

kaveri seed company limited



08th June 2018

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Dear Sirs,

**Sub: Transcript - Kaveri Seed Q4 & FY 2018 Results Conference
Call on Friday, 25th May 2018 - Reg.,**

Please find attached herewith Transcript of Kaveri Seed Company Limited Q4 & FY 2018 Results Conference Call made on Friday the 25th May, 2018. The same was displayed at our Company's website: www.kaveriseeds.in.

This is for your information and records.

Thanking you,

Yours faithfully,
For KAVERI SEED COMPANY LIMITED




C. MITHUN CHAND
WHOLE TIME DIRECTOR

Encls: a/a.



Kaveri Seed Company Limited

Q4 & FY18 Earnings Conference Call Transcript

May 25, 2018

Moderator

Ladies and gentlemen, good day and welcome to the Kaveri Seeds Company Limited Q4 & 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 have with us today Mr. Vijay Kumar – CFO of the Company.

Before we begin, I would like to point out that certain statements made or discussed on today's conference call 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 this call with opening remarks from Mr. Vijay Kumar who will share updates on the environment and the strategic imperatives of the Company. We will then have the forum open for an interactive Q&A session.

I now would like to hand over to Mr. Vijay Kumar to share his views. Over to you, Vijay.

Vijay Kumar

Good afternoon and a very warm welcome to all of you.

I am happy to share this has been a year of strong growth, with important accomplishments in marketing, supply chain, R&D and financial parameters which have further strengthened the Kaveri moat and enhanced our value proposition. I am sure you must have browsed through our presentation, so I will highlight few key achievements only. This has been one of the best years for cotton. We also further strengthened non cotton segment. The contribution from new products

continues to increase. Our R&D program continues to deliver with higher number of launches and products under demonstration and progress in multi-location trials both in terms of scale and approach. During the year we have launched 3 new products in Maize, 2 in Cotton, 4 in Bajra, 1 in Hybrid Rice, 5 in Selection Rice and 12 in Vegetables.

Supply chain is a key element in a seed company's success and we have endeavored to synchronize supply to demand consistently. Over the last few years we have taken several initiatives to augment our supply chain. A crucial step taken this year was the initiation of GMS lines seed production concept on pilot basis. This will cut down manual emasculation & thereby reduce the cost of seed production in the years to come.

During the year, we strengthened the distribution network beyond AP, TS & Maharashtra. Considerable growth was noticed in different states including Gujrat, Himachal, Uttarkhand and Haryana, Jharkhand, Odisha and West Bengal. As a part of strengthening the channel loyalty, the Company launched Kaveri Loyalty Premier Club Program in which over 500 channel partners were engaged in different activities including overseas family conferences. And this has been received very well by the channel partners.

Coming to our financial performance, in FY18, Consolidated Revenue was up by 16% YoY to Rs. 819 crore, EBITDA was up by 41% YoY to Rs. 246 crore and PAT was up by 171% YoY to Rs. 211 crore. Cost of production was lower as a result of lower write offs compared to FY17. Write Offs of Rs. 23.6 crore in FY18 as against Rs. 66.5 crore in FY17. Other income is lower as a result of lower redemptions.

Moving on to our operational performance, in FY18 we have sold 6.9 million cotton packets as compared to 5.4 million cotton packets in FY17, 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 ~15.5%. 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. Contribution of new product went up from 7% to 10% of volume. We launched 2 new cotton hybrids and 2 new cotton hybrids are under demonstrations with farmers.

As planned, Kaveri Seeds' non-cotton business edge continues to sharpen with higher product launches and notifications. Hybrid Rice volume increased by 10% in spite of drop in government business. New product went up from 1% to 17% of volume. Selection Rice Volume grew by about 40% in FY18 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 10%. Sunflower volume has doubled in FY18 compared to FY17. Bajra volumes are under pressure but it is worthwhile to note that new product contribution has gone up from 6% to 16% of volume. Coming to maize, as I mentioned earlier the market has been challenging where Karnataka degrew by 12% and Telangana by 23% for Kharif Season. Another contributing factor for decrease in Maize volume was reduction in sales to government programs. In FY18, maize volumes declined from 10,900 metric tons to 9,500 metric tons. H2FY18 maize volumes declined due to lower exports and lower sales in Karnataka. Rabi exports impacted due to crop shift to Hybrid Rice in Bangladesh.

