



“Kaveri Seed Company Limited
Q1 FY’24 Earnings Conference Call”

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**MANAGEMENT: MR. MITHUN CHAND –EXECUTIVE DIRECTOR –
KAVERI SEED COMPANY LIMITED**

MODERATOR: MR. RAMA NAIDU – INTELLECT PR



Moderator:

Ladies and gentlemen, good day, and welcome to Kaveri Seed Company's Q1 FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded. Joining us today on this call is Mr. Mithun Chand, Executive Director.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation.

I now hand the conference over to Mr. Mithun Chand. Thank you and over to you, sir.

Mithun Chand:

Thank you. Good evening and welcome, everyone, to our quarter 1 financial year '24 earnings conference call. We hope you have had a chance to review the presentation of our results, which is also available on our website. I will touch upon the operational and financial performance of the company, and then open the floor for Q&A session.

Consolidated net profit for the quarter has surpassed the profits delivered during the full year of financial year '23. This has resulted in growth of 15.6% in consolidated EPS to INR49.10 per share. The delay in monsoon has impacted volumes and sales of maize during the quarter. We are expecting that there will be increase in sowing of maize during the Rabi season.

Sunflower and mustard exports will start from the second quarter, and are expecting maize and vegetable seed exports to grow. The contribution of new products continue to drive the profitability of the company. Company focuses on growing exports to Bangladesh, Vietnam, Cambodia, Nepal and Middle East and exploring opportunities in East Africa and Philippines.

Consolidated revenue from operations was at INR736.1 crores as compared to INR685.59 crores in Q1FY23, registered a growth of 7.37%. EBITDA was at to INR289.49 crores as compared to INR254.09 crores in Q1FY23, increased by 13.93%. EBITDA margin improved to 39.33% from 37.06% in Q1FY23, grown by 227 basis points. Consolidated net profit was at INR275.62 crores as compared to INR244.6 crores in Q1FY23, registered a growth of 12.68%. Net profit margin improved to 37.44% from 35.68%, registered a growth of 176 basis points.

Segment wise highlights. Cotton volumes were stable and revenue increased by 8.98%. Bajra volumes and revenue were stable. The contribution of new products was up from 51.59% to 67.67% of the volumes. Hybrid rice volumes were stable, but due to commodity prices, revenue increased by 9.71%. Selection rice volumes grew by 11% and revenue increased by 22.13%. Maize volumes and revenues were down as compared to last year due to delay in rain in some states and expecting early rabi sowings in maize hybrids.

The contribution of new products were up from 28.06% to 40.65% of volumes in maize crop. Vegetable seed volumes has decreased due to decline in commodity prices and revenues were stable as compared to last year. Vegetable crop like bitter gourd, tomato, okra and watermelon had done well during the quarter. Bihar, Chhattisgarh, West Bengal, Odisha, Rajasthan and Telangana are the key states for vegetable business. Company focuses on growing the exports to Bangladesh, Vietnam, Cambodia, Nepal and Middle East. Our focus in R&D helps in launching new products, which are high yielding and pest resistant.

I will now open the floor for Q&A session.

Moderator: The first question is from the line of Anurag Jain, individual investor.

Anurag Jain: My question is on the vegetable seeds business. Kaveri now has more than 150 different vegetable seeds across different categories of

vegetables like tomato, cucumber, cauliflower, cabbage, chili, okra, various gourds, and brinjal, cowpeas, different melons, pumpkins, etcetera.

And in last few years, have expanded your coverage across different vegetable seeds, including now also launching green peas and ash gourd. So, Kaveri has also expanded its sales team for the vegetables business, seeds business. And has a separate sales team for the vegetable seeds business, separate from the field crops sales teams. And these sales teams have also expanded into different states of India.

So, Kaveri has expanded its product range, sales team and also has undertaken geographic expansion. But all these initiatives are not reflecting in the sales numbers in the last 3 years. Last 3 years, the Q1 sales for the vegetable seeds business has been stagnant at INR18 crore.

So, in light of the fact that last 3 years have been stagnant for the vegetable seeds business despite a lot of initiatives on the business side from the company, how does the management see the vegetable seeds business in the next 3 years?

Mithun Chand:

Vegetable is a very good business to be in. We are very bullish on vegetables. As you rightly said that we are spending a lot of money on R&D, on men and increasing our geography across the territories. As you know, in seeds business, it takes time to develop and we need to test our products, and farmers only believe after seeing it.

So, we are in a trial stage and we have even tested many hybrids, and we are streamlining these hybrids, which are doing well in some parts. So, we have bifurcated all those things. But as rightly said, in the last 3 years, the sales were stagnated in the first quarter. But we have grown when compared to last 3 years rightly. For the overall year level, we were stable as compared to last year.

