We have first question from the line of Amit Vora from PCS Securities. Please go ahead.

Amit Vora My first question pertains to the royalty payment that you have mentioned in the presentation, can you just explain that in detail?

Mithun Chand The royalty is selected as per the institutes which are suggested by the state governments which is the main factor in fixing the MRPs. This year we have taken that into consideration and as per the advisors we have provided Rs. 20 as royalty to the sales of Maharashtra, Rs. 50 to the sales of Telangana and 90 Rs. to the states of other states and Rs. 185 to states like Northern Indian that is Rajasthan and Punjab, Haryana. So if we would have done the normal royalty the total effect comes around Rs. 64 crore on the total volumes including taxes.

Amit Vora 64 crore is what the reduction in the other expenditure?

Mithun Chand Yes.

Amit Vora Can you give you give me the break-up volume in respective states?

Mithun Chand Maharashtra is around 11.75 to 12 lakhs, Telangana is around 19 lakhs. There may be some variation in the numbers I can give the exact figures later.

Amit Vora Yes. And going forward in Q2 what is the expectation as far as further sales are concerned.

Mithun Chand So last year Q2 was a very good, we had very good sales because most of that was contributed by Karnataka and Guntur market which is a late market when compared to these other markets. But as of now we have not witnessed any rainfall in markets like Karnataka and adjacent to Karnataka, Rayalaseema markets and Guntur the acreages are down. So year-on-year even in Q2 we will be down in terms of sale.

Amit Vora So what is the expectation that we would be doing in terms of total sales.

Mithun Chand Total for the year against 54 lakh what we have done now we might close in between 60 lakhs to 62 lakhs for the entire year.

Amit Vora Okay. And there is some bit of improvement in terms of margins due to contraction in dealer margins as well is that a right assumption?

Mithun Chand Not exactly because of the dealer margins but because we only focused on the Cash and Carry basis. That has helped to pass on higher prices to the farmer. Usually most of the trade gets stated below Rs. 900 but this time we were able to sell at 880 to 900 plus in most of the markets. That is what helped us increase the margin this year.

Even in Maharashtra though we have done only 11.75 -12 lakhs compared to 13 lakhs last year we have increased market share. Government issued an order to reduce the MRPs in the peak season that is June 6-7th, we have not supplied the stock and we have waited for the court order. In the meantime we have lost a lot of sale.

We have seen a very short window this year. It all happened in the span of ten days. So in that phase we lost a lot of sale in the peak season. Even though we have lost a good amount of sale in the peak season because we had a very good brand reputation in market it has helped us to increase the market share. The volumes are down in this year, most of the volumes are down in the credit markets which I explained earlier like especially like Telangana apart which is high credit market; we followed a strategy not to supply in those markets. And non-credit markets we have gained most of the market share.

Amit Vora Has Monsanto agreed with the payment that you have made to them and is that going to be the order going forward?

Mithun Chand: Most of the industry and most of the players are united now and we have already submitted a letter to the Monsanto saying that this is how we are following it and in fact we are even asked to refund the money from 2011 onwards when the order came. Because state governments have advised us to follow the pattern what government used to follow because when we were asking to increase prices the state government said that this is the price what we have fixed and as there is an MRP Act which everybody should follow. So we are following those guidelines now.

Amit Vora Can there be a possibility that they can demand this from you it comes against the industry?

Mithun Chand There is always a chance but most of the opinions about what we have done and the governments are also in favor of the companies saying that it is not viable for the companies to do it. And as per the law they are pretty sure that they regulate the entire prices. There many cases pending against the Monsanto which clearly define that they need to reduce it.

Moderator Thank you. Next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara Just wanted to ask regarding the earlier question that was asked just an extension to that, what is the next year's guidance that you foresee for the royalty payment?

Mithun Chand We will follow the same trend unless and until disputed. If they dispute then again that goes to a different side but as an industry we are united and we will follow the same pattern.

Kashyap Pujara And this amount that you are mentioning it is not that you are paying say 185 and recognizing this much. Basically the payment itself has been reduced as per the government so there is nothing like sub judice on that you are paying under protest, etc.

Mithun Chand The provision what we have made say for example we have made a provision of some Rs. 90 for rest of India even that we have not paid to Monsanto till date. We are asking for that to be adjusted in to the previous arrears.

Kashyap Pujara No, just to reconfirm basically you mentioned that Rs. 64 crore was the difference in the other expense Rs. 64 crore reduction was due to lower royalty. So that much amount has been provided for in the balance sheet in case if the case reverses?

Mithun Chand That is not provided in the balance sheet.

Kashyap Pujara So we have not made any contingent provision?

Mithun Chand No, we do not have any contingency as of now.

Kashyap Pujara Okay. And because even Monsanto according to you will contest with the government and because this is going to be while we will contest with them Monsanto will also go and contest with the government. So how do you think the resolution will happen and what is your view on it? Do you think it will be prudent to provide?

Mithun Chand No, we think that what we are providing should be accepted because earlier also there was a reduction in royalty from Rs. 1,200 to Rs. 150, that even though Monsanto has protested, they lost the case in fact. So even these reduction is in line with it. Recently in the court of Nagpur where Maharashtra government has intervened and slashed the price to Rs. 830 the royalty was considered as Rs. 20 and when we approached government they gave us the clear instruction that Rs. 20 is the money which as a company we need to pay to Monsanto, so we are sticking to state government.

Kashyap Pujara Yes, no, absolutely correct. But it becomes like it is just 10% of the total royalty. So it is so surprising to see how this will unfold?

Mithun Chand Maharashtra is a least here but most of the other states we have provide 90.

Kashyap Pujara Fair enough and just one more aspect would be that, this year you mentioned that your realizations stood at 880 to 900 in most markets, right?

Mithun Chand We were able to sell at 880-900. Over and above that we need to give discounts to the channel. So the realizations again this year will be in between Rs. 790 to Rs. 800, the net realization to the Company after the discounts and scheme. If you see even though the prices were slashed by Rs. 100 and that has got a spillover effect on the other states even in that scenario we were able to pass it on, we were able to realize more than the industry and the receivables are also well managed. So that itself shows the brand acceptance in the farming community. And going forward we do not see that have any effect on our market share and we are definitely going to gain our market share for next year. As a strategy we have not supplied and this was backed by us not having enough inventory to place in advance. So all of this has made us to go to that sort of strategy and as of now we believe that what we have followed is right strategy. We are seeing this year again most of the cotton areas are affected by severe draught so, we expect this time the receivables would have been very difficult if we would have extended the credit.

Kashyap Pujara Correct, fair enough and this year your view of the overall cotton market would be what 4.5 crore packets what would your sense be?

Mithun Chand Last year the market stood in between 5.3 crore to 5.4 crore packet market. This year we started with around 5 to 5.1 but end of the year now as we are thinking it should be between 4.2 to 4.3. Initially, we thought it should be 4.5 or 4.6 but most

of the markets like Karnataka, Rayalaseema, more than 50% to 60% of the markets are down.

- Kashyap Pujara** Okay. And you do not see any incremental volume from re-sowing in the overall market like I think last year there was good amount of re-sowing which happened due to which the size was around 5.4. So this year what is your view on that?
- Mithun Chand** Most of the season is already done. Even last year if you compare from 5.4 to 4.2 or 3 you see a reduction in area of around 18% to 20% but technically the area got reduced by only 6% to 8% because of the re-sowing factor. The volumes are reduced by close to 18% to 20%.
- Moderator** Thank you. We have next question from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar** Sir, just conceptually I wanted understand this you have been able to up your sales in non-credit or limited credit market market. Could you give a break-up between the non-credit and credit market, how is the cotton split between these two?
- Mithun Chand** Last year we had done around 16 lakh packets to 17 lakh packets in Telangana credit market. This year it is hardly around 7 lakh to 8 lakh packets.
- Nitin Gosar** So when we say credit market it is only limited to Telangana?
- Mithun Chand** Yes, most of the markets are there in Telangana. And even the competition had supplied at much lower rate and credit so that we are not incurring in this year.
- Nitin Gosar** Intuitively the non-credit market should command low margin or it should command premium margin or higher margin?
- Mithun Chand** So it should be in line but the credit time will be higher. In the sense even though suppose we realized Rs. 20 or Rs. 30 more than the cash market but if you adjust that to the time period it will be more or less same. That is how it is calculated.
- Nitin Gosar** So margin difference does not exist and it is more to do with the cash payment that you get upfront?
- Mithun Chand** The cash payment.
- Nitin Gosar** And what is happening with the competitors, how are they faring up for this particular season?
- Mithun Chand** Basically, this time in most of the market as we have seen the volume is down by around 18% to 20%. Most of the players have been affected and especially the branded players and have not extended credit. Smaller players have gained the market share in some areas.
- Nitin Gosar** So if I were to recollect almost last year during the start of the season you were saying that this year we have excess of production and possibly the smaller players will get wiped off, the things have totally gone the other way by end of the season and even this year it seems that the smaller players are surviving because of high credit period which they are willing to offer.