Balance Sheet continues to remain strong. Debtors stood at Rs. 86 crore as on March 31, 2018 whereas it was Rs. 85 crore as on 31st March 2017. Total cash on

books stood at Rs. 580 crore as on March 31, 2018 whereas it was Rs. 649 crore as on 31st March 2017.

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 effected a Rs. 200 cr buyback in Aug 2017. Further, In Q1FY18, the board has declared for payment of an interim dividend of 150% (Rs 3 per share of Rs 2 each) on equity share capital of the Company. We had mentioned on the last call that the Company annually generates cash of Rs. 200-250 cr and intends to distribute a large proportion our cash beyond maintenance capex to our shareholders. I am happy to share the board has approved a Rs. 200 crore buyback program (at Rs. 675 per equity share) for FY19. The buyback will commence after obtaining shareholder approval through postal ballot and other legal approvals like SEBI for Financial Year 2018-19. Another important initiative which the Board approved was the implementation of Employee Stock Option Plan. This makes senior management and other professional management further accountable and also part of the value creation process.

Coming to the industry backdrop and the way forward. Though the average rain fall pattern during the year was normal, however the rain fall distribution was uneven. Dry spell prevailed during the month of August which is a crucial crop growth period affecting the rain fed crops like Cotton, Pulses, Bajra etc. Central and North part of India received excess rain fall in September which impacted yield and quality of Cotton crop. Further, Pink bollworm issues impacted yield as well as quality. Also downward price revision imposed by government impacted industry sentiment. Hybrid Rice outlook is positive due to good performance of Hybrids. Selection Rice prospects are also positive due to better commodity prices. Kharif maize acreage may see slight decline in light of commodity price drop. Although major crop shifts are not expected in Kharif 2018, there may be some interchange of two way shift of area between Cotton and Maize. The pink boll worm affected areas under cotton cultivation may shift to Maize. Some farmers disappointed with low commodity price of Maize may switch to Cotton in certain sections.

Kaveri expects to do well in Cotton irrespective of flattish industry growth driven by market share gains in Maharashtra and Gujarat. Strong growth is expected from Money Maker across markets. The classic warhorses like Jadoo, ATM will continue to consolidate our position in the market. Non-Cotton push continues with addition of sales locations, expansion in North and new product initiatives. We expect Hybrid Rice to grow on the back of KPH 468 and several products launched and notified; expect Maize volumes to register growth driven by Drona and Profit. Further, strong Vegetable growth will be driven by new hybrids across Hot Pepper, Okra, Tomato, Sweet corn and Gourds.

We have made intensive efforts over the last few of years to truly derisk the Company and build a future ready organization. Our initiatives for the coming year have been outlined in the presentation; our growth pillars include diversification, organizational capability, increased visibility and mindshare, supply chain and reinforcement of cotton leadership. Our eyes are set on delivering profitable growth, healthy return ratios and maximizing shareholder value.

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 take the first question from the line of Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella Just a clarification regarding the fourth quarter results, the EBITDA loss this quarter, is there any one-off write-off or anything like that this quarter or is it all just normal business operations and also just to check which crops are responsible for this, should we assume that mainly maize was the weak spot or anything else?

Vijay Kumar Two reasons are there, one is little bit maize downfall and Second thing is Rs. 10.5 crore write-off was there in last quarter.

Abhijit Akella In 4Q, there was a Rs.10.5 crore write-off?

Vijay Kumar Yes, Rs. 10.51 crore write-off is there in Last Quarter and total write-offs for the FY:2017-18 is Rs. 23.75 crore, and where as for FY:2016-17 was Rs.66.55 crore.

Abhijit Akella This 10.5 crore write-off is in the cost of goods sold?

Vijay Kumar Everything is loaded in cost of goods sold.

Abhijit Akella The other expenses also seemed a little bit high?

