



Kaveri Seed Company Limited

Q1 FY22 Earnings Conference Call Transcript

August 16, 2021

Moderator: Ladies and gentlemen, good day and welcome to Kaveri Seed Company Limited's Q1 FY22 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 * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: Thank you. Good day everyone and thank you for joining us on the Kaveri Seed Company Limited's Q1 FY22 Earnings Conference Call. We have with us today Mr. Mithun Chand – The Executive Director.

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

We will begin the call with opening remarks from Mr. Mithun Chand who will address updates on the market environment and take you through the strategic imperatives of the company. We will then have the forum open for an interactive question & answer session. I would now like to invite Mr. Mithun Chand to share his views. Over to you, sir.

Mithun Chand: Thank you, Rishab. Good everyone and thank you for joining us on the call. I hope all of you are safe and healthy during this pandemic.

I am glad to connect with you during the first quarter of this year which is a very important quarter revenue wise for the company. A majority of the revenues for the year are clocked in during this quarter. Let me share some perspective with you regarding the performance during Q1 FY22. In Q1 FY22, revenues stood at Rs. 629.77 crore over Rs. 719.48 crore in the first quarter last year. A degrowth of about 12.5%. This degrowth is mainly a result of significantly lower cotton sales and no government sales of maize. EBITDA margin stood at 34.09% while PAT



amounted to Rs. 204.73 crore versus Rs. 296.41 crore in Q1 FY21. Provision for bad debts against realized revenue for government business in FY20 amounting to Rs. 14.90 crore impacted profitability as a whole. Cash on books as on June 30th, 2021, stood at Rs. 560 crore.

Moving on to crop wise performance, the performance of our non-cotton business was strong. Maize volume decreased by 18.29%. But the revenue was down only by 8%. This decline is primarily a result of there being no government business in the quarter under review. Ex-government sales our revenues from maize are up 14% while overall averages are largely in line with the previous year.

Contribution of new products have also gone up significantly from 6.98% to 17.88%. Hybrid rice revenue grew by 43.28% in Q1 FY22. The introduction of new hybrids 7299, 471 and 473 contributed well towards a strong growth with their contribution increasing from 64.42% to 74.55%. Selection rice revenues also grew by 14.88% in quarter one. On the back of consistent performance across geographies. Here too our new products Chintu, 828, Sampurna, KV99 did well taking contribution of new hybrids went up from 16.50% to 18.12%.

Vegetable sales revenue increased by 22.39%. Growth was driven by hot pepper, gourds, and okra. In Hot Pepper, KHPH 1223, KHPH 206 and Kaveri Beauty & Kaveri Sona did well. We introduced new hybrids like Srimukhi which enjoyed good commercial prices and export demand. Vegetable hybrids got a good response in the market. Contribution of new hybrids vegetables went up from 74.10% to 96.17%.

Moving on to cotton. It would not be an understatement to say that the current year has been one of the worst in close to two decades for the cotton and hybrid seed market. While cotton acreages were significantly lower than the previous year, the decline in sales of branded seeds have been even more steep. This is primarily driven by a much-increased use of illegal seeds and HTBT. In total, about 15% of HTBT is estimated to have been used in this season. The industry is in dialogue with government in an endeavor to rectify this and we are hopeful of things improving.

The second wave of pandemic added to the challenge, and we saw impact across supply chain primarily due to unfortunate delays and casualties that in terms of our lower absorption of cotton hybrids by dealers and distributors and consequently unavailability for the farmer. Farmers resultantly shifted to other crops for which seeds were more easily available.

Again, unlike in the first wave, where dealers built inventories in anticipation of shortages during the second wave there was minimal advance stocking. The overall hybrid seed market too were impacted as farmers preferring to use the locally available OP seeds rather than buying costly seeds this season due to COVID related uncertainty.

Our operation continues to progress well supported by a robust R&D, and infrastructure backbone. We are delighted with the acceptance of our new launches. Our focus continues to be on leveraging our established sense to drive growth and utilizing cash to enhance our position in the agri space creating value for the stakeholders.



With that, I conclude my opening remarks and will have the floor open for an interactive question & answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Muralidhara Reddy from Reddy & Family.

Muralidhara Reddy: I have two questions. First question with respect to the paddy and rice growth. So, what are we expecting? Because you did show a very good improvement last year and before that. This year is about 20%. So, what is our outlook I mean, I am not asking for a definitive outlook, I am asking for a strategic outlook?