Mithun Chand Usually it is the smaller players who sets in credit in these markets. When you take markets like Maharashtra or MP, the branded players have gained. For example in Maharashtra we have gained market share compared to previous year even though we have not supplied seed in the peak time. And if you see the acreages even though they are down only by 6% to 7% as a whole most of the acreages have grown in areas like Telangana and declined in the area like Maharashtra, Karnataka, Guntur is a cash market and again in Rayalaseema. So the majority of the reduction was in the cash area and the increase was in the credit markets. That is the reason we are seeing compared to previous year some market gain by smaller players that too in the credit market.

Nitin Gosar And on the current backdrop would you be now upping your production requirement for next year?

Mithun Chand Yes, we are in line with our production and with our normal estimate. This year again we are planning a production of around 1.1 crore for the net inventory. Because again this year we have seen a loss in the production area after the net loss. As of now it stands we will get around 1.1 crore packets. So again we are targeting around 9 million packets next year.

Nitin Gosar Opening inventory for us what this year?

Mithun Chand This year, it has the inventory started around 8.5 to 8.6.

Nitin Gosar Okay. So we would be sitting on some 22.

Mithun Chand See around 15 lakh to 17 lakh packets.

Nitin Gosar Okay. And sir on this royalty fee income you mentioned there was gap of 64 crore. So 64 crore is something that you have opted to follow the guideline and not provide for?

Mithun Chand Yes, in case if something goes wrong this that is the maximum what we provide as a liability.

Nitin Gosar Okay. And I am just trying to understand this would work out on average basis per packet to what amount, the overall payment that you have done?

Mithun Chand The difference between which market what amount we have sold so based on that we have calculated I am saying the net effect of it.

Nitin Gosar Okay. And state government do have an option to take a call on royalty?

Mithun Chand Yes, everything is fixed by state government.

Nitin Gosar So intuitively this business is now in the hands of state government when it comes to pricing of the end product.

Mithun Chand Earlier also it was there with the state governments only in terms of the fixation of the MRPs of the cotton seed. Government intervened in cotton seeds in 2005 since then it is all regulated by the government only. It is not a new thing which they are doing it.

Nitin Gosar Point taken but again kind of change we have seen in last 24 month wherein you know 18 months back or 24 months we are seeking in some kinds of price escalation for our MRPs and now here is the time when government has come hard and in-fact slashed the royalty. I am just trying to understand.

Mithun Chand The royalties were fixed in 2010 level and we never opposed to the technology provider or to the government and always we were requesting to increase the prices. But the parliament clearly mentioned this time these are the prices which the government has fixed for this year and we are not able to increase the prices on the backdrop of last year's draught and we cannot pass it on to the farmer. So they said clearly we are not going to increase the prices this year and they clearly guided the seed companies these is the royalty portion what you need to pay, if you pay excess that is up to the seed companies and them but as a government this is what it is.

Nitin Gosar So this impact the upcoming technology which is there in offering from Monsanto?

Mithun Chand It is too early to say about it.

Moderator Thank you. Next question is from the line of Alok Deshpande from HSBC Securities. Please go ahead.

Alok Deshpande My question is I may have missed this number, what was the cotton sales in value terms this quarter?

Mithun Chand Value terms it is Rs. 480 crore compare to Rs. 640 last year.

Alok Deshpande 480, okay. And just wanted to understand how are the sales of ATM in Maharashtra? Overall you said it was 12 lakh packets so out of that how much ATM?

Mithun Chand ATM is close to 6.5 to 7 lakhs in Maharashtra but as of now I do not have ATM figures but compared to previous year the majority which has grown is ATM.

Alok Deshpande Okay. So last year if I remember correctly it had grown to about 3.5 lakh?

Mithun Chand Yes.

Alok Deshpande So that has again grown almost 80%-90% you are saying?

Mithun Chand Yes. But anyhow I will confirm the figures later on.

Alok Deshpande And just one question you said that the market share overall even in the state of AP, Telangana is you have managed to maintain it and it has grown in Maharashtra now. Looking at almost 25% fall in volumes and cotton seeds so has the market also sort of degrown by a similar quantum?

Mithun Chand The volumes have degrown at 18% to 20% but we have lost our market share in the credit market.

Alok Deshpande Okay. So the market decline in terms of volume has been about 18% to 20% in your opinion.

Mithun Chand And as a volume we have declined close to 30% because basically the market share in the credit market were down and we have increased market shares in other parts but in the other areas where we had 16%-17% market share the acreages were down by more 35% to 40% as a whole it looks like only 8% to 9%.

Alok Deshpande Okay. And now you said you would have an inventory about a crore starting next year. Is that correct?

Mithun Chand It should be more than a crore, left out and the new fresh inventory it should be between 1.1 to 1.2.

Alok Deshpande And just one last question sir. If the situation continues what it is right now in terms of regulatory conditions also, in terms of state government, and also in terms of cotton farmers, would you be continuing with the same strategy of focusing more on the cash markets and restricting a little bit on the credit markets?

Mithun Chand As of now I do not think we will continue for the next year because we had a drought last year and we already had a 150 odd crore of debtors at the starting of the year. So as a strategy we clearly focused on getting back the previous debtors and whatever is there we will do it in a Cash and Carry basis. And we wanted to increase our realization rather than focusing on the volumes. Because once you extend the credit there is likely chance that the realizations will be lower. The acreages are also under stress in most of the area and even that added a double impact like the last year's debtors and this year's debtors then it would be huge burden for us. Basically we wanted to collect the entire money and we did not want to take any risk with the channel. That is why even we lost some of the market this year. .Also we have not given any higher discounts to the distributor dealer and most of the competitor 'prices were much lower than ours. So the realizations were much lower in their aspect.

Alok Deshpande So that means you have reached a level where you will be in a position to extend a little more credit next year even if the same situation continues?

Mithun Chand Yes.

Moderator Thank you. We have next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella If you could just clarify how much volume would we have lost in Maharashtra because of those not selling for those few days?

Mithun Chand At least close to 0.5 million because we have not participated in the peak season, 5 lakhs to 6 lakhs we might have lost.

Abhijit Akella And also just wanted to check if I exclude the Rs. 64 crore impact then it seems like margins have fallen from 28% last year to maybe around 24% this year excluding that 64 crore whereas your net realization is I think quite stable at almost Rs. 800. So this reduction in margin would be due to what?

Mithun Chand Basically last year the base was high, the other expense as a percentage. In other expenses you get advertising and staff expenses into it, that is small portion. And in some areas even in Andhra we have billed at Rs. 920 to Rs. 930. The average billing has gone up by Rs. 15 compared to previous year.

Abhijit Akella But the revenue has counted on the MRP, right?

Mithun Chand Last year we billed at Rs. 890 in Andhra. This year in some markets we have billed at Rs. 930 also to maintain the prices. So in terms of net margins you might see a decline of 3 to 4 but actually it is much lesser than that might be 1% or 2% lower because of the other expenses which includes field staff, advertisement, and everything.

Abhijit Akella Right. And also how do you see the competitive market environment for next season now? Can this kind of competition continue do you think and how is the industry outlook basically?

Mithun Chand Basically, we have lost market share because we have not placed the stock in advance in the dealer community. As I explained in the earlier note the window was very small and we were only targeting cash and carry. So the dealer needs to pay cash and he will get the stock only after two days or three days. So whatever was placed before 15th or 16th got sold and that was in peak time. So going forward we do not see any threaten terms of the regaining market or in terms of market share because as the demand for the product is pretty good and acceptance in the farming community is very good and we have seen a very good results in terms of the existing hybrid might be ATM or Jaadoo and the other newly launched hybrids are also doing well. In that way we do not have any problem and if you see our volume what we are planning for next year that itself shows how confident are we in improving our sales next year.

Abhijit Akella Yes. But in terms of the credit environment you think it has improved from last year so you will be more comfortable?

Mithun Chand Yes, in terms of the Company we are more comfortable but in terms of the industry it is very bad.