Vijay Kumar I will come back on that in other expenses in last year includes buyback fee of Rs. 1 crore and other merchant bank fee, brokerage expenses, postal ballot expenses and all other expenses related to buy back are loaded around Rs. 2 crore and publicity material also this year we have spent bit more, hence, that has gone up by another Rs. 3 crore, and field staff also, field assistant and sales team and all we increased, that is costing another Rs. 1.5 crore increase in expenditure. These costs led to a bit of increase in other expenses apart from Royalty. More cotton sale this year lead to increase in Royalty and, compared to last year, Royalty cost itself has increased around Rs. 7.5 crore.

Abhijit Akella Royalty increased because of what?

Vijay Kumar Cotton packets we sold increased so automatically Royalty cost will increase.

Abhijit Akella Most of these expenses will continue into next year also, right?

Vijay Kumar Even buyback we announced that related expenditure will continue, Cotton Royalty as usual Royalty may come down because the Royalty price has come down, from Rs. 49 to Rs. 39, there is a Rs. 10 deduction on Royalty hence going forward Royalty amount may come down.

Abhijit Akella On micro-nutrients division, could you just share some color about how it has performed in FY '18 in terms of revenues and EBIT?

Vijay Kumar Microtek Financial Year 2018, net sales is around Rs. 24.15 crore then and profit is Rs. 2 crore .

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

Mononita Mitra I would like to know about the revenue mix of the company, the contribution from various seeds from cotton as well as from non-cotton seeds?

Vijay Kumar This year cotton is 58% and non-cotton is 42%.

Mononita Mitra I would like to know that is the cost of production going up for the seed companies?

Vijay Kumar This year little bit increase will be there because of unseasonal rain affected the production, October rains affected the quality of production and some of the crops like cotton and maize and all. This year may be to all the seed companies cost of production may increase 2% to 3%.

Mononita Mitra Is the labor cost an important factor to this other than the rainfall?

Vijay Kumar Actually, more than labor cost, due to the unseasonal rainfall, recovery percentage was affected a little

Mononita Mitra I would like to know on a maximum level, what is the current capacity of cotton seed in India?

Vijay Kumar Last year 47 million packets sold.

Mononita Mitra This year what is expected in the number of packets?

Vijay Kumar Flat to 5% increase to 10% reduction can be expected.

Moderator Thank you. We take the next question from the line of Omkar Kulkarni, an Individual Investor. Please go ahead.

Omkar Kulkarni My question was regarding the statement given by our Executive Director in one of the interviews, it is saying that you are looking for 22%-25% minimum growth in next three to five years, so how do you think it is sustainable to do that or what is your response to that, Sir?

Vijay Kumar Next three to five years, we will definitely do 15% to 20% growth because of our focus is more on non-cotton and we are also expanding to northern parts. In the past, we have strongly concentrated on AP, Telangana and Karnataka. Now, we are doing well in Maharashtra, Gujarat, and as in my preamble discussion I told that we have now expanded business to Jharkhand, Uttar Pradesh, Bihar, West Bengal, Orissa, Madhya Pradesh, Chhattisgarh etc. Now, we are also launching lot of new products which suits to those areas, those are all giving lot of contribution and the new product sales also increasing, we are also growing in cotton in Maharashtra and Gujarat, we are also going to launch a new product in cotton which suits to the Rajasthan, Haryana, and Punjab, and we are also planning aggressively to grow in exports and vegetable seeds. These are all will give sustainable growth of 15% to 20% growth between four to five years.

Omkar Kulkarni This is irrespective of the unfavorable monsoon you are saying or with favorable monsoon?

Vijay Kumar Average monsoon is okay for us, we are expecting and giving all this figures based on average monsoon.

Omkar Kulkarni Other thing is that you mentioned about acquisition, so you will be using around Rs. 500 crore for acquisitions, so what is that, Sir?

Vijay Kumar We have cash reserves and sitting on rs. 500 crore of money at any point of time, so we seriously looking for any good value-added M&A, that has a very good R&D base or very good germplasm. We are not looking for top line, we are looking for good R&D base and germplasm, so if anything comes across we will definitely look into that,

Omkar Kulkarni There is nothing on the table, right now?

Vijay Kumar Yes, nothing on the table right now.

Omkar Kulkarni The margins in non-cotton business and cotton business, what is the difference, Sir?