Mithun Chand: Okay, as we were saying in the previous years also paddy is a crop which we are focusing more. And if you see as a whole, India is a major economy for paddy and we have this paddy acceptance going up. Leaving this year where we have seen a lot of issues relating to the seed availability and in terms of the farmer sentiment in taking hybrids in. But overall, it looks very good. And we are very bullish on the hybrid paddy. And if you see the growth of hybrid paddy even in this worst year, where the industry is down by 10% to 12% in hybrid seed market, we have grown by more than 40% in that. So, we are pretty confident that hybrid rice going forward will have a major contribution towards the revenue. And even the other segment the selection rice even that has not moved up well this year. But as Kaveri we have grown by more than 15% in selection rice also. So, both these; the hybrid and selection rice contribute well and as going forward definitely we think that the contribution of the rice as a portfolio will go up.

Muralidhara Reddy: Sir, my second question with regard to the vegetables, so right now you are focusing on only about three varieties if I am right, three or four varieties something like that. So, are there any plan to add more vegetables because vegetables are generally about three to four crops a year? So how is that growth going to be in the next few years?

Mithun Chand: Like you said, to start with we have picked up three or four crops, which are major contributors for the revenue, especially like tomato, okra, and chilli. These are the three major crops. After that we have picked up gourds and eggplant and slightly, we have added a new portfolio also for the vegetable crops. In the next two to three years, these are the crops which will contribute more to the vegetable revenues. And if you see this vegetative growth from almost negligible, I mean this is zero to Rs. 1 crore, from there we are moved up to Rs. 40 odd crore. And going forward, we see a huge growth in vegetables. So, we are pretty confident about the vegetable business going forward. And going forward we will definitely add few more crops in that and that is a continuous endeavor and process to add few crops to the portfolio as we grow big.

Moderator: The next question is from line of Nitin Awasthi from InCred CIMB.

Nitin Awasthi: So, two questions from my side, both on the cotton segment. Firstly, there has been penetration of illegal seeds up to 15% of the total market, but our loss in cotton volume wise is close to 30%. So, we are losing considerable amount of market share, and how is that the smaller players in the listed space are actually gaining market share given that there are so much illegal seeds coming in? That is the first question.



And the second one is what are you going to do about the illegal seeds? How is it ever going to be stopped? Because it is growing so rapidly? That what are the possible steps to curtail it?

Mithun Chand:

To answer the first question, yes. If you see the overall acreages, the cotton acreages are down by 10% compared to the previous year. But if you see the branded seeds segment, which has grown by more than 30%, there are two things. One, the illegal BT has gone up compared to the previous year. It has almost doubled compared to the previous year. And in the unorganized sector, as it is low brand seeds moved in from this year because both illegal seeds, and the low branded seeds are basically the local companies which supply. And there are readily available at the farmer's doorstep in their own villages. They were not able to travel to the nearest towns and markets where you will get the branded seeds or organized seeds. So that is one which has impacted a lot in terms of the cotton seeds. And then we need to take this year as an exception, we cannot say this will be a base point.

But in terms of the illegal BT, definitely we need to think of it and as a seed industry, we already represented the government for the last couple of years. And this year before the season and after that, both we are continuously in dialogue with the government to see the matters. And this year even the government has faced few practical challenges in tackling the seeds because of the impacting in the issue because of the pandemic as they were not able to clearly move into the villages and sort it out. That is one point but definitely we are pretty confident with the present status and with the farmer difficulties after facing, after showing the seeds definitely the government is also taking proactive steps in curbing the illegal BT. Definitely, we see a positivity coming forward in terms of curbing the illegal BT seeds. But as I said, this year is one of the exceptional years and we cannot not take this as a benchmark going forward.

Nitin Awasthi:

So, if you could explain how it is going to be curbed because what we understand is that the benefit that the farmer gets from illegal seeds, how does the cost which he bears is credited through getting those seeds and use those seeds. Because of which farmers using these seeds are going up rapidly? What is the way that the government can curtail it because it is so rampant right now and people are now seeing it is going to spread to the northern parts of India, which is not gone already?

Mithun Chand:

So, when you see the cotton seeds between the branded seed and the illegal or the unbranded seeds, the difference for patent is very low, hardly few hundreds of rupees. And the seed cost per acre is less than Rs. 1,500 . So, the branded seed and the unbranded or the illegal, which is the difference comes up to Rs. 300, Rs. 400 only. So moreover, rather than the rate difference this year as I said the availability of the seeds at this period had made the farmer pick up these seeds. And even when coming back to the illegal BT it is not approved by the government and it is protein expression in the gene is not up to the standards. Definitely the yield and the other things impact the farmer's productivity. So, government is working on to improve I mean to say to curb this illegal thing and as a farmer, it is always better to go for good seed wherein he can expect a better rate.

Moderator:

The next question is from the line of Sumant Kumar from Motilal Oswal.