Abhijit Akella But so you will be comfortable competing on credit next year.

Mithun Chand Yes. Because most of the money is already required for us and out of Rs. 210 crore what we have as debtors that are only maybe around Rs. 50 crore to Rs. 70 crore might be from cotton, rest is all from non-cotton.

Abhijit Akella Right. And also on corn and paddy if you just talk about how those markets have done, corn why has it degrown?

Mithun Chand If you take corn markets we have got very good strong hold in Andhra we have got close to 25% to 30% market share as a whole and in Kharif we have more than 30% market share in Andhra. But if you see the market in combined Telangana and Andhra Pradesh, the markets are down by more than 35% this year. Markets have grown in areas like Maharashtra where we are very weak and Karnataka remained same. Initially we thought that the Karnataka acreages will go up but we have not witnessed any rainfall as 25 days or one month. So in that scenario we have increased our market share even in Andhra. Even though the markets are down by 40% in Andhra we are not down by 40% in Andhra we are down by only 20% in terms of the sale. And we have gained market share in areas like Karnataka and other parts. Overall, the maize acreages might be down by 8% to 10% but most of the downfalls was there in Telangana and Andhra. If you see as of now the condition of the maize crop in both the states in Maharashtra is very bad and I think most of crops is already lost because of the long dry spell.

Abhijit Akella So what would your estimate be for the maize market this year and hybrid paddy market?

Mithun Chand In terms of the hybrid paddy, we have grown by more than 20%-25% compared to last year, we have done very well. The market remains there but we have grown in terms of the market share and especially we have grown in like Chhattisgarh and UP this year. And going forward in maize as of now the prices have touched Rs. 14 but we do not think the maize acreages will be that encouraging for Rabi also as of now.

Abhijit Akella Okay. So market was still below 100,000 tonnes maize?

Mithun Chand Last year itself it was close to 85-88 I think this year it should in 80,000 to 75,000 tonnes.

Abhijit Akella One last question and I will get back. First of all, next year do you think there is a chance that AP and Telangana can also impose reduction in prices and also I think Telangana Government had talked about Rs. 40 per packet increase in the cost of production? Will we have to do that and if so how do we offset that in the margin? And secondly, also this whole Monsanto issue is in the courts now. What according to you will be the timeline for settling this and by when the court decide so that we finally get some clarity?

Mithun Chand Too early to talk about it, it takes a long time to settle in terms of the Telangana Government. Fixed the royalty of Rs. 50 and they have instructed the companies to pay Rs. 330 to the production farmer and that we are already doing it. That is the reason we think that the it is most unlikely that they will decrease the prices because they are the one who has guided us to pay more. So we do not see the Telangana Government coming into picture now as of now.

Abhijit Akella So for FY16 the production cost per packet is already at 330?

Mithun Chand No, from last year itself it has gone up but now it is mandatory to pay for. So compared to last year the production cost for the Company has not gone much.

Abhijit Akella Okay. So there will not be any increase in production for us?

Mithun Chand No.

Moderator Thank you. Next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf Sir, firstly, you had mentioned that you have not sold the cotton packets in the credit markets and you have seen more of these unorganized players selling in those markets. So with monsoon situation getting worst after the first month, do you see huge bad debts for these unorganized companies and so you or the other branded players will be in a better situation next year, do you see this kind of situation at all?

Mithun Chand Yes, it will be a difficult time for the companies who have extended credit this year, we think that recovery this year will be a big issue. If it continues for one more month then it will be very bad.

Mukesh Saraf So in this year itself what do you think would be top five players market share versus last year if unorganized have gained?

Mithun Chand So unorganized have only gained in the credit market which is basically in these areas. In terms of the market share slightly maybe 8 lakh to 10 lakh packets that

might have been gained from the non-organized players. We need to consider other point that the volumes are itself down by 18% to 20%.

Mukesh Saraf Just coming to the next question you had mentioned that you are targeting 1.1 crore of inventory and at least sale of about 0.9 crore packets next year. So this gaining back of market share this would be easy for you? You are now at maybe 12% - 13% market share down from your highs of 70.

Mithun Chand No, I do not think the market shares will be down. In terms of market share we see the market around 4.2 to 4.3 and we will be ending up with 60 odd lakh packets. So in terms of the market share we will be close to 15% to 16%.

Mukesh Saraf And your other income – if you look at fourth quarter your cash was 300 crore and now you are saying 350 crore, your other income is still much below your fourth quarter other income so is there some timing issue or what is this?

Mithun Chand Basically some might have parked in the longer tenure and some we might have not redeemed. Once we redeem, it will come into it.

Mukesh Saraf Okay. And lastly, with the government now interfering in your royalty payments and in your end market pricing, do you see any kind of interference now or change in the taxation regime? Do you think they can even look at that and try and correct that also?

Mithun Chand Both are different things. The price control was already there for the last 10 years. It is new subject but most of that is being focused on now because they are not able to increase the prices. Recently, we have seen the Maharashtra Government intervening. Otherwise it was an old thing. Both are the independent things and we do not see any correlation relation between these too.

Moderator Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak Mithun, can you give me the absolute royalty paid this year and last year?

Mithun Chand As of now I do not have the figure but the net difference will be around 63 crore for the first quarter.

Dheeresh Pathak Okay. And if I calculate it at last year numbers at 180 into number of packets that will be...

Mithun Chand It is not exactly 180 in some states it will 184, some states it is 200 inclusive of tax. In Northern India we pay around close to Rs. 200 inclusive of tax.

Dheeresh Pathak And then just to understand this better that Rs. 20 in for packets sold in Maharashtra, Maharashtra Government reduce prices by Rs. 100 and you reduced Monsanto's royalty by almost Rs. 160.

Mithun Chand So it comes around the same Rs. 150 because the tax is also a portion in it.

Dheeresh Pathak: Can you just explain a little bit?

Mithun Chand Close to 160.

Dheeresh Pathak 930 to 830 Rs. 100 reduction in your price and Monsanto's royalty has gone down from 180 to 20 so 160. So why is the royalty decrease to Monsanto more than the decrease in the selling price?

Mithun Chand This was decided by the Maharashtra Government and that was the court order which was given by the Nagpur court so we have followed that judgment by considering Rs. 20 as royalty.

Dheeresh Pathak Court said to pay Rs. 20 as royalty or government said to pay Rs. 20 as royalty?

Mithun Chand See government usually arrives at the value recommended by the universities. For Maharashtra the Rahuri University has calculated the entire production cost, distributed cost, company's profit and everything and calculated the royalty at Rs. 20 and then fix the price as Rs.800.

Dheeresh Pathak Okay. But the court has not said to pay Rs. 20. This the university and therefore the government has said.

Mithun Chand Court will usually get not involved in it. It was based by the government opposed by the other company, the court gave decision in favor of the government so that means that the government is right and the royalty should be maintained in that portion.

Dheeresh Pathak So the difference of Rs. 60 that has gone to you or that you have given to the farmer.

Mithun Chand See that you are only talking about one state when you talk about arrears in other states it has got a spillover effect in other states also. It is not particular to one state.

Dheeresh Pathak Okay. But at least in the Maharashtra you would have benefited by Rs. 60 per packet.

Mithun Chand The realization should have come by around Rs. 730-740 only.

Moderator Thank you. Next question is from the line of Balvinder Singh from B&K Securities. Please go ahead.

Balvinder Singh Firstly, if you can give me the sales of corn and rice for the first quarter in rupees crore.

Mithun Chand For maize last year it was Rs. 71 crore this year it is around 65 crore.

Balvinder Singh And paddy?

Mithun Chand Hybrid paddy last year was around Rs. 38 crore. This year it is around Rs. 45 crore. And overall paddy last year it was around Rs. 68 crore this year it is around Rs. 74 crore.

Balvinder Singh Secondly on this Monsanto Mahyco royalty – why should Monsanto accept lower royalty when in previous years also when the government sets cotton seed prices they give a reference royalty rate which is lower than Rs. 180 per packet so even at that time we have paid Rs. 180 per packet so why should Monsanto accept lower

royalty this year? And how do you decide that given that the government has asked to pay Rs. 20 only?