Vijay Kumar 5% to 7% more in non-cotton business.

Moderator Thank you. We take the next question from the line of Ranjit Cirumalla from B&K securities. Please go ahead.

Ranjit Cirumalla Firstly, just wanted to get that you said that you are expecting a 5% to 10% decline in the acreages for the industry level, right, for cotton?

Vijay Kumar Correct.

Ranjit Cirumalla What will be for the company level?

Vijay Kumar Company level, we are expecting 5%

Ranjit Cirumalla From the Maharashtra we have done very well that was probably a couple of license of the competitor got cancelled last year and they are back now, but we remain confident of matching and growing in Maharashtra?

Vijay Kumar Yes, Maharashtra this year we will grow,

Ranjit Cirumalla Despite increased competition?

Vijay Kumar Yes, despite increased competition.

Ranjit Cirumalla Sir, lastly you said that unseasonal rain would inch up the cost of production, but how are we placed with regard to the inventory, was there also some damage on the inventory or we remain confident of this 5% growth?

Vijay Kumar It is not damaged, whatever the crops are there, recovery percentage was affected,, hence cost of production by 2% increase, otherwise, we are okay with inventory.

Ranjit Cirumalla So inventory would not be a challenge for the growth?

Vijay Kumar Not a challenge.

Moderator Thank you. We take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta Sir, on this ratio of which is now right now 58% revenue mix in cotton and non-cotton 42%, so you are looking 20% to 25% growth every year over next three to four years, so how this ratio will change over the next four to five years because you mentioned that lot of growth will be coming from non-cotton only?

Vijay Kumar We are expecting that non-cotton to cotton mix may go to 60:40, that means, cotton is 40 and non-cotton is 60.

Rohan Gupta So cotton will come down to 35?

Vijay Kumar 40, cotton also will grow, but non-cotton the business growth will surpass the cotton growth, so from four to five years, cotton to non-cotton mix will change to 40 to 60.

Rohan Gupta With that non-cotton portfolio growing by at least some 35% to 40% to achieve a 25% growth on overall basis, so which are the crops you have identified that will be the fast-growing crop for you or it will be geographical expansion which will be taking this growth at this level?

Vijay Kumar One is geographical expansion that is going to give lot of growth to us for non-cotton. Secondly, varietal rice will grow at least 30% to 35%, hybrid rice will grow around 20%, and maize will grow 15% to 20%. Other all vegetable seeds will grow at least year-on-year 35% to 40%. Apart from these exports will also grow and all these will give lot of growth in non-cotton.

Rohan Gupta Sir, maize you mentioned 15% to 20% and Paddy will be roughly 30% to 40%?

Vijay Kumar Yes, Varietal rice is 30% to 35%, hybrid rice may be 20 to 25%.

Rohan Gupta This hybrid rice growth have we been able to see any growth there because this Paddy market, I believe Paddy market has not been able to grow much in as was anticipated?

Vijay Kumar Roughly, we have grown 10% and now we have launched lot of new products, we are expecting this year we will see good growth.

Rohan Gupta Last three years, hybrid paddy growth would have been just an average of 10% right, last three years?

Vijay Kumar Yes, now the acceptancy started, and we also launched lot of new products that is the reason we are confident that newer markets, newer products will give 20% to 25% growth in hybrid paddy, more than 30% in the varietal Paddy.

Rohan Gupta Sir, what would have been the average growth in maize in last two to three years?

Vijay Kumar Last year, we have declined, last year market also declined 4.5% and this year we are expecting the maize will grow because maize shortage is there in the market, the commodity prices may increase, so this year we are expecting the maize market may increase.

Rohan Gupta My whole point is that all these crops maize, vegetable seeds, and Paddy except that vegetables seeds probably in other through categories, our growth in last two

to three years have been just very close to double-digit or just 10%, where we are expecting the growth will accelerate close to 25% to 30% to achieve 40% growth in overall portfolio, so I just want to understand what is going to change so significantly over the next three years that will help us achieve in roughly 30% to 40% growth in these kind of products?