Sumant Kumar: So, my question is regarding the cotton seeds. So, you have given guidance 5% to 7% growth in Q4 FY21. So, what happened in between overall the significant decline 29% despite 7% lower acreage here. And on the whole, we are losing our market share in this sector. So, how are we going to retain and gain the market share?

Mithun Chand: So, if you see our guidance when we had given in the month of May, May is pretty early in terms of the sowing activity. We have placed this stock in anticipation of the good season. If you recollect, we were saying that the cotton acreages will be stable or slightly down by 5% or so. But this year the cotton acreages are down close to 10% and the illegal BT or what you said the branded seed sales are down by more than 30%. Usually that is not the case. The unorganized sector is more because of the pandemic. And the non-availability I mean to say because of the government restrictions in terms of the lockdowns or in terms of the partial restrictions across India. And the second wave were impacted the dealers and the farming community a lot in terms of which their near or dear got affected by this pandemic. So, they were a bit reluctant to come down and go to the towns and take the seed. That is the one which has impacted the branded seed more and most of the activity I mean to say the farmer mentality we were able to see only this year and in the last two decades this was the only year where we have seen that the branded seed sales have declined. Every year it remains same more or less there was unorganized sector, but it remained stable or same for the last 20 years. This is the first year where we have seen that the unorganized sector moved up. That is only in cotton. But if you take the entire year as such for the hybrid seed market, this is the only year where we have seen hybrid seed market across all crops which is down because farmers use the readily available seed. And this is the first time in the last two decades where we are seeing this type of decline in the hybrid seed market. As I said in the previous question, this should not be taken as a benchmark here. This is one of the exceptions here where we are seeing the entire things contributing to the decline of the hybrid seed market.

Sumant Kumar: So, what steps are we taking to gain our market share in AP, Telangana and Karnataka and couple of other states?

Mithun Chand: If you see the market shares what we have in cotton, if you see the branded seed market share, we have not wasted any market share in the branded seed market. We have lost market share in the cotton market not in the branded seed segment. And if we take the market shares in the crops like maize and rice, we are growing much better than the industry. If we see the hybrid seed market, hybrid rice market, hybrid rice market the market is down by 10% to 12%. We have grown by more than 40%. If you take it in terms of the market shares, we have gained and if you take the market shares in the overall hybrid seed market, Kaveri Seed Company is the only company which has gained market share this year. It is for all crops leaving cotton.

Moderator: The next question is from the line of Abhijit Akella from IIFL Securities.

Abhijit Akella: Two questions from my side. One is Mithun, if you could please help us quantify the sales returns and write offs that we have taken in this quarter maybe either the total amount or the excess amount compared to your normal provisioning for sales returns? And out of that if you could also, please just break it down between cotton and non-cotton? So, we know which segment had higher number of sales returns or write offs?



Mithun Chand: If you take sales return usually every year, we get close to 20% of the sale return, but this year we are provided for more than 35% to 36% as sale return. As you are aware most of the stock will lie in the market it has not come back to the company as such. It will take some more time; it will take another couple of weeks to come back to the company. We are just in talks of getting the stock. But our internal estimates and what we have provided within the results is like 35% to 36% of the returns. And the majority of the write offs come from the non-cotton crops. Cotton is a minimal crop. I mean to say returns are very minimal I mean to say the write offs are very minimal in cotton, but in non-cotton crops the returns are pretty high. I mean to say write offs are pretty high. When you compare it to on a quarter-on-quarter basis then compared to the previous quarter, write offs for the last year was Rs. 7 crore to Rs. 8 crore but this quarter the write offs in the first quarter is close to Rs. 22 crore.

Abhijit Akella: Yes, write offs and that is primarily in non-cotton?

Mithun Chand: Basically, non-cotton. Cotton is very minimal, but basically non-cotton. Because non-cotton seed if you send to market and if it comes back usually that needs to be discarded. Even though the seed has not come to the plants, but we are provided for that in anticipation. As a regular thing, I mean to say, historically what is the percentage of the write off we get. That is how we provide for the write offs. As I said earlier, in terms of the anticipation if you recollect the discussion what we had in the con call in the month of May, as I said that we are very much prepared for the pandemic. That is the reason by seeing the last year first wave we thought that transportation as the seed is very difficult if we have any lockdowns or anything. That is the reason aggressively we have positioned our stock in the market. But due to many reasons, the consumption of seeds is very lower than compared to the normal season. That has resulted in more results and more write offs. That is one of the factors which has affected the bottom line. And if you see in terms of the margins, we are a company which operates at 37%, 38% in the first quarter and we have the highest EBITDA margins in the industry because of the scale. Once the scale, once the size is impacted then these profit margins affect most people.

Moderator: The next question is from line of Nitin Aggarwal from Elite Wealth Limited.