But what we see in the next 3 years, vegetable business is definitely going to grow by more than 25%, 30% year-on-year. And still, we see that it has a potential to grow up to close to INR150 crore to INR200 crore in the next 5 to 8 years. And this is a crop where we have high margins. And now we have introduced many varieties across. And vegetable, every 200 kilometres, we have a different requirement of the vegetables. So, we are trying to feed to the market different vegetables.

And as we are also exporting vegetable from last year, this year it will be some more vegetables we are expecting. So as overall, we see a very good growth in vegetables, but we are very bullish on that. And all the vegetables are heavily profitable at this time.

Anurag Jain: Okay. If you permit, can I ask one more question?

Mithun Chand: Yes.

Anurag Jain: Yes. Sir, last year, the company had received a tax demand notice. So, company had stated earlier that you will contest this demand. So, is there any update on this tax demand?

Mithun Chand: As of now, no. As stated earlier, we will be appealing it. It's still under the stage of appeals. No further progress on that. Whenever it is done, we'll intimate to the exchanges like how we have done in the last year, any update on that.

Moderator: Next question is from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: Still one thing continuing from the previous participant's question, what are the unique challenges in vegetables to grow? So, when we have been working so hard for the last few years for so many crops -- so many other varieties of seeds. Why is it taking more time to grow that business? In the similar time frame, we have seen other firms have grown much faster. So, any thoughts into that?

Mithun Chand: No, as the answer in the previous question our farmers sees in believing. Just not like they don't believe the brand, even though they

have a brand, it's very easy to introduce the seeds. But again, it needs to perform better than the other hybrids and then go forward. If you see the entire vegetables, okra, chili and tomato contributes to the majority of the revenues across, not only for the company, but across the industry, these 3 crops contribute more than 50% of the revenue. So, if you are big in this 3 crops, definitely that will grow. But in the last 2 to 3 years, we have some challenges in chili crops, some challenges in okra crop that has just muted our growth.

But on a long-term basis, medium- to long-term basis, vegetables is a very good business and we are very much focused on that. We have made different team. We are spending more on R&D. So that will definitely have a good result going forward. So, we are pretty confident that vegetable will contribute a meaningful size in the next 3 to 5 years.

Himanshu Upadhyay: And one more thing. The government raised the prices for cotton seeds. Did it benefit? Or what is the situation in the market? Are the prices rising for cotton seed? Or realizations?

Mithun Chand: If you see as compared to last year to this year, even though the volumes were flat, the revenues grew by 8% to 9%. So, we were able to realize the prices more in the market when compared to previous year. That's the reason the margins are also good. The margins have also expanded by 2% to 3% over last year. So that are really helping these markets. This time, there was a shortage of cotton seed, and we have realized much better than last year.

Himanshu Upadhyay: Okay. One last question and then I'll join back in the queue. Are you seeing slowdown or what we are seeing in the maize, is the pricing going to be a challenged...

Mithun Chand: Sorry?

Himanshu Upadhyay: Maize, okay, what we have shown in the revenues...

Mithun Chand: I cannot hear you. You are not audible. You are not clear.

Himanshu Upadhyay: I was asking on maize, where we have seen a substantial degrowth from INR87 crores to INR42 crores. Are the pricing under pressure in that market because everybody would be having a lot of inventory? And what is our inventory situation in the market?

Mithun Chand: I don't think we are done. Against INR97 crores or INR96 crores, we have done INR87 crores in maize. We are just down by 8% to 10% in maize in terms of the revenue. In terms of the volumes, they are down by 25%. But when we talk about the volumes, we have not participated in the subsidy this year because we are not having inventory. And subsidy is a low-price business. So, we have not participated in that.

But you see at the overall level, we are just down by 8% to 10%. But we are very confident that during the course of the year, we'll exceed the maize revenues by the end of the year. And rainfall was also delayed. There was some spillover sales, which can get registered in Q2 and the rest of the year.

Himanshu Upadhyay: Okay. Because on Slide 8, there is some issue with maize. As you say, INR87 crores of revenue in FY '24 and FY '23, it is written INR43 crores. And then the growth is?

Mithun Chand: I'll just see if that is the case, I'll correct it. But last year, it was INR96 crores to INR97 crores. This year, we have done INR87 crores.

Moderator: Next question is from Nitin Awasthi from InCred Equities.

Nitin Awasthi: I want to understand how much was the illegal seeds penetration last year and how much was it this year in cotton specifically? Because what I'm trying to get at is that what we are hearing in news is that there has been significant reduction in illegal cotton seeds, hence the legal seed market should have grown significantly. But there was a shortage of seeds in the market, so there was enough demand for the cotton seeds. However, our volumes are flat. So, I just want to

understand if you can explain what happened to us specifically and industry?