Vijay Kumar

Newer products, newer areas, northern states we expanded and we launched suitable products to respective areas. We are also doing lot of international trial runs. We are exploring new business from Bangladeshlike hybrid paddy, research okra, in Pakistan maize and okra hybrids are exploring , Nepal registration trials are completed for both hybrid maize and paddy products and reports are at compiling stage and final results expecting by year end, Zimbabwe good performance observed in pearl millet and sorghum hybrids and trial runs taken up for tomato, In Malawi tomato hybrids are given for trials and waiting for results, Egypt, hybrid Sorghum is given for trials Kenya vegetable seeds, trials are going on. And in Myanmar four hybrids of maize products initiated, With all of this we are expecting lot of growth. Growth will come from exports down the line after two to three years and the vegetable seeds also two years down the line good growth expecting and in this segment , next two to three years we are launching 50 new hybrids and apart from that, we will also grow strongly in varietal Paddy and hybrid paddy. These are all efforts will give lot of growth for the non-cotton business.

Rohan Gupta

With this kind of ratio changing in favor of non-cotton to 60% from 40% wherein non-cotton portfolio we have roughly 5 to 7 percentage point more margin, so our overall margin profile is also going to increase at least by 300 basis points?

Vijay Kumar

Yes, definitely.

Rohan Gupta

Sir, second question, on M&A you mentioned that you are looking actively and with mainly on the technical side like germplasm connection, so you are talking about domestic or you are looking at the global opportunities?

Vijay Kumar

As on date domestic and any good opportunity comes globally also we do not mind.

Rohan Gupta

Sir, given the seed business being a very small business, I mean there are handful number of companies are in the country and I think that not many companies have actually worked a lot on germplasm, so we must be very clear that what we are looking for or I believe that we are screening the opportunity, but to be frank there are not much opportunity to acquire any company who have a good collection of germplasm, then if we still continuously looking then what is our thought process because I think that the same process we are repeating from last three years, we do not see that any Indian company focusing on R&D and having germplasm collection...?

Vijay Kumar

Recently Monsanto sold their cotton business to an Hyderabad company, like that some of the companies wants to carve out any segment and want to sell In similar way, anybody wants to sell their R&D or any strong product line, we are ready. On international also, we are exploring lot of international business by exports if any good company comes for the sale, we do not mind to look in to that We are strongly strengthening the R&D by recruiting many people and spending lot of money in many locations, now R&D location expanded into northern parts, trial runs are going on in northern parts in seeds , so we are not depend on M&A, irrespective of that R&D is going well.

Rohan Gupta Sir, you have mentioned to achieve this growth, you have mentioned a lot of global opportunities which you are trying to tap, so next year for FY '19 or FY '20, what is likely to be total investment which you are looking to put overseas not in India?

Vijay Kumar In 'FY2019-20 will not be the big growth, actually 'FY:2020-21 onwards lot of growth will come from this international business because all this trial runs are on and expecting approvals and licenses by next two years.

Rohan Gupta Yes, but what sort of investment we are planning to make in these out of India?

Vijay Kumar For trial runs, license fees and for marketing efforts expenses increase is there but not very huge, but our marketing cost was steadily increasing, you can see that other expense is already increasing. At least year-on-year at least Rs. 4 to 5 crore expenses will be increasing

Moderator Thank you. We take the next question from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

Keyur Pandya Sir, the question has been partially answered, another question is on the hybrid rice front, so what has been the reason why the industry has not grown even through these years and what has changed that is giving confidence that we will be able to grow hybrid rice over the next two to three years at a very high rate?

Vijay Kumar In the past, a lot of apprehensions were there on the people about the hybrid rice because historically they were habituated for varietal rice, so suddenly changing they felt like some risk. Now, lot of awareness is coming generating to the farmers by lot of mandi-level workshops, field-level workshops, village-level workshops are going on about hybrid seeds impact and how it will give more yield and comfort, so now the change is happening. We also expanded to be Bihar, UP, West Bengal and other states where a lot of hybrid rice cultivation is going on, that also will enable more growth in hybrid rice.

Keyur Pandya There is no technical issue right?

Vijay Kumar We launched more products in Northern states, that will give increase in hybrid rice volume.

Keyur Pandya Is there any quality-related issue in the hybrid rice restraining the growth of the industry?