Nitin Aggarwal: My first question is, I am not sure about this, but are you using your own land, the 1 lakh acre of land, is it correct or not?

Mithun Chand: No, we enter into lease agreements with the farmers to take that land and lease that during the production activity, it is not under our own land.

Nitin Aggarwal: So, all the land that you have are leased land or you also own some of the land?

Mithun Chand: We have some owned lands also which is mentioned in the annual report. We have own land but basically that we use for the research purpose and our own internal breeding activity. But majority of the land when you talk about this 1 lakh acres, which we have taken on production, basically that is majority of the land that is the base land.

Nitin Aggarwal: So, this land is for the production of cotton or other seeds or something?



- Mithun Chand:** It is production of all seeds, all the varieties of seeds. Both hybrid and varieties. But as we did majority of the cost in hybrid, majority of the production activity is for hybrid seeds only.
- Nitin Aggarwal:** Sir, my second question is, are you expecting any, you know, last time you had given the guidance of 5% to 7% in the cotton and your cotton segment reduces to 45% from 57% over Q1 FY21. So, are you expecting any change, in Q2 FY22 or FY23? Are you expecting it to remain 45% or you are expecting this to increase as it was?
- Mithun Chand:** We were always saying that the dependency of the quarter should come down at the company level from 75% at the peak level last year it was close to 45% as the overall basis. And this year, it will be much lower than last year's percentage. Because if you see the contribution of the cotton in the first quarter, usually it should be around 60% to 65%. But this year, it is between 45%, 47%. And going forward, definitely in the second 2, 3, 4 quarters, it is only the non-cotton segment, the cotton percentage will further fall below the previous year levels. And also, what we see is that I do not see this year as a benchmark, the cotton percentage is much lower than the anticipated one. But going ahead, non-cotton crops will definitely be more than the cotton segment.
- Moderator:** The next question is from the line of VP Rajesh from Banyan Capital.
- VP Rajesh:** My question was regarding the cash we have on the books. We have been doing buybacks in the past. So, what is the current game plan to utilize that cash?
- Mithun Chand:** The policy remains same, in terms of the company level we want to send the cash in for the growth or as reward to the shareholders. We are exploring some options. So, for that we have held back that. If there is something material definitely we will get back to you. Otherwise, that will be returned back to the shareholder.
- VP Rajesh:** So, are you suggesting that you are looking for some inorganic growth opportunities?
- Mithun Chand:** Yes, we are looking for some opportunity, which we have seen, but once it materializes, I will let you know. But as of now, nothing concrete.
- Moderator:** The next question is from the line of Nishith Shah from Aequitas Investments.
- Nishith Shah:** Sir, I want to understand that this year there was some delay in sowing. So, do we see any spillover of revenues from Q1 to Q2 for any of our crops?
- Mithun Chand:** Not much. We are definitely seeing a delay in the monsoon arrival in most of the parts and we will see a spillover sale also across the industry. But not to Kaveri much because usually the spillover sale come from the cotton, but cotton acreages are down. We do not see much of a spillover in the second quarter.
- Nishith Shah:** And sir, second thing I would like a clarification. So, you said that this year we have already provided for 35% write backs and 42% we have written off in Q1. Is that right?



Mithun Chand: No, what I said is that usually the returns are 20%. The percentage of return what we get back to the company is 20%. But this year as the season is bad, we are getting close to 35% as returns. Out of that returns as a percentage of what we have provided are for the write offs.

Nishith Shah: Okay, so Rs. 42 crore is provided?

Mithun Chand: Not Rs. 42 crore, I said Rs. 22 crore.

Moderator: The next question is from the line of Hitesh Sharma from White Sky.

Hitesh Sharma: If we see that the gross margin is going down and employee costs is going up even other expenses are going up, what's the reason?

Mithun Chand: So, if you see the margins, basically we operate at a high margin percentage in the first quarter because of the scale. The revenues are down that is the reason you see a margin impact but the employee costs year-on-year definitely the growth is there in the industry. The employee costs will definitely go up. The other point which needs to be seen as other expenses which you rightly pointed out is much higher than the previous year. One, because we are provided for Rs. 15 crore of bad debts, which we need to receive from the government because as a policy anything more than two years they provide as bad debts. Because we have sold some stock to Madhya Pradesh Government. The money was not able to realize money because of the pandemic they could not clear the bill. So, that is the reason we have provided extra Rs. 15 crore, which comes in the other expenses. That is one of the factors, which has also impacted the profitability. But if you see what we have provided the Madhya Pradesh Government that Rs. 15 crore odd in terms of the bad debt, definitely we are fairly confident that it will come before this year end.

Hitesh Sharma: See, the point is like, what if we are regularly losing the market share in cotton?