Mithun Chand: If you see the overall acreage at the India level, the cotton acreages are stable, which has not grown much. But even if you see the illegal seeds as compared to last year to this year, it was flattish. I mean from last year itself; we have seen a decline in that. But if you see as a percentage of illegal seeds as compared to last year, it is almost the same size as last year. But this year, most of the companies are not having over inventory, they were having enough inventory, that's the reason most of the companies have realized more.

Nitin Awasthi: So, you are saying we have not lost any market share?

Mithun Chand: No, no. We've not lost any market share.

Nitin Awasthi: And the news about illegal seeds being lower than last year, as of now has not cleared out...

Mithun Chand: Flattish when compared to last year, it's almost flattish, even the illegal seeds are almost same as compared to last year. So anyhow, illegal seed is coming down.

Nitin Awasthi: By the next year I think there should be a significant reduction, right, because of the track down that has happened.

Mithun Chand: I see the same amount continuing, because it's like 8% to 10% of the total market. I don't think it will go further down from there unless and until the new technology is introduced. But next year, the cotton seeds we need to see because of the delayed rains, delayed sowing, then their crops have been impacted -- early sowing crops have been impacted. But we need to see the quarter inventory for the next year. Quarter inventory is very tight in the industry for the next year. By seeing this condition, I don't see any reduction in the illegal seeds for the next year.

Moderator: Next question is from the line of Vidit Shah from IIFL Securities.



Vidit Shah: My first one was on the maize volumes. Last year, what percentage of volumes were towards the subsidy participation? I understand that we had stopped doing this a couple of years back, right?

Mithun Chand: No, we still participate in the subsidy programs, but based on our availability of the seeds we participate. This time, we were having lower inventory, so we have not participated in that subsidiary program because even the prices are up this year. As you see, the maize prices are up, the inventory cost is also up. So, as we go to subsidies, the realizations are very low. But by keeping this in consideration, we are not participated in subsidy. Subsidy was last year, first quarter, we have done a sale of close to 1,000 tonnes.

Vidit Shah: Okay. Got it. So, a major part of the decline in volumes is just natural, right? Because the subsidy of 1,000 tonnes is just about 5%, 10%.

Mithun Chand: Yes, that's the main thing. But whatever the other decline, as in normal market conditions, that will definitely come up in the second quarter and the rest of the year, because there was some spill over sales of maize in the second quarter. Because as you see, you have seen a delayed monsoon and then continuous rainfall. So that has impacted to some extent. So, I don't see any pressure in maize volumes in the normal trade, leaving subsidy growth. I mean, we will be up when compared to normal trade by the end of the year.

Vidit Shah: So, assuming about 10% is subsidy, can we anticipate just a 10% degrowth in volumes in maize by the end of the year? Or do we expect to catch the stock with that?

Mithun Chand: What I'm trying to say is that if you take out subsidy for the first quarter, we are just down by 8% to 10% in terms of the volumes. But if you compare '23 figures to '24 year-end, by year-end, we'll be up in overall maize volumes in the normal trade. We'll cover up that loss revenues in quarter 2, 3 and 4.

Moderator: Next question is from the line of Udhayaprakash from Value Research.



Udhayaprakash: Congrats on a great set of numbers. My first question is on the side of exports. Can you tell me what is the percentage of revenue that we have currently in exports this quarter? And also, last year, our export percentage was around 2%. Now this year, since we are also trying to find new opportunities and are going to start the export of mustard seeds and all. Do you think that number can increase to maybe 3% this year or it would still be around 2% in FY '24, too?

Mithun Chand: We have just started doing it this quarter, but majority of that comes in the second and third quarter. Some in the fourth quarter as well. But if you see our overall percentage, last year, it was 2-odd percent. This year, it should be in between 3% and 3.5% of the total revenue. But the other thing what we need to see is that instead of percentages, we are trying to export to other countries.

As we try to expand to many countries, we have enough product portfolio. So, we can easily get good revenues from different countries. So that's an advantage. In the initial stage, it is very low. But once you penetrate there, it's very easy to enter this new hybrids and to get good traction in the present selling hybrids. So that will help us.

Udhayaprakash: Okay. And this quarter, export as a percentage of revenue, is still small?

Mithun Chand: It is very small. It is very small this quarter. But majority of that will be done in the 2, 3 and 4. 2nd and 3rd are the major quarters. These are the major revenues. For example, last time we had INR20 crores, INR21-odd crores, this year, it should be within INR30 crores, INR35-odd crores.

Udhayaprakash: Okay, sir. My next question is on side of vegetables. You already provided enough detail for us. The only part I want to clarify with you is, are there any vegetables which offer good margins? And are there any vegetables which offer bad margins or have lower demand fluctuations like that within the vegetable segment itself? And in the

future, do you have any plans to exit any one of the vegetables like that?