Vijay Kumar From our side there is no quality challenges, only people apprehension, and we are slowly eliminating that.

Moderator Thank you. We take the next question from the line of Manish Desai from Shri Capital. Please go ahead.

Manish Desai I have got couple of questions, firstly about the export growth which you had just mentioned, can we have some number about what was the 2017-18 exports as a part of the business and at what percentage are we expecting to do it?

Vijay Kumar In '17-18 our export sales is close to Rs. 15 crore, it is coming around 1.8% to 1.9% of total net sales and next year it will grow around 20%. The actual growth potential will start from FY:2020-21 These things will crystallize by next year then more exports will start from year 20-21.

Manish Desai Are they mainly focused in the Third World countries?

Vijay Kumar Mainly focused in south-eastern countries because they are all close to our Indian condition, so our products need only bit of improvement in R&D. The soil , monsoon , geographical conditions are very close to Indian continent, so those countries as on date we are exploring. Also we are planning to explore certain crops in Africa in near future

Manish Desai Secondly, about Treasury that we have about 500 plus crore out of which you are planning to spend about 200 crore on buyback, remaining this 300 crore in addition to the opportunity that may come along for acquisition, are we also having any requirement of CAPEX in the years to come?

Vijay Kumar CAPEX for next three years expecting for Rs. 30 to 40 crore per annum for any replacement or any improvement there is no big expansion required for the expected growth for next three years.

Manish Desai Last year, there was exceptional expense of about Rs.59 crore towards the provision which you made for Mahyco Monsanto settlement, is there anything else pending in terms of Mahyco Monsanto in terms of any ongoing litigation or any likely expense coming our way?

Vijay Kumar No, that was pending due to some issues that were settled last year in the arbitration settlement, so that is the reason we provided and we have paid also. As on date everything was paid with Monsanto, so there is no litigation pending with them.

Manish Desai Lastly about buyback which you have proposed, last year also the buyback was at 675, so this year also is it the same number is mentioned, but is it up to 675 per share or is it fixed price at 675 per share?

Vijay Kumar This Rs. 675 is fixed price, last year we have given the same price based on us wanting to give 25% increase on the Board meeting date price. This year though on the Board meeting date price is only below Rs. 500, it is coming around more than 38% increase, but we want to stick to the Rs. 675 at least because last year we have offered the same, we do not want to reduce the price, we have again offered at Rs. 675 with Rs. 200 crore buyback amount.

Moderator Thank you. We take the next question from the line of Arun Baid from BOB Capital Market. Please go ahead.

Arun Baid Sir, just wanted to know what is the kind of advances this time we have got from our dealers for the quarter?

Vijay Kumar Cotton and non-cotton put together this year we received around Rs. 215 crores as advances.

Arun Baid Sir, second thing is because of this price cut which has happened by the Government and you said even the cotton seed growing cost will go up, so do we expect some pressure on margin this year?

Vijay Kumar Yes, in the margin there is Rs.10 to 12 crore impact will be there in the margin due to cotton price reduction.

Arun Baid Like 2% to 3% which increased in cotton seed production cost that is included in this 10 to 12 crore?

Vijay Kumar No, that is separate, this is the price impact that is the cost impact.

Arun Baid Sir, just one more thing, there was this news reports in January that there was some raids on seed companies and because of the income tax thing, anything on that front which you would like to highlight, anything which has happened?

Vijay Kumar They have raided on many seed companies and they have also come to our office and checked all the accounting records and methods adopted. Post that, nothing has happened,

Arun Baid So that regulation with regard to income tax, there is no issue with that, right?

Vijay Kumar No issue on that.

Moderator Thank you. We take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh Sir, I just wanted to know like for the coming year what is the revenue growth outlook?

Vijay Kumar Next year we are expecting 15% to 20% growth in top line.

Shekhar Singh What is the growth rate you are expecting in cotton portion of the revenues?

Vijay Kumar Cotton, we are expecting around flat to 5%

Shekhar Singh Secondly, Sir, you mentioned that you are expanding to new states and new geographies and you are also going in for exports, so what does that mean in terms of your setup, the marketing setup, your expenses and should we be looking at the margins will be coming down in the coming years?