Mithun Chand: As I said earlier we have not lost any market share this year in terms of the branded seed segment. Overall, we might have lost the market share, but we have not lost any market share in the branded seed segment. Even in the previous year we have not lost any market share as such. It remains stable for the last three, four years.

Moderator: The next question is from the line of Samay Sabnis from Pareto Capital.

Samay Sabnis: So, for the quarter one you had a PAT of Rs. 205 crore whereas the addition of cash on books are increased from Rs. 533 crore to Rs. 560 crore, about Rs. 27 crore more. So, where is the cash being blocked?

Mithun Chand: You are comparing from 31st March to 30th June?

Samay Sabnis: Yes, that is right.

Mithun Chand: Basically, we get cash between June and after the month of June. But there are many payments which we do in the first quarter, as to whatever production we receive in the first quarter the payments we do in the first quarter for the inventory what we have received in the last and first quarter of this year.



Samay Sabnis: Okay and your hybrid rice sales have reached Rs. 162 crore and the growth has been very high in hybrid rice but at what number do you see that the growth will stabilize in paddy?

Mithun Chand: We said that the hybrid paddy will be between 20%, 25% but our hybrid was very much accepted. That is the reason we are doing at 43% compared to previous year, and we are almost close to second position now in hybrid rice. So going forward 40%, 45% growth may not be possible but 20%, 25% looks good. But we need to see based on the market size.

Moderator: The next question is from the line of Kamlesh Patel, an individual investor and shareholder.

Kamlesh Patel: My question is that have you planned any organic farming in future?

Mithun Chand: Organic farming?

Kamlesh Patel: Yes, organic farming and organic seeds? Have you planned to add this?

Mithun Chand: No, we are into hybrid seed segment. We do not look into those matters. We do not operate in those segments.

Kamlesh Patel: So, you have not planned anything in that segment?

Mithun Chand: No, we do not work on that segment. We will just work on hybrid seed segment, we continue to work on that. We do not have any immediate plan.

Kamlesh Patel: And I want the classification. I have read that your own land is 600 acres, is it right 600 acres?

Mithun Chand: Yes, roughly around 600 acres.

Kamlesh Patel: So, you are not going to have any more land in this because from here it is only 600 acres?

Mithun Chand: That is more than sufficient to operate, and if required we will definitely add based on our requirements. And we are taking land on lease if required we can take land on these and if it is necessary for us to buy, we can definitely buy. But that is not a constraint for us based on our facility and based on our requirement, this land is more sufficient for us.

Moderator: The next question is from the line of Amit Vora from PCS Securities.

Amit Vora: Just one question, Mithun. You mentioned that there is some Rs. 16 crore write off due to the receivable from MP Government. Are we looking for any other material write off that we are expecting and that might take some time from any other state governments?

Mithun Chand: Not really because there are two things to look at. One is the trade, the other one was government borrowings. In trade we do not have huge number of write off but

in government, the money gets delayed but definitely most of the time it gets received. But based on the Government policies, based on the change in the government, it gets delayed. But we do not see major write offs coming in this year apart from this, and we do not see any single creditor who have more than Rs. 10 crore.

Amit Vora: Okay, yes, so that is comforting. Do you have more than Rs. 10 crore from any other state government in the receivable, is that correct understanding?

Mithun Chand: No, we have some. We have for example in Andhra and Telengana we have close to Rs. 10 crore odd but that is a regular payment which we get.

Amit Vora: Yes, that is what this is the first time I see that we have seen a write off that you have been prudent in providing this from state governments. Earlier, we have not seen a new such quantum of amount that has been provided for. That is the reason I am just trying to understand it.

Mithun Chand: Yes, this they provided two years back. That we could not realize it. Because the government could not pass that bill.

Amit Vora: Okay. So, basically no such provision which we would expect in the coming quarters for many state governments?

Mithun Chand: No, not much. And even inside what we have provided now as this Rs. 15 crore will definitely come back in a few quarters' time. As a quality we have provided that does not mean that we have written that off. It will definitely come.

Moderator: The next question is from the line of Sharaj Singh, an individual investor.

Sharaj Singh: Sir, my question is regarding the shrinkage in the branded seed market. What I am trying to understand, sir, what led to this shrinkage to the farmers offering for a non-branded alternative? I mean, we had sufficient stock, so I believe they were placed in the markets. So, what led to this shift? Is it a structural shift maybe or it's a onetime thing?