Mithun Chand: So basically, all the vegetables are very profitable, the EBITDA margin between 30% to 60%. There are some varieties where we have lower margin, but there is very few varieties where we try to sell those varieties. But in terms of the hybrids, most of the margins are very attractive.

As I said earlier, vegetables chili, okra and tomato are the 3 major crops. If you are able to sell products in these crops, we'll have higher revenues and higher margins. But other crops, like cauliflower, cabbage, carrots, we import from other companies and sell it because the market is also growing for these crops. So, we don't do research in that, but we source material and sell it.

So, in terms of we are exploring all options as vegetable is a year-round business, so we want to be aggressive in vegetable division. As the markets are also growing, it is growing more like 15% to 20% year-on-year on an industry basis. So that's a very good space to be. And we have started aggressively last 7, 8 years back. And I think in the next 3 to 5 years, definitely, we'll see result of that.

Udhayaprakash: Okay. So, you're treating vegetables like you treated hybrid rice 2 years ago?

Mithun Chand: Yes. But both are different segments. Because in rice, I'll say 4 or 5 varieties rule the entire market. Whereas in vegetables, every state and every territory have a different taste. So, it is a bit difficult to be a uniform product, but that's the reason we have many hybrids, which we have introduced. But vegetable is a very good space to be.

As a portfolio, we are the only company in India where we have very high product range, I mean to say high crop range, and in each and every crop with a huge product portfolio. So that even minimizes our

risk on a single crop dependency, and we'll add value from each crop wherever it's possible.

So, for example, we have added mustard now. Mustard, as a size, is a very small market when compared to cotton or maize or rice. But it's a highly profitable margin, and we can easily do a revenue of INR50 crores to INR100 crores in that. So, these are the ones which will really add some value to the company.

Udhayaprakash: Okay, sir. My final question is on do we have any update on GM crops, sir. Last quarter, you said that you're already in a partnership with Monsanto and you're waiting for some government approvals. Are there any developments on that?

Mithun Chand: Yes. The process is on, very shortly will be released. It's taking some procedural time. But definitely even both the companies and the government, both are working aggressively on that. We don't see any difficulty in getting as of now. I think this year, it should be clear.

Moderator: Next question is from the line of Sanjeev from DreamLadder Investments.

Sanjeev: Yes. Sir, I wanted to know that now that you have declared good results, whether this kind of a trend in profits would continue in the future?

Mithun Chand: Yes. If you see in the last 5, 6 years, we had a muted growth. There were many challenges. If you go back to 2015, where majority of our dependence was on cotton. More than 70% to 75% of the revenues were contributed from cotton. Last year, it was below 35%. And we are adding many crops to it.

Now from here on, with the kind of portfolio what we have, and the amount, what we invested in the last 5 years, if you see in the last 5 years, we invested close to INR180 crores in research itself. So, in terms of the capex, in terms of the infrastructure, setting up new plants

and everything, we've invested more than INR250 crores in the last 5 years, apart from the research part.

So, this all, we have added facilities, we have added new infrastructure, we have strengthened our manpower, strengthened our R&D facilities, strengthened our R&D work in that. But seeing all the work what we have done in the last 5 years and the kind of hybrid portfolio what we have in different crops. By seeing this, we are pretty confident that the growth will continue for the next 3 to 5 years. We don't see any difficulty there. The growth, which was muted in the last 4 or 5 years, I think it will start coming this year.

Sanjeev: And sir, my next question is regarding the exports. Can you give us a picture of how the exports would look 3 years down the line? How sizable the business would be?

Mithun Chand: Export business is a very big business. For example, when you talk about maize and rice, these are the 2 big crops which have got very good potential. For example, if you take in Philippines or Vietnam, or if you take some Thailand, where maize and rice are the major crops. Even if you take Bangladesh, Pakistan, Nepal, they have maize.

So, we have very good hybrids in maize, so we can easily sell them, right? So, we have done trial in Vietnam. Those were very encouraging. Recently, we had talked to the government also from the Vietnam Agricultural Ministry to introduce our hybrid there. They have put it under trial, and we have got a very good result there.

If these are the trends in the next 3 to 4 years, it will not grow in a year or 2, but down the line 5, 6 years, these are the areas where we have good growth potential, and we can easily do a revenue of INR200 crores, INR300 crores in export down the line in 4 to 5 years.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Mithun Chand for closing comments.



Mithun Chand: Thank you for joining us for the investor call. For any further queries, you can always feel free to call or ping our investor desk. Thank you.

Moderator: Thank you for joining the call. For any other information, please be in touch with Rama Naidu from Intellect PR on 992-020-9623. On behalf of Kaveri Seed Company Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.