- Mithun Chand** Previous years as a seed company we have never given any intimation or we have not made any recommendations saying that we will not pay any royalty .We have paid the royalty in the previous years as per the agreement. But this year we were trying to increase the prices and the government strictly instructed us that this is the royalty you need to pay and there is no scope of increasing the prices as of now. That is where the major seed companies have come into this decision and then they are not paying the higher royalty and that was communicated Monsanto.
- Balvinder Singh** Yes, so as I understand is that there is change on the pricing stands by the government that you need to reduce your prices by Rs. 100 per packet in Maharashtra?
- Mithun Chand** No, it was not a new one but government is repeatedly insisting on it. If you see the recent order like Rs. 20 the Maharashtra Government, Rs. 50 by Telangana Government these are all the recent orders which they are re-insisting on that this is the norm which needs to followed.
- Balvinder Singh** Yes, maybe one year or two years back this royalty would have then be told Rs. 50 or Rs. 60 per packet by them but at that point of time...
- Mithun Chand** But it was there from 2011.
- Balvinder Singh** Yes. So at that point of time we paid Rs. 180 per packet.
- Mithun Chand** Yes, we voluntary paid it.
- Balvinder Singh** Okay, so this time I think is there an insistence by the government also that you pay only Rs. 20 or just because seed companies want they have paid lower?
- Mithun Chand** One is from the government and then seed companies. Because government clearly mentioned that there is no scope of increasing the prices because we are trying for the last four year this year they have made it much clear.
- Balvinder Singh** Because I think it is a private agreement between the Company and Monsanto?
- Mithun Chand** And even in some court orders, even in this government order the government said that no private agreement is valid.
- Balvinder Singh** Okay. Next question is like I believe maybe two quarters back you had told that this year inventory when you begin FY-16 will be close to around 1 crore packets while now you say that the inventory was lower at something like 70 lakh - 75 lakh if I am correct.
- Mithun Chand** No, inventory should be in between 85 to 87 I said in the concall.
- Balvinder Singh** So what went wrong because last time I think you told that 1 crore packets was the inventory maybe in Q4 call or some other con-call.
- Mithun Chand** We have lost some sort of sale. The other thing is the live seed what we have received from farm because of the untimely rainfall we have received seeds which are not fit for germination so we have discarded. That will not have any impact on

the inventory cost because we pay only for the seeds which are fit to norm. We have got some standards set for it and we only accept those seeds.

Balvinder Singh Okay. So as of now for the next year we are like we are guiding for 1.1 crore packet?

Mithun Chand Yes.

Balvinder Singh And sales of around 90 lakh packet?

Mithun Chand Yes. Actually we started with more than 1.3 crore but already we have lost because of the unseasonal rains this year decline of around 2 million.

Balvinder Singh Okay. And lastly this your current market shares seems like 15% or so for this year so what would be the sales packet sold by the largest competitor?

Mithun Chand Too early to talk about it. Everybody is impacted by the sales. We will be the second player in the industry. The biggest was Nuziveedu last year with around 92 lakh - 93 lakh packet. I think definitely even they have might have lost the sale but it is too early to say because they have actively participated in the credit market this year and I am not sure about those markets.

Balvinder Singh And lastly, any proposal on buyback being discussed by the management?

Mithun Chand No, as of now nothing has been discussed.

Moderator Thank you. Next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia I will start up with follow-up on the previous question in terms of Nuziveedu's participation in the credit market as well. If you can help break-up the overall industry into cash market and credit market in terms of size and if you can identify specific districts particularly you mentioned Telangana so is it Adilabad or Karimnagar or Khammam which one would be the more credit market and less cash market?

Mithun Chand Basically the credit markets are Nalgonda, Mahbubnagar, Rangareddy, parts of Medak, and Adilabad. These are the major credit markets and even in some districts like Guntur also you have the credit market but the cash components much higher in these markets. So these are the markets where we had more than 50% market share. And this year the market share might be down to around 25% to 30%.

Jigar Walia Even in Guntur and all your market share will be down.

Mithun Chand No, Guntur we are high, Guntur we have maintained market share. In Rayalaseema we increased our market share. Even in Karnataka we will be maintaining our market share. We have increased our market share in like Adilabad and Warangal. We have increased our market share in Maharashtra. We have increased our market share in Gujarat. If you see in Gujarat compared to previous year we have sold close to 2.6 to 2.7 lakh packets in Gujarat compared to 1.5 last year so, we are grown by more than 70% there and Gujarat is early market so we have supplied there and we have got market share. The basic reason why we have lost market share is that we were insisting on the cash and carry we have not placed this stock in the channel and the season was so fast. The cash and

carry model I mean to say that, that was right strategy but the season so small we were not able to supply the quantity in a shorter time because it takes at least one and half to two days to execute the order once they receive the payment and the execution. And in Maharashtra we have lost more than half a million volume because we have not supplied in the peak time because we were waiting for the court orders because we did not want to decrease the realization. If you see in Maharashtra even though we have done 11.5-12 lakh packets in Maharashtra at an MRP of Rs. 830 still our realization is close to Rs. 790-800. So even the channel has not supported us this year because they were not left out with any. And we were ready to forgo volumes because we were interested more on the cash basis.

Jigar Walia And overall, if you can split the overall market volumes in terms of mix or at least a percentage at would it be like 50-50 or 40-60 in terms of cash credit?

Mithun Chand Expect these markets the entire markets are more or less cash markets.

Jigar Walia So if I take these markets around 30% would be the credit market.

Mithun Chand If you take overall Andhra market last year it was around 1.35 crore. This year we think it should be closely around 1.15. Telangana including cash and credit it should be close to 70 packets.

Jigar Walia Okay. Now coming to Guntur you said that in Guntur cotton the acreage was down by 30% - 35%.

Mithun Chand Not exactly 30 the acreages were down by close to around 15% to 20%, in Rayalaseema close to 40%-45% even in Karnataka 40%-45%, in Guntur the majority have shifted to chili. The chili acreages have doubled in Guntur.

Jigar Walia Okay. So the competing product in Guntur would not necessarily be corn it is chili.

Mithun Chand Chili.

Jigar Walia Okay. So Guntur has shifted to Chili. So in corn also we saw a decline in acreage while as in cotton also we have seen decline. Can you identify in terms of what would be your acreage overall last year versus these year?

Mithun Chand Acreages it will be difficult but in terms of the volume we can talk. As I said in cotton last year it was 1.3 to 1.35 as a whole, this year it should be between 1.1 to 1.2 at the most. And in terms of the maize last year the Kharif volume combined Andhra was around 6,000 this year we see around 3,600 to 4,800 tonnes.

Jigar Walia Okay. Just last one or two questions. Is it possible for you to give a break-up of the other expenses?

Mithun Chand So in other expenses the majority is royalty, schemes and discounts. The field assisting expenses which are temporary staff.

Jigar Walia Okay. And any absolute decline on advertising or sales promotion or anything?

Mithun Chand It is a very marginal thing. But you see a shift in that because the volumes are lower by more than 25% last year.

Jigar Walia A clarification is the 64 crore difference on royalty is on the like-on-like quantity on 64 lakh packets?

Mithun Chand Yes.

Jigar Walia Okay. And so overall royalty would be 64 lakhs plus the royalty that you paid for the differential?

Mithun Chand Yes.

Jigar Walia Perfect. And is it possible for you to share the brand wise sales?

Mithun Chand As of now I do not have the brand wise sales I will try to update it.

Moderator Thank you. We have next question from the line of Prateek Poddar from ICICI Prudential. Please go ahead.

Prateek Poddar Sir, last year you sold 85 lakh packets is that a correct understanding?

Mithun Chand Yes.

Prateek Poddar And the market was last year 5.4 crore packets

Mithun Chand In between 5.3 and 5.4, yes.

Prateek Poddar And this year so you are guiding for 65 lakh packets over a market of four...

Mithun Chand No, I mean to say in between 60 lakh to 62 lakh not 65. We have already 54, it should be in between 60 to 62.

Prateek Poddar So but if I do math do you have not lost a lot of market share it is hardly 1%. Despite our sales being in areas where acreages have gone down 30%.

Mithun Chand Yes.

Prateek Poddar I was trying to understand this math, how was it possible that you know the areas where we have sold is it that we have gained such high market shares in non-credit markets?

Mithun Chand Yes, we have gained good market shares in Maharashtra. We have gained good market share in Gujarat and even in markets like Khammam, Warangal we have gained market shares. Most of the areas more than 80% of the time we have gained market share and only in areas in Telangana markets we have lost. If you see the overall sale compared to Andhra and non-Andhra last year leaving Andhra and Karnataka we have lost market only in Andhra and Karnataka not in other states.

Prateek Poddar So non-credit market what was our market share last year and what is it this year?