Mithun Chand: In the previous questions also, I just answered this question. Basically, the farmer could not travel out to the dealer store, because some of the others got impacted to some extent and because of the uncertainty and because of the lockdowns, he was reluctant to go for the hybrid seed. Because availability of the hybrid seeds is only in organized sector. So, he has gone for BT which is already available at their doorsteps. Usually, the varietal seeds and the unorganized especially the unorganized sector is dominating, only a reasonable portion of sale is only there in cotton whereas in non-cotton crops unorganized sector plays a very minimal role. Whereas in cotton unorganized sector places dominance. This is the reason the cotton the branded seeds sales are much lower. And in organized sector especially like seeds like maize and rice, the farmer has moved to the varietal seeds. And they have moved for the other alternate crops like soya and groundnut also. These all have impacted that and clearly this should not be taken as a benchmark here for or a reference here for any further clarification. It is one of the years which we have seen. If you see in the last two decades this is the first year where we have seen the acreage in all the hybrid crops are down. This is the first year where we are witnessing that. And this everything is attributed to the pandemic.



Sharaj Singh: So it's basically because of the pandemic. And the second question is, regarding the expansion you had guided in last call, you will be giving some updates on the expansion. So, what is the status on that? Are we looking to make some inorganic acquisitions or are we like planning to establish our own business altogether a new business line or parallel may be?

Mithun Chand: So, no, we are not exploring any parallel line business. But we are exploring some options in terms of the inorganic growth, but nothing has materialized. If anything comes in, definitely we will inform but we are open for that. That is what I meant to say.

Moderator: The next question is from the line of Anurag Jain, an individual investor and shareholder.

Anurag Jain: My question relates to the profitability in first quarter. My apologies for persisting on this question. I will frame it a bit differently. See, cotton sales have declined 28% while non-cotton seed sales have gone up almost 16% and we know that non-cotton seed sales have higher margins visa-a-vis the cottonseed sales. So, despite the better margin business growing 15%, 16% and the lower margin declining at 28%. We are seeing a sharp dip in profitability. Is it because now with the decline in cottonseed sales in this first quarter and in this current, year is like zero margin business or negative margin business after the sharp decline in sales?

Mithun Chand: Not really. The cotton margin is also reasonably good when compared to the other industry, when compared to the non-cotton crops, cotton margins are lower. But if you see the first quarter, we operate at 37%, 38% margins. The scale makes it more profitable in the first quarter. The revenues are down by 12%. If you take that are now basically what I'm saying is the cost of goods which is like 55%, 60% the other portion is all to be added to the net profit. Because all the other expenses are same. That is the reason the margin fell steeper. The other part is that the government what you say the bad debt what we have provided the highest in the company in one quarter this Rs. 15 crore. Even for the entire year, they never provided for that sort of a bad debt because of the pandemic it got delayed. I do not say the bad debt, which is not non-recoverable, but it got delayed. So, definitely as a policy, we need to provide that. And the other part is that non-cotton segment the returns are pretty high to 75%. As we said in the earlier call also that we are well prepared, and you positioned the stock in the market. So that got returned because of the less consumption of the hybrid seed. That impacted in terms of the more write offs in the first quarter. So, these three have contributed for the lower profitability. But if you see the profitability per crop, it is good.

Anurag Jain: And sir, my second question relates to the buybacks. In the last two calls also, we had like in the calls it was mentioned that in January 21, we have completed one year of the last buyback and as per regulations, next buyback happened 12 months after the previous buyback. So, as shareholders, we have been looking forward to expecting a buyback announcement since February of this year. And can we expect some concrete action related to buyback because what happened in the market there is a lot of uncertainty related to M&A, finding a good target and being able to close a deal, the probability is very low. So, can we expect some better guidance and more concrete guidance related to the buyback?



Mithun Chand: Yes, the company is in line with your thoughts. We do not want to hold back any cash. If we do not see any opportunity, definitely we want to reward it or return it back to the shareholders. But some of the other reason, the pandemic, or some other reason we are not able to finalize some things. But as you said, we will try to take decision as early as possible because the year has also gone. So, we will definitely take this point and utter this as early as possible.

Moderator: The next question is from the line of Rohan Modi from Mod Advisors.

Rohan Modi: My question is do you see any long-term effect on the cotton seed due to unorganized player?

Mithun Chand: No, but definitely in terms of the illegal BT it is becoming an issue now.. Definitely as seed companies and all the association members that come forward to tackle this issue and we are really working to protect the farmers' interest in terms of the illegal BT and we are representing the government. Definitely we are pretty confident that we will find out a solution and address this issue.

Rohan Modi: And my second question is, your hybrid seed in cotton have more resistance towards the new infective?

Mithun Chand: So basically, is the technology the Indian Government has not taken any call on the technology. Once they take a call on this new technology definitely, we will align to go to those technologies.

Moderator: The next question is from the line of A Anandha from PGIM India Mutual Fund.