Vijay Kumar When we are expanding internationally, our dealers also will increase, margins and profits will increase.

Shekhar Singh In the first year itself you think you will be making money over here despite the expansion?

Vijay Kumar Yes,

Shekhar Singh Sir, what is the CAPEX for the year that you are expecting for FY '19 and how much was it for FY '18?

Vijay Kumar FY '18 the CAPEX was 23 crore and for FY '19, we are set up for the capex is Rs. 35 crore.

Moderator Thank you. We take the next question from the line of Nilabra Das, an Individual Investor. Please go ahead.

Nilabra Das Sir, I would like to know about one thing, so there was a forensic audit that was ordered by SEBI sometime back, so is there any update on that, we did not get any info on that?

Vijay Kumar No updates, in 2015 December forensic audit was initiated on our company, upto August 2016 they have done the audit, post that we have not heard anything from the SEBI-appointed auditor.

Nilabra Das Is that case closed now or something?

Vijay Kumar We do not know, we cannot comment on that,

Moderator Thank you. We take the next question from the line of Nandan Vartak from Wealth Managers India. Please go ahead.

Nandan Vartak Sir, my question is on vegetable sales, what was vegetable sales for FY '18?

Vijay Kumar FY '18 vegetable business sales is Rs. 11 crore.

Nandan Vartak Second question is on employee cost, so if we see that is very high compared sequentially and YOY also, so what is the reason of higher employee cost?

Vijay Kumar One is lot of recruitments happened in R&D and Sales & Marketing many personnel have joined in middle management and top management levels. The second is there is a Rs. 3.10 crore turn back provisions made for gratuity and leave encashment and incentives and bonuses also impacted around Rs. 160 lakh , apart from the annual increments, these all impacted the increase in employment benefit expenses.

Moderator Thank you. We take the next question from the line of Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella Just to check is it possible to share the revenues for some of the other seeds for FY '18, bajra, sunflower, wheat, or any other?

Vijay Kumar Crop wise difficult to give.

Moderator Thank you. We take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta Sir, just one clarification that this year you mentioned that write-off amount for full year is roughly 53 crore, right?

Vijay Kumar Rs. 23.75 crore.

Rohan Gupta How much it was last year?

Vijay Kumar Last year it was Rs. 66.55 crore.

Rohan Gupta This is only on cotton crop, right?

Vijay Kumar All crops,

Rohan Gupta Sir, do not you think that the amount has been significantly increased, what it used to be almost three to four years back, is it something accounting changes or that,, I mean it is very tough to sell now the old seeds in the market or why it is happening?

Vijay Kumar In the normal industry scenario, seed industry 4% to 5% write-offs will be there on top line and last year because of prior to that continuously three years back-to-back drought was there, so certain products shelf-life was expired, that is the reason FY:2016-17 write-off were very high, at Rs.66.55 crore and whereas last year is in line with normal write-off expectations.

Rohan Gupta Sir, but this is over and above how you book your revenues and profitability because I believe that seed as an industry, you always had a practice of booking some losses on the old inventory which was every time anyhow were factored in the P&L, so this Rs. 23 crore is on higher side or lower side or this is just normal amount which you think that is going to remain as a percentage of revenues of 4% to 5% is what you mentioned?

Vijay Kumar It is always 4% to 6% of the revenue, this is the normal. If anything beyond 6% is abnormal, it is part of cost of production only.

Rohan Gupta Sir, with the current year buyback that is roughly Rs. 200 crore which you have announced as a previous participant also asked that roughly 300 crore you still have and the next year and other cash flow are close to 200 crore, so is that the buyback, I mean if we do not see get any M&A opportunity then the strategy here is that keep on continuing with this kind of Rs. 200 to Rs. 300 crore buyback every year in lieu of dividend that is the policy now?

Vijay Kumar Dividend also we will consider and, last year we paid dividend. Apart from buyback last year along with Q1 results we paid dividend of 150%. Every year as I mentioned in my preamble discussion Rs. 200 crore to 250 crore cash generation is there pre CAPEX and so we definitely will distribute major part 70% to 80% of net cash flows or more than that to the investors

Moderator Thank you. The next question is from the line of Jigar Shah, an Individual Investor. Please go ahead.