Mithun Chand We do not calculate in that way. Basically the credit markets are only there in Telangana that is around 45 lakh to 50 lakh packets credit market. So if you see only in Telangana the districts like Mahbubnagar, Nalgonda, and Medak,

Rangareddy, last year we have done around 14 lakh packets this year we have done only 7-7.5 lakh packets.

Prateek Poddar And sir if I see your and if I see the inventories the absolute number of inventory reported on year-over-year say FY-15 or FY-15 there was hardly decline so, I am just trying to understand how is that the inventory which we got later on was lower than what we have done?

Mithun Chand Usually some inventory we get after 31st March also.

Prateek Poddar No but that would be very less right because we are very close to the season and when you publish the result that was already made you would have known that right? So sir my question was if I look at your inventories on a console or on a standalone basis it was 486 crore versus 497 crore in FY-14 or FY-15, right. The results were published in May, to an extent sir you would be aware of the inventory situation had there been a reduction in the number of packets which you would have got?

Mithun Chand Yes, that was there but you are only seeing in terms of the overall inventory but there is another inventory the maize inventory has gone up, rice inventory has gone up other inventories have also gone up. So the majority of the reduction in the inventory was cotton and over and above that we have lost some more inventory out of it.

Prateek Poddar Okay, understood. Sir one last question is on the promoter selling. Any further promoter selling?

Mithun Chand Even in the promoter selling there are some few directors who have sold few lakhs shares that was acquired from the market the main promoter Mr. Rao has not sold it and they have clearly mentioned that they have already dropped the plan of new venture.

Prateek Poddar And sir this year you would end up with how many markets of cotton I mean say FY-16.

Mithun Chand In terms of inventory?

Prateek Poddar Closing inventory, yes sir.

Mithun Chand That should be in between to 15 lakhs to 17 lakhs packets.

Prateek Poddar And next year you would get a fresh production of 1.1 crore?

Mithun Chand We are we are targeting around 1.1 so there may be other declines so that is the reason I have taken inventory of fresh and the normal it should be in between 1.1. Because we think the by seeing the season it might be 10%. So combine it would be around 1.1.

Prateek Poddar And next year you plan to do 90 lakh packets now?

Mithun Chand Yes to go back to the last year numbers, that is it.

Prateek Poddar Understood, sir. And what about realizations? Realizations now stands at Rs. 850? Sir, I mean by the MRP which will be sold to the farmers.

Mithun Chand Maharashtra we need to sell at 830, in other states it is 930.

Prateek Poddar Sir this differential will be allowed generally it is spillover right so.

Mithun Chand No, even if you take Northern India some billing we do at Rs. 1,000 because the royalty portion is high there. So this year we were not able to manage and the spillover effect there usually we tackle the Northern India market by changing the packaging.

Prateek Poddar No, what to pass dealer from buying something in Maharashtra the same seed and...

Mithun Chand Usually seeds they cannot sell which they buy it from the other state because they need to have proper invoice. And they are not allowed to do it. Usually what we do we restrict that by packing different for different states. Maharashtra and Andhra usually because we were not having inventory we thought that we will get back the stock and place it is in Andhra market so that is the reason the packing was same for these two states.

Prateek Poddar So next year you would change the packing. So for Maharashtra you would have a different packing?

Mithun Chand Yes, that is how we usually tackle it.

Prateek Poddar Yes, but my understanding was that farmers are very perceptive to the packaging and all and generally then they get scared?

Mithun Chand We clearly mention it right in the packing, what we market it that we do in advertising also the new packing. We tend to change every year because we avoid duplication.

Prateek Poddar So what is your cash balance as of 30th June, sorry I logged in a bit late?

Mithun Chand Rs. 350 crore.

Prateek Poddar 350 crore, okay. And sir, how much is your debtors, I am sorry.

Mithun Chand Close to Rs.210 crore.

Moderator Thank you. We have next question from the line of Karthik Gada from Val-Q Investments. Please go ahead.

Karthik Gada Just one question. So reported EBITDA margins stood at 34% but you mention normalized would be 1% or 2% lower than 28% around 26% for 1Q. So what kind of guidance would you give for the full year normalized EBITDA margin?

Mithun Chand It should be in line with the 1st quarter results. I do not see much a change maybe other 1% or 2% change in that at overall year. But this should in line with it because we do not have much of sale in the next three quarters.

Moderator Thank you. Next question is from the line of Arun Baid from Religare Capital. Please go ahead.

Arun Baid Mithun, just want a clarification have you provided for dealer discounts in this particular quarter?

Mithun Chand Yes, everything is accounted.

Arun Baid So just want to re-understand that other expenses 63 crore - 64 crore is royalty savings which we had so we saved more than 46 crore other than because of selling on cash basis and stuff like that?

Mithun Chand No, because the volumes are also lower so the discount will be also be calculated in the volume.

Arun Baid So discount that is what we are trying to understand. Last year the dealer discount was how much for package and this year it is how much?

Mithun Chand See this year it is lower than last year in Maharashtra. If you are trying to year-on-year that discounts usually we calculate like the schemes and the discount what we give to dealer will also be there under the other expenses component. This time volume is lower, so no need to add to discounts in that one, in absolute number it gives a different one, in terms of the percentage that is best way to calculate.

Arun Baid Okay. And the discount as absolute discount given to dealers just to understand was Rs. 60 to Rs. 80 a packet, right?

Mithun Chand Last time Rs. 60 to Rs. 80 a packet.

Arun Baid Yes, so this year it would be similar number or it has come down?

Mithun Chand No, it is lower because this year the dealer were able to sell at a higher price compared to previous year. I mean to say the dealer discount almost stood same but the dealers were able to pass it on to the farmer at higher prices last year they sold around 870 - 880 this year they were able to sell around Rs. 900 - Rs. 920.

Arun Baid Despite the market being tough?

Mithun Chand Yes.

Arun Baid Okay. And second thing is normally a lot of returns happen in second quarter from the dealers back to the Company so when you say 60 lakh to 62 lakh packets that include this number because 54 lakhs you already sold?

Mithun Chand Yes, always we report net of returns. We make a provision for the returns that is not shown in the accounts but we show the net liquidated quantity as sale.

Arun Baid Okay, this quantity is actually sold by the dealers?

Mithun Chand I mean to say even 20% more than this will be left out with the dealer. But we take in the each point and the liquidation point and then we take in to account and provide for the sales return and the balance we show as a liquidated quantity that is what the result reflects.

Arun Baid And second thing was with regards to the pricing which has gone down in Maharashtra so because you have cut down the royalty payment to Rs. 20 in Telangana.

Mithun Chand No, we have not cut down in Telangana. Only in Maharashtra we are taking Rs. 20 in Telangana we are taking Rs. 50.

Arun Baid Rs. 50, right. So the price there also what the government in the regulation has said that you should increase the total price to be given to the farmers so I think Rs. 325 to Rs. 330, right?

Mithun Chand Not in Maharashtra because most of the production area come from Andhra Government and Telangana Government.

Arun Baid Yes, so how much are we paying to farmers there last year and this year per packet?

Mithun Chand In terms of the last year to this year there is a marginal increase because last year itself we have increased the priced.

Arun Baid 230 already?

Mithun Chand Yes, last year itself. If you take the production cost of this year compared to previous year the Company might be incurring Rs. 5 to Rs. 7 more per packet. This year the government has said that mandatorily we need to pay that much at least. If you can pay more but that is minimum cost. Last year that was not the case.

Arun Baid And if my reading is correct, Monsanto went to Telangana court and they got a stay order on this particular aspect of royalty?

Mithun Chand Yes, that was before Maharashtra court.

Arun Baid Yes, that is true. So then they have a right to ask for this price or the royalty price.

Mithun Chand But again the government is going for appeal I think already approached for the appeal for it. But I think with the recent one in Maharashtra they have only fixed for the trade they have got an interim stay for it. It is not a complete stay for it but the government is already appealing for it and most of the things will be decided in the Supreme Court I do not think that will even settle here. And even Maharashtra and everything go to Supreme Court.

Arun Baid So correct me if I am wrong, typically till the case is settled you have to pay the price under protest that we will pay you 186 subject to whatever happens to the court reading you have to give the money back to us in case the court decides that Rs. 20 or Rs. 50 whatever be the number.

Mithun Chand If court decides then that is different issue.

Arun Baid No, that will happened later one but right now when the stay order has come you have to pay based on the royalty amount, right which is right now prevailing in the system?