A Anandha: Sir, sorry for persisting with this question. So just wanted to understand the reason for your decline in the gross margin front? I can understand the employee expenses and other expenses being bloated because of the operating deleverage impact on those lines. But the gross margin also come up. So, is it against that, have you taken a price cut or has there been any cost increase that you are not been able to pass on? If you could give some color on why your gross margins have come off?

Mithun Chand: Basically, the write off what we do will get affected in the gross margins. The full write off whatever we take.

A Anandha: But can you explain why your margins have come off?

Mithun Chand: Yes, whenever we take sit back and do the write off that gets added to the cost of goods. That is the reason the gross margins are lower.

Moderator: The next question is from line of Rajnish Menon from Master Capital Services.

Rajnish Menon: Just wanted to know in cottonseed, like when you say in branded players like which are the top three, four players that you can apart from I mean, Kaveri, which is there. Because what I see is one of the listed companies, who is also majorly into cotton seed, and I attended their conference call last week and their cotton volume has grown by 8%. So, I suppose that they are the leader, and they are branded and so, how can you say that there is no market share that you have lost? Because

if they have grown up 8% volume and which are the other players, if you can please throw some light on it?

Mithun Chand: I do not know which company you are talking about, but if you see the major players in cotton, we are number two player. Number one is Rasi. There are other players also in the industry. Whatever name I mentioned, and all the other cotton players have lost their market share as per our internal estimates.

Moderator: The next question is from line of Thomas Priju from Alchemy Capital Management.

Thomas Priju: Because of this unforeseen event of illegal seeds penetrating in the branded market, is there a risk that even in the second quarter, we may have to write off of some inventory?

Mithun Chand: No, majority of the inventory we have already provided for 35% of the returns. And based on those returns, we have provided from the write off. I do not see any immediate impact coming in the next quarter. As a policy we are aggressively taking the returns, I mean to say as a policy we provide for the aggressive returns.

Thomas Priju: And my second question is that though the difference in cost will be only Rs. 400. But definitely the farmer receives some benefit. That is the reason he is going for these seeds. So, even if we approach the government as an association, I think there is no solution till the next season, right?

Mithun Chand: One thing, I do not completely agree with you saying that they see some benefit in it. There are many farmers, that are being affected because of the non-performance of those hybrids. And in terms of the government, they cannot leave those things because these are illegal BT, which government has not approved for. If they have approved the seed even, we will also take the technology and do it. We are not opposing the technology. We are saying that the government should take a call on it. And if the government is not able to take a call, they need to restrict it and we are pretty confident that they will act very stringently now in terms of not being in the illegal BT. And we need to even understand the government issue also this year because of the pandemic they were not able to monitor it properly. This is illegal BT it was there for last 15 years, but this has not grown like what it has grown in this year. It was almost stable for last 18 years, a few percentages here and there. But this year it has gone up and as we have already reported to the government, and we have already taken this issue how the farmer is facing too much difficulty after sowing the seeds and the yields will definitely get impacted if they go for illegal seeds because the performance will be definitely lower than the good, branded hybrids. So, the government is also observing it. Definitely we are pretty confident that they will come up with a solution for this.

Moderator: The next question is from the line of Abhilash Mendeti, an individual investor.

Abhilash Mendeti: Mithun, my straight question is regarding buybacks. It has been already delayed, I guess it is more than over 15 months. Does not it is affecting your return ratios? If you are planning for any inorganic growth, you would have given some kind of a dividend that would be a breaker to all the investment fraternity?

Mithun Chand: We have already given a dividend last year. We are a regular dividend paying company. If you take the dividends from the last 15 years, from the time of listing



every year we have paid dividends. And in fact, if you take the total absolute money including the buybacks and the dividends, we have given close to Rs. 850 crore to Rs. 900 crore in the last 12 years to 13 years. So, in that regard this is the only year, we got delayed because of some opportunities, which we are looking for. Otherwise, as I had mentioned earlier, we do not want to hold cash back, we want to return it back to the shareholder.

Abhilash Mendeti: Okay, my question was regarding considering your current cash scenario, you would have paid a better dividend. That was my point?

Mithun Chand: So we always thought that buyback is a better option, which is the reason that dividend portion was lower, and the buyback was higher in terms of the taxation. This was the only year where both looks on par but definitely as a decision whether it needs to be a buyback or some other investment that is the reason, we are holding it back. The entire money will be rewarded to the shareholder or returned back to the shareholder.

Moderator: The next question is from the line of Uttam Reddy, a retail investor.

Uttam Reddy: I have a question. I would like to know if you would continue to maintain your guidance of 10% to 15% top line and 15% to 20% bottom line? Are you still maintaining that?

Mithun Chand: Not really for this year, because majority of the quarter comes in the first quarter.