Jigar Shah Sir, what is the normalized EBITDA margin which would be sustainable for the next three years?

Vijay Kumar Next three years EBITDA margins will be 30% to 32%.

Moderator Thank you. We take the next question from the line of Omkar Kulkarni, an Individual Investor. Please go ahead.

Omkar Kulkarni Around 75% of your sales and profit comes in the first quarter itself, right, Sir?

Vijay Kumar That is right.

Omkar Kulkarni So in last two to three years because of drought you have not been able to perform that well, so now you are guiding for 15% to 20% growth?

Vijay Kumar In '17-18 we did well.

Omkar Kulkarni The last fiscal you did well, apart from that I am asking last two to three years, Sir?

Vijay Kumar That is because of severe drought was impacted. If the monsoon is average, we will grow at least 15% to 20%.

Omkar Kulkarni Till now almost two months have gone, so how has been the trend, Sir?

Vijay Kumar Monsoon starts from June, already we are well placed. Only in Gujarat the business has started, we are seeing a lot of positive response and we are expecting at least 25% growth in Gujarat and still monsoon has to start from May or June first week only.

Omkar Kulkarni So most of your sales will be in June month only?

Vijay Kumar Yes, May, it will be little bit, actually May is the time we place the goods in respective areas based on the expected sales, then most sales will done in June, some sales may spill over to July and that will be very little.

Omkar Kulkarni But July like around 10% to 15% sales happen in July quarter, right?

Vijay Kumar Less than that

Omkar Kulkarni So most of the things will be sold in June only?

Vijay Kumar Yes, *Kharif* is India's predominant crop season, *Kharif* comes in May and June only, and again *Rabi* will be there in October, November-December.

Omkar Kulkarni You have mentioned that you will grow because of geographical expansion and as well as new product launches, so what will be the contribution of those two like how geographical expansion will aid your growth and how new products will contribute to your growth, Sir?

Vijay Kumar From the cotton point of view, we launched many new products like Money Maker and all last two to three years back, those things are now market has accepted and growing a lot. Few more products we are launching in cotton which suits to Rajasthan, Haryana, and Punjab. As on date, our business is zero in that market that will give a lot of growth in cotton business. Non-cotton point of view we have launched lot of products which suits to the Bihar , UP, West Bengal, Jharkhand, Madhya Pradesh, Orissa and Chhattisgarh and all these parts, so these new products, the new locations, exports and vegetable seeds will give lot of increase in our top line going forward from FY:2020-21 onwards

Omkar Kulkarni You mentioned that from year 2021 the actual growth will start in exports, right?

Vijay Kumar Correct.

Omkar Kulkarni In the next two years, most of the growth will come from domestic market only, Sir, because of expansion and new products?

Vijay Kumar Yes, new products and expansion of the Northern areas and vegetable seeds will give the next two years, but next two years exports and vegetable seeds lot of new product launches and trial runs and licenses will happen and real trajectory will start after two years. This two will take the company to next level after FY:2021-22 onwards.

Moderator Thank you. Next, we take the last question from the line of Arun Baid from BOB Capital Market. Please go ahead.

Arun Baid Sir, just one clarification what was the expected growth in maize, you expect in FY '19?

Vijay Kumar 15%.

Arun Baid Sir, just trying to understand because cotton is growing at 5%, so the rest of the business has to grow at least 35% to 40% band, so you think that is achievable this year based on what you are seeing right now?

Vijay Kumar Rice will expand at least 20% plus, in hybrid rice and in varietal rice will be close to 30 to 35%. Vegetable business will grow at least double and exports also will grow another 15% to 20% these are all reasons for expecting 15% to 20% top line growth

Arun Baid Sir, how big is the vegetable business right now?

Vijay Kumar As on date Rs.11 crore, next year it will be doubled.

Arun Baid The hybrid rice is Rs. 34 crore business right now, how much is varietal rice for us?

Vijay Kumar Varietal will be around Rs. 43 crore.

Moderator Thank you, that was the last question. I would now like to hand the floor back to the management for any closing remarks.

Vijay Kumar 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 continued 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 very much. Have a nice day.

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

- ENDS -

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