Mithun Chand There are two things in it – one is the production cost and the royalty. As of now we are even paying the production cost. Government clearly said that we had already paid it so there is no chance of going back for that. So both are combined in it,so both the cases will be there.

Arun Baid No, but the second part of the case is with regards to you paying the royalty to Monsanto, right? On that they have got a stay order from Andhra Pradesh High Court saying that whatever is the agreement between the parties is to be respected as of now. So legally, you have to pay that amount till the government or you guys go to the court and say that we will not pay this price and the right price is Rs. 50?

Mithun Chand Yes, that is already being appealed in the Higher Court.

Arun Baid Yes. But my understanding is I spoke to a few of them is that you have to pay that amount because till the court gives the judgment there how can you not pay the price which was decided and the court has put a stay order on that particular right now?

Mithun Chand What you are saying is right to some extent. What we are trying to do is that entire thing the royalty portion we are considering it a only Rs. 20 now because the state government it has directed to the Company saying Rs. 330 production cost this is also a part of it. We have already paid it.

Arun Baid Yes, but that was even last year because last year you guys had paid a higher amount and last year the state had put a number of 290 as procurement prices and royalty was...

Mithun Chand That is for Andhra, what you are talking is for Andhra and Telangana Government.

Arun Baid Yes.

Mithun Chand Andhra and Telangana has given two different orders now. In Andhra we need pay Rs. 290 and the royalty is Rs. 90. In Andhra we are calculating at Rs. 90 now. In Telangana we are calculating Rs. 50. In Maharashtra we are calculating Rs. 20.

Arun Baid So but that is what I am saying last year you paid at Rs. 180 in both the states right, Telangana and...

Mithun Chand Yes, across India we have paid Rs. 180.

Arun Baid Yes, that is what the argument would be no that last year when the ruling of the government was that you should Rs. 90 you paid Rs. 186 which was your agreement with the Monsanto so what has changed from them to now? There is nothing which has changed except because in Telangana prices have not been cut neither in case of AP.

Mithun Chand But even in the same time the prices have not been increased and we are forced to pay Rs. 40 more than last year now it is mandatory now earlier it was not mandatory.

Arun Baid No but not in case of AP, right? AP you are paying still 290 the same price is last year to farmers.

Mithun Chand But even in AP we are paying 330 now.

Arun Baid No, you are paying 330 but the mandate is 290 procurement?

Mithun Chand 290 that is the reason we have provided for Rs. 90 there in AP as per the GO.

Arun Baid No, I think it gets on royalty front. In AP the government has not increased procurement price. The procurement price was 290 it is still 290, am I correct.

Mithun Chand Yes.

Arun Baid But there you have reduced the royalty from 186?

Mithun Chand Yes because when we approach even to the Andhra Pradesh government they said that they are GO you only Rs. 90 as royalty. This was already clearly mentioned to the government.

Arun Baid Okay. No, my point was that in last when you have paid a particular amount and everything is the same this year we have reduced the royalty just because the government has said something else but the same government diktat was there last year also.

Mithun Chand But the government never mentioned to the seed company that we are not going to increase the price. This year they clearly instructed that we are not going to increase the prices because the farmer is not in a position to take it. We have already decided these are the prices that need to be followed by the companies and as per the law they have clear right. They cleared cases against Monsanto which are shown to us that the clear sense is Monsanto lost early also when the state government has reduced the royalty from 1,200 to 150, that was contested and Monsanto has lost it. So they have every right in those regards to control the prices and each and every component can be controlled in this regard and the seed companies are now following with the state government because we cannot take head-on the state governments because they have the right who can decide the prices and tussle is between the state government and the Monsanto. For example, if you go back to the judgment last year even the High Court has asked the royalty to be deposited in terms of ESCROW account. But we have not done it last year the balance amount till it is being decided but we have paid it to Monsanto.

Arun Baid And what has been the reaction with Monsanto when you spoke to them about this.

Mithun Chand We have not got any communication till date. Once we get anything out of that thing definitely we will update you.

Arun Baid And typically, normally when do you pay this royalty amount to the Company Monsanto last year when did you pay?

Mithun Chand We pay in monthly basis June, July and August that is how we do it. But this year we have not paid anything.

Arun Baid So that is why one reason is your cash balance is high?

Mithun Chand To some extent but we will not pay the entire royalty if you see the royalty portion the difference is only 50 crore.

Arun Baid Yes and your cash is up by 50 crore right from 300 crore to 350 crore?

Mithun Chand See the last time the sale was also higher.

Arun Baid No I am talking absolute cash number.

Mithun Chand Absolute cash yes, might be a 10 crore - 20 might be lower. So overall royalty most of the royalties come after the August but we start from the month of June, July, August. But if you have seen the royalty payment exactly up to June 30th last yes the payment we might have done in between 5 crore to 7 crore.

Arun Baid Okay. So majority is you are saying in the second quarter July, August?

Mithun Chand Yes. And most of the money is paid by August end.

Moderator Thank you. Next question is from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.

Prashant Kanuru Most of my questions have been answered. Just have two questions - three questions. One thing is what is the cost of production of maize seeds if it is 330 for cotton?

Mithun Chand Each has got different production cost it ranges between Rs. 18 a kg to close to Rs. 50 a kg.

Prashant Kanuru And for paddy?

Mithun Chand Paddy again it is around depends on the hybrid it is between Rs. 55 a kg to close to Rs. 110 a kg. But if you take average of it maize will be around Rs. 20 to Rs. 30 and paddy will be around Rs. 80 to Rs. 85.

Prashant Kanuru So the gross margins for paddy are low...

Mithun Chand The selling prices are also high. Hybrid-to-hybrid most of that we work on the gross margin level and the higher the prices higher is the cost for the farmer.

Prashant Kanuru Okay. and sir like for the hybrid rice the total market size would be around 800 crore would it be correct to say that or...

Mithun Chand Roughly around Rs. 800 crore to 900 crore.

Prashant Kanuru So sir like what is the position taken by MNC players like say Bayer or other players who also have their BT cotton seeds. So have they gained any market share or what is your sense of the market direct?

Mithun Chand Bayer is very small in terms of the actual volume, might be 1 million packet. 1 lakh or 2 lakh packet will not impact the actual market share. This year definitely in terms of the actual market share they might have gained it by 0.1 so, you can say the percentage. But in absolute term we do not see much of a gain or much of a going forward we do not see much of a market share gaining from those hybrids at least for the next two to three years.

Prashant Kanuru Okay, sir. Sir coming to this high density planting varieties that you have what do you think the pricing environment would be? It could be again guide by the same state regulations because the volume of seeds needed would be...

Mithun Chand Yes, entire cotton market will be regulated by the government.

Prashant Kanuru But when it comes to your HDP packet volumes go up.

Mithun Chand Even that we sell with the cotton seed only so, definitely that will be regulated.

Prashant Kanuru But sir that would automatically lead to increase in volume, right sir?

Mithun Chand Yes.

Moderator Thank you. Next question is from the line of Jatin Karani from Enam Holdings. Please go ahead.

Jatin Karani Just a follow-up on the royalty part I know a lot of people have asked question on this. Sir, if you can just help us understand how this whole agreement works between Kaveri and Monsanto and you mentioned that for each state we have a differential pricing or it is more a function of what the state government has decided?

Mithun Chand All the prices the state government has decided.

Jatin Karani No, so what is the reason why in the Northern states we are paying Rs. 185 a packet where as in like for Maharashtra, Telangana I believe the steady state rate was Rs. 90 a packet which has now been to either Rs. 20 a packet in Maharashtra or Rs. 50 in the case of Telangana. If you can help us understand how this whole contracts work since it is a big part of your cost structure.

Mithun Chand See when the government entered for the regulation of the prices Andhra Government was the first one to regulate it in 2005 and later on other states followed. But in other states of Northern India basically they use royalty on the selling price but later on that concept has gone because the cost have up and the selling price were same. So the royalty was not increased in proportion to selling prices. But in Northern India the selling price was higher and at the time they were taking higher royalty. That is why we ended up in paying high royalty there.

Jatin Karani So I believe a part of the royalty payment you know there fix component and then there is a variable component depending on the MRP right?

Mithun Chand No, earlier they said the royalty was based on the MRP. But now they do not follow that concept. For example, if you see when selling price was increased from 750 to 930 there was an increase of Rs. 180. But the royalty has gone up by only some Rs. 10 or Rs. 12.