Uttam Reddy: Not this year, I mean, barring this year continuing from next year?

Mithun Chand: So basically, what we think we will be doing better than the industry as such that we are pretty much confident about that. So based on the industry scenario, definitely we will beat the industry.

Uttam Reddy: Okay, my second question is regarding the shelf life of the cotton seeds. So, the cotton seeds that we will get back will they be resold next year?

Mithun Chand: Yes, most of the production and also the seeds what we are getting that is the new production seeds, new production, I mean to say in the last year or this year production. So that we can use for next two to three years.

Moderator: The next question is from line of Saikiran, an individual investor.

Saikiran: Just quickly on probing further on your inorganic growth opportunities which you are exploring. If you can just explain to us what is the strategic intent of this? And also, probably you have withheld in terms of doing any inorganic opportunities historically but why now?

And the second thing is, as a follow up on the same thing, is that what are the financial and non-financial considerations which you take from these inorganic growth opportunities?



Mithun Chand: Basically, in terms of the point what you mentioned it is too early to discuss this point here, because once something is concrete definitely it will help like certainly much better than this.

But in terms of the growth, we will take whatever decision, whether it is inorganic growth in terms of the technology, in terms of the portfolio, or in terms of the then we will definitely reward the shareholder and the decision will definitely for the growth of the company. That is what I can mention at this particular point of time.

Saikiran: Understood sir. I am not talking about any specifics, but as an organization, if you are changing the course or rather if you are trying to do it for the first time, I am sure you would have debated and deliberated on this. Just wanted to understand from a strategic perspective, what are the things which you are taking into consideration to pursue this from?

Mithun Chand: Basically, as I said that I cannot disclose many of these things, which are the strategic point at this particular time. But basically, what I am saying, we can add technology, we can add some other products in our portfolio where we are not present.

Moderator: The next question is from the line of Harsh Gupta, an individual investor.

Harsh Gupta: Actually, I just wanted to ask, the sales figures that have mentioned is net of these provisions that you are providing for?

Mithun Chand: Yes.

Moderator: The next question is from the line of Yogesh Mittal, an individual investor.

Yogesh Mittal: So, I have a question regarding the operating profit for non-cotton business. See, there are two main businesses which I understand cotton and non-cotton. For non-cotton what should be the approximate the percentage in the operating profit? This is my first question.

The second thing is why some customer shift to unbranded seed. What is the number one reason for this? Is it the convenience, the good quality or the price?

Mithun Chand: I will answer your second question first. As I mentioned earlier in other questions also saying that because the farmer was not able to go to these markets and these underhanded or the unorganized sector seeds were readily available at the farmer's doorstep and that is the reason, we are seeing them do it. That one of the factors which made the farmer to go for the seeds.

Yogesh Mittal: The question was about the operating profit for non-cotton business?

Mithun Chand: Yes, regarding the operating profit, we do not disclose what exactly we get in the cotton and non-cotton segment, but as I mentioned that in the non-cotton segment the operating margin is higher than the cotton segment. I cannot disclose numbers.

Moderator: The next question is a follow up from the line of Abhijit Akella from IIFL Securities.



- Abhijit Akella:** On the Opex you know the other expenses line Mithun, you mentioned that Rs. 15 crore is the additional provision for the MP State Government receivable. In addition to that, are there other expenses like freight etc., which has gone up this year? Because when you compare it year-on-year I guess the royalty expenses were gone down right because Rs. 20 as royalty got cut?
- Mithun Chand:** Last year the royalty was zero. But if you compare on a year-on-year basis compared to last year one is the other expenses, the bad debt is one portion. Rightly said the freight and forwarding to some extent has done because one, we need to transport the entire stock there. So that is one part. The other part is that last year because of the pandemic first quarter, no one moved out which is lower base. I mean this is the employee traveling expenses were lower at last year base. That is the reason it looks higher. A few crore rupees.
- Abhijit Akella:** And this May the government business do we see any chance that it might come back next year? Or this is a permanently gone business now?
- Mithun Chand:** This should come back. If you see in the last 10 years to 20 years of operations in this, every year we used to get that in between Rs. 10 crore to Rs. 20 crore of government business. I do not say from one particular government, across all states. The average business of these states is in between Rs. 10 crore to Rs. 20 crore. So, I think that should continue going forward.
- Moderator:** Thank you very much. Ladies and gentlemen, which will be the last question for today. I will now hand the conference over to the management for closing comments.
- Mithun Chand:** Thanks all for participating in the earnings call today. If you have any further questions or would like to know more about the company, kindly reach our Investor Relations desk. Thank you.
- Moderator:** Thank you very much. On behalf of Kaveri Seed Company Limited, that concludes this conference. Thank you for joining us.