Jatin Karani Okay. So sir in a scenario in a way Monsanto is very-very critical partner for Kaveri and for all other cotton seed companies where they provide the trades and especially with the RR Flex coming soon. How will this play out? What is your sense in a way it seems to someone that Rs. 20 trade fee on a packet which is sold for Rs. 830 seems very very low for the technology angle and a follow-up on that is you know what is the latest update on the case in Telangana I understand that the case was the court has given a stay order but has any order come final order come in that case?

Mithun Chand Most of that even the cases which are there from 2010-2011 are pending. So now it needs to be decided by the state government whether we need to pay it or not. So now the tussle will be with the technology provider and the state, not with the seed company. If the government loses those cases then the definitely the prices will go up. If that is the case they do not have any right to interfere in the MRPs that is the case they need to fight out now. See when Maharashtra government can reduce the prices to 830 only base is that they have the right to control each and

component of it. So if they do not have the price then it will be deregulated so it will be good for the industry either way the companies will be benefit. But in the short-term what we see now that will be settled over a period of time.

Jatin Karani And in case of Telangana, I understand we are paying higher to the farmers as per the government's order is there any other similar increase in cost for Maharashtra on the cost of production?

Mithun Chand No, they have not given anything on that because most of the production comes from Andhra.

Jatin Karani And sir one of the announcements that was made is you know we are also going to look at international market so I just thought if there is any other update on that or are there any specific markets you are going to be focusing on?

Mithun Chand Yes we will focusing mainly on Asian countries especially like Indonesia the first thing where we may go is for Indonesia.

Jatin Karani And this for what crops?

Mithun Chand It is basically for maize and rice and then other than if you go to Africa it will be maize and cotton. But it will take another two years to three years to get the clear road map for it.

Jatin Karani And what is your sense on the RR, Roundup Ready, cotton?

Mithun Chand So a lot of discussion is going on on this thing so I think it should be better to wait for some more time at least for things to settle then we can go for it.

Moderator Thank you. Next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta Sir in Maharashtra you sold close to 12 million packets and I believe there is some share would have taken place before the Maharashtra order came I think 7th July. So have you reduced the selling prices in all the packets which we have sold even the order came?

Mithun Chand No, before that we have sold good quantity that is the reason our realizations are 790.

Rohan Gupta So before that whatever would have been sold to the dealers so the dealers billed would be been at a higher price by Rs. 100 but when dealer would have sold that product in the market they would have definitely sold at a lower price by Rs. 100. So now when the sales return all these things happen so will you consider that Rs. 100 in the sales credit or the dealer has to pay it?

Mithun Chand No, we will take the stock at Rs. 930 only. If we have billed at 930 we will take the return at 930.

Rohan Gupta Okay. So in that case you are saying the loss is of dealers. I am saying not only not on the sales return you sold dealers at 930 and then later on they were asked to sell at 830.

Mithun Chand So we just bill at 930 but that depends on the discounts.

Rohan Gupta The dealer who have sold at a lower price and bought at a higher price is their loss.

Mithun Chand So it is only a billing, it is only a billing what we do. Suppose if we bill at Rs. 930 to a dealer and he is able to sell at 880 to the farmer then our realization would have been 810 and 820. If we bill at 830 and he was able to sell only at 830 then our realization between 780-790.

Rohan Gupta So it means that you are saying that these discounts will come down only.

Mithun Chand Yes.

Rohan Gupta So ultimately it is a loss of dealer, right?

Mithun Chand Instead of what we were selling at Rs. 80 we have insisted that you need to sell at Rs. 30 or Rs.40.

Rohan Gupta Yes, so that is what I mean whole loss is taken by the dealers what you are saying?

Mithun Chand No exactly the loss of the dealer but he was not left out with much margins. He has only taken the stock which was in demand. I mean to say we were insisting on a cash and carry. So he is to book the quantity and then sell it to the farmer on an easy basis.

Rohan Gupta No, sir I get your point. But it is not like that you sell immediately everything in the market and a lot of inventory would have would have been sold in the market after the order came I think after the 7th July.

Mithun Chand But if you see before the order came in June 7th whatever were placed in the market more than 90% was liquidated.

Rohan Gupta From the dealer end also?

Mithun Chand Yes. We have not supplied anything because we were insisting on a cash and carry, dealer only pays cash when he has got the real demand.

Rohan Gupta So now there is no further case that you have to take back that losses also in your book?

Mithun Chand No, it is already done. It is already accounted for us. And that is the reason we have lost the market also because we have not placed the stock.

Rohan Gupta But in Maharashtra you have gained no sir?

Mithun Chand But we would have done another 5 lakhs packets - 6 lakh packets more.

Rohan Gupta Sir second you said as per the Maharashtra Government order they have reduced the royalty to Rs. 20 and that is their whole basis of reducing the prices by Rs. 100, am I right in the selling price? So it means that somewhere they wanted to either benefit to the farmer or the Company or the trade by Rs. 50.

Mithun Chand It is not to the Company they only considered farmer.

Rohan Gupta So now assuming if it does not go through and the royalty comes back to the previous level same 180. Do you think that makes the sense that government has to increase the prices if this order does not go through and the royalty thing is not in favor of the government?

Mithun Chand See if the government loses the case so then they do not have any right to regulate the prices. So basically it is like MRP, each and every component to be controlled. And even in the order it was clearly mentioned that no agreements will be valid.

Rohan Gupta So now this case you are saying which is happening from even last two to four years is so critical that it is either win or loss either government will lose completely and there will be no control at all on the pricing of cotton or they will just reduce the royalty Rs. 220 because we return to again Rs. 220 maybe after two years they can say we will not pay you any royalty also and that case also will be borne by the government?

Mithun Chand Yes, see there are two things. One if the government loses they will lose control, slight chance that the entire control on MRP they might lose. The other thing if the government wins the companies are likely chances to get back the money from 2011 onwards.

Rohan Gupta Okay. And sir, it can happen that Monsanto says okay the royalty has been reduced for the current scenario but when we launched the new product BT-III then we can charge our own prices on royalty and then we will commend another 20 years of royalty.

Mithun Chand Again new technology, new pricing, new royalty will be fixed later on.

Rohan Gupta Okay. so if they are too much confident about the new product, new technology like BT-III coming in the market and replacing the whole market of BT-II to BT-III then they should not worry about too much that is okay for next maybe two years - three years I need to even get lower royalty but later on I can enjoy another 20 years of higher royalty.

Mithun Chand It is too early to talk about those new technologies because we are unable to find the solution for the current technology. I think even Monsanto will be cautious in terms of new technology until and unless case settles.

Rohan Gupta Sir just last question you mention that next year you are targeting 9 million packets as against 6.2 million packets this year. I referred you earlier history of the con-calls you have always been very conservative about talking a growth even one of the best years when you have grown by almost 60% in one year but initial guidance was always 20% sort of growth. This year I mean if I just back calculate it. You are taking about 50% of the growth even next year itself in the starting of it year itself so. So what gives you that sort of confidence that makes you comfortable that you will be able to achieve 50% growth I mean you will become very aggressive. You have to become probably then very aggressive in the credit markets next year come whatever happens, right?

Mithun Chand Even though I am talking about 50% growth but we have degrown this year. If you see the actual thing and I am going back to the last year levels, etc. So 9 million packets is almost close to last year's sales.

Rohan Gupta Yes, so I understand so if 9 million packets which you are guiding I think it will be based on the same parameter because this year your markets have also come

down from 5.3 crore package to almost 4.2 crore you must be assuming that market will once again bounce back from 4.2 to 5.3 and then will be the very I mean favorable scenario for you to go to 9 million packets again right?

Mithun Chand Basically I do not think that it will again be back to 5.3 immediately next year but the likely chances are that the market will go up and moreover will be increasing our market shares in area like Maharashtra and other parts which are big areas. And we already witnessed that it is because of our strategy we have lost market share otherwise we have definitely gained market share in those area much higher than what we have now because of the product performance and we have launched good hybrids so that will add to the future growth. In that way we are pretty much confident about the growth. But yes, on a lower base.

Rohan Gupta And sir on the royalty thing just once again. Sir other companies are also following the same accounting standard for booking the royalties in the current...

Mithun Chand I do not know because most of the companies are non-listed. But as seed company most of the major players are following the same thing that we are doing it. I do not know about the accounting. I mean to say in terms of view of pay towards royalty everybody is in line with our thing. And whatever we are speaking is only based on the discussion what we had and I cannot name the names but it is basically the industry leaders are the part of our group.

Moderator Thank you. Next question is from the line of Dharmendra Grover from SBI Mutual fund. Please go ahead.

Dharmendra Grover Yes, Mithun, just one small question. You said that the case is still pending with Monsanto, in that situation where the case is not in your favor what will happen to the payments? You will have to make the royalty payments out of your own pocket? I am saying if the case gets decided in favor of Monsanto will you pay out of your own pocket?

Mithun Chand If Monsanto win definitely we need to pay 65 crore.

Dharmendra Grover You will have to pay it out of your pocket.

Mithun Chand Yes. If that is the case then government loses then definitely we need to pay it.

Dharmendra Grover And you do not think as a prudent accounting policy you should provide for the same?

Mithun Chand See there is some sort of litigation definitely if we lose it or if the court agreement which say that we need to pay definitely we will provide for it and that will be definitely intimated in the account. If we have any sort of litigation then definitely that will be provided as a liability. As of now we do not have any litigation. If Monsanto has some sort of litigation if they raise it then definitely that will provided as liability in the Company.

Moderator Thank you. Next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah Just wanted know for FY-17 if the cotton acreage for example next year bounces back what kind of packet sale can we do given the fact that our production visibility is very high now for next year?

Mithun Chand No, we are targeting the same last year at least 9 million packet for next year.

Niket Shah Okay. And what would be the returns in cotton and corn this year for your company as well as for an industry as a while?

Mithun Chand Cotton returns will be lower than last year and the maize returns will be higher because we have placed more maize inventory and lesser cotton inventory.

Niket Shah It is safe to assume maize will double-digit kind of return this year?

Mithun Chand Usually the returns are in double-digit only. The cotton should be in between 10% to 15%, last year it was more 20%. This year maize will be in between 25% to 30%.

Moderator Thank you. Next question is from the line of Kuntal Shah from Axis Holdings. Please go ahead.

Kuntal Shah I just wanted to do some feedback on the stakeholder analysis. I presume earlier when Monsanto started selling the trade it was priced at Rs. 1,600 per packet then continuous government pressure has brought it down to the levels last year. Today also there is a tussle between the government and the Monsanto, there is nothing with seed industry you are positioning seed industry as a pass through mechanism. Whatever government says we will do and will be passed on. And the basis you will not provide it for the contingent liabilities because of the fact that so far there is no litigation between Monsanto and Monsanto's response to industry not paying the royalty is still awaited?

Mithun Chand Yes. That is the correct statement.

Kuntal Shah Just to know Telangana has a large dominant farmers which produce the seeds and are beneficiary of higher seed prices which government gives them, right?

Mithun Chand Yes.

Kuntal Shah So Telangana Government will be always interested in higher prices compare to Maharashtra which is a consuming state which will be interested in lower prices? Will it be a safe statement to assume?

Mithun Chand Yes.

Kuntal Shah How do you reconcile that there is a huge fear in the mind of investing community that Telangana Government will also will reduce and follow the suit but I presume that is not correct because the interest of growing committee versus consuming committee of farmers is also different and each government has a constituency to play to?

Mithun Chand True. When we talk about the Telangana Government we do not see that so far as a threat because initially when we asked to increase the prices to compensate the companies we were already given the order which was previously there saying that you need to pay only this much royalty and this year again they have said that these are things which company should follow and this is what they need to pay to the production farmer so that safeguarded both companies and the production farmers. So that is the reason we do not think that the Telangana Government will decrease the prices and increase the production prices. So that will be against their own decision and that we do not see as of now.

Kuntal Shah So Mithun, two scenarios are possible – either Monsanto agrees to a lower royalty for the current year fighting the adverse condition in the entire ecosystem of the farming community or it contested. In contesting there are only two outcomes Monsanto wins and in which case government has no right to control the prices across the value chain including trade and the MRP right?

Mithun Chand Yes.

Kuntal Shah And if government wins then Monsanto will have to settle for the lower interest.

Mithun Chand Yes.

Kuntal Shah If Monsanto wins case against government there have been cases pending in virtually all the state governments on their right to control the seed MRP prices and by default then the downward component prices. In that case if Monsanto wins the case then the MRP of higher prices would stick, if Monsanto loses the case then the government diktat will stay. Under what circumstances would Kaveri would have worst of both in the sense that would we force to pay the royalty and yes settle for a lower price.

Mithun Chand The judgment of one matter is a plus or minus for the other one. So I do not see both scenario happening. Either we will end up paying lower royalty or the government will lose for the MRPs.

Kuntal Shah So what you are saying is there is an extremely low probably for you to pay that 64 crore because either way you are pass through as far as both the parties are concerned. Either Monsanto will prevail or government will prevail.

Mithun Chand Yes. As of now it gives a lot of uncertainty at this point of time but maybe after few months we do not see this is an issue for the recent stand.

Kuntal Shah Okay. So now explain me initially when Monsanto launched this product, the royalty was as high as Rs. 1,600, right?

Mithun Chand Yes.

Kuntal Shah As the volume of the BT sales started every year there has been a decline in royalty so decline in royalty have been trend per se only the quantum of decline between last year and this year has been steep because of the Maharashtra Government wanting to favor the consuming farmers. Maharashtra is not interested in the welfare of the farmers which grow the seeds right? Would this is fair statement to make?

Mithun Chand Yes, it is a fair statement. You see the government intervened and every year they have reduced the prices and Monsanto was in a case to opposed to the government and then never won any case against the government. And voluntarily we were paying the amount; it is not because of any court order or Monsanto forcing. But as a seed company now we are with the government and we will go with the government. The case should be settled between the government and the technology provider.

Kuntal Shah Can you provide us some granular insight into the decision of the competitors to liquidate? I believe the inventory can be stored for two years and two and half years. So while you took a decision to hold on to the price and not play the volume game, can you throw some light on the competitor behavior in the last season?

Mithun Chand See most of the competitors were having the inventory. To start the season we have started with a lower inventory base even though we are down in terms of the volume the net inventory is only between 1.5 million to 2 million at the most after the entire season will be left out with only 1.5 million to 2 million packets. So for that reason we did not want to take risk in terms of extending credit. At the same time when we go to the credit market the realization will also be lower and we have seen the prices slashed by Rs. 100 and if we have supplied more the realization would have been lower by another Rs. 50 or Rs. 60 and would have impacted bottom-line. As you rightly said the inventory can stored for two years to three years so we have taken a conscious decision of not supplying in a credit market and we have safeguarded our realization because we have got a good brand image. At the same time we are focused on collecting the last year's debtors because we see that extending credit will also impact our cash flow and the receivables will be higher this year and will end up losing next year. As of now we are not worried that we are down in terms of the volume but in fact we are very happy with our strategy for not extending credit.

Kuntal Shah So sir what you are saying is the carrying inventory by your competition was a key determinant in their liquidating it at even a lower price?

Mithun Chand Yes.

Kuntal Shah And now you are more comfortable to play the game of giving the credit versus pushing off the volume next year should similar situation of draught and adverse acreage remain. If acreage it goes up obviously everybody will have a good time but should continuation of current climatic situation occur Kaveri would too be in a position to play volume versus value gain considering this more current healthier cash and carry and lower inventory purchases?

Mithun Chand Yes, exactly.

Kuntal Shah And just one last question, any thought on the dividend payout policy?

Mithun Chand See as of now we have not done anything because there were issues which are there in this quarter – one is de-growth and the other is a royalty. So, there was not much of discussion but definitely our intention is to give higher payouts. Once everything settles definitely we will come out with the policy also. Our thought was to come out with a policy in this quarter itself. But other issues forced us not to take any decision.

Kuntal Shah So and just last question on the market share across Maharashtra and Gujarat who would be the larger players and what brands we are positioning against them so we can track it more?

Mithun Chand Maharashtra majority of the market is gained by ATM. The next newly launched Three-by-One and Super-Duper along with ATM are the three products will be gaining market share in Maharashtra and for the next two years to three years. ATM is the one which will gain the major market share.

Kuntal Shah And for Gujarat?

Mithun Chand ATM is the one which is picking up there.

Moderator Thank you. That was the last question for today. I would now like to hand over the conference call back to Mithun Chand for his closing comments. Over to you, sir. Mr. Mithun Chand, over to you. Thank you.

Mithun Chand It has been a pleasure interacting with you on the call. We thank you for taking time out and engaging with us today. We value your continued interest and support. If you have any questions or you would like to know more about the Company, kindly reach our Investor Relation desk. Thank you.

Moderator Thank you very much, sir. Ladies and gentlemen on behalf of Kaveri Seeds ,that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

- ENDS -

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