

23rd September 2019

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Dear Sirs,

**Sub: Transcript - Kaveri Seed Q1 & FY 2019-20 Results Conference
Call on Wednesday, 14th August 2019 - Reg.,**

Please find attached herewith Transcript of Kaveri Seed Company Limited Q1 & FY 2019-20 Results Conference Call made on Wednesday the 14th August, 2019. 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 Seeds Company Limited Q1 FY'20 Conference Call Transcript August 14, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Kaveri Seeds Q1 FY'20 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, please signal an operator by pressing '*' and 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: Good afternoon everyone and thank you for joining us on Kaveri Seeds Company Limited's conference call. We are joined today by Mr. Mithun Chand, the Executive Director.

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

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

Mithun Chand: Thank you, Rishab. Good day everyone and very warm welcome to all of you. The first quarter of the financial year is always a stronger one for Kaveri. We have performed well this quarter as well and most of the kharif crops have shown positive results where acreages and volumes are concerned. Commodity prices of cotton and maize have remained firm in quarter 1 of financial year 20. Acreage prices and volumes have seen a positive uptick where cotton is concerned. Where sowing was concerned, in a few states of Gujarat, Madhya Pradesh and Maharashtra, sowing took place early. Although maize acreages have decreased



marginally all over the country, prices still remain firm and sentiment for maize still remains positive.

Where our crop wise performance is concerned, cotton volumes increased by about 13% in quarter one financial year 20. Cotton seed gained market share in Gujarat, Maharashtra and Northern markets. Contribution of new products went up from 21% to 33% of volume. Money maker went up across the market this year. Two new cotton hybrids are under demonstration in farmers. Performance of Money maker was appreciated by farmers across Northeast. Maize volumes decreased by 12% in quarter 1 FY'20 although change in portfolio mix translated to improve sales value. Non-cotton business has grown significantly by about 23%. It has been driven by volume growth in new hybrids and also appreciation in key products. Hybrid rice volumes increased by 53% in quarter one. Our hybrid paddy KPH 468 helped translate to some growth.

Selection rice volumes have grown by 5% in quarter one. Contribution of new products went up from 14% to 18%. In selection rice, there has been consistent performance across geographies. New products scale up has been done with growth in Coastal King, Prize and Shireen across markets.

I would like to highlight that improvement in cotton revenues have been driven by higher acreages approximate 5% and increased market share. Overall, hybrid market is up by 2%. There is a delay in transplantation due to late monsoon. Maize acreages significantly down in Telangana due to late arrival of monsoon. Also to mention that our cob drying facility helped enhanced quality of seed and ensured timely deliveries and proper planning and placement to help to increase sale.

In quarter one financial year 20, revenue stood at Rs. 655 crore as against Rs. 581 crore quarter one financial year 19, a growth of 12.64%. Operational EBITDA margin up by 68 basis points. The other income component was low compared to previous corresponding quarter. In quarter one financial year 20, EBITDA stood at Rs. 237 crore as against Rs. 220 crore in quarter one financial year 19. Quarter one of financial year 20 PAT was at Rs. 228 crore in quarter one financial 19 and was at Rs. 210 crore. The balance sheet remains to continue strong. Total cash on books stood at Rs. 506 crore on June 30th 2019, was Rs. 462 crore as on March 31st 2019.

The board of directors of the company had approved the payment of interim dividend at 150% that is Rs. 3 per equity share of face value of 2 each out of profit for the company for the financial year '19-20. Our performance this quarter has been very satisfying. Due to the delayed monsoon resulting in delayed sowing of cotton, there is further increase in area and volume for Kaveri is expected in the second quarter for Karnataka, Andhra Pradesh and Tamil Nadu. Higher commodity prices across the board will keep the sentiment positive for the farmer. Delayed monsoon in the first quarter impacted the crop area will help the rabi crop areas increase. Introduction of new hybrids in summer Bajra should create a new growth opportunity for Kaveri.

We look forward to seeing how cotton and maize will pan out post the monsoon especially with respect to pink bollworm and fall armyworm. We can easily say though that we are much better prepared on both crops now than earlier and feel that the effect will lessen to a greater degree.



On that note, I conclude my opening remarks. We would be happy to give our perspective on any questions that you have. I would request the operator on this call to open question and answer session. Thank you.

- Moderator:** Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Omkar Kulkarni who is an Individual Investor. Please go ahead.
- Omkar Kulkarni:** My question was regarding the utilization of cash. As we have seen now even the buyback will be taxed at 20% which was not the case earlier. So what is the stance of Kaveri seeds management on that because earlier for 2 years, we have seen buybacks for 2 consecutive years before the dividend, but this year the dividend has come first. So I just want to know the stance of the management on buybacks on this proposed tax?
- Mithun Chand:** Still as a management and as board of Directors, we still remain to reward the shareholders. I think buyback may go on subject to the board approval.
- Omkar Kulkarni:** But the tax proposal has not dented the management's view on buyback?
- Mithun Chand:** If we need to pay tax, that is okay, we will pay tax and distribute it. That tax portion will not change as our stance.
- Omkar Kulkarni:** So will there be a consideration for it?
- Mithun Chand:** Yes. That anyhow we will notify, once the board approves it. We are considering it.
- Omkar Kulkarni:** And the other question was regarding your performance in the vegetable space, how was it. Can you throw a little bit more light on that?
- Mithun Chand:** Vegetables have done well compared to previous year. We are up by more than 30% in the first quarter, but it is a small base, but vegetable continues to be a focus area and we are pretty strong that year-on-year it will be growing between 30%-40% that is what we anticipated earlier.
- Omkar Kulkarni:** And the last question is regarding you said that there will be a spill over of sales for Q2. Can you quantify that approximately?
- Mithun Chand:** Basically, the spill over sale will come from cotton because cotton is a crop where usually delayed monsoon favours cotton crop and now we are seeing some sort of a liquidation happening in areas like Telangana, Andhra and Karnataka. So that may add to some of our total. We think other half a million to 5 to 6 lakh packets might be spilled over to the next quarter sales.
- Omkar Kulkarni:** And how many packets were sold for this quarter?
- Mithun Chand:** It is 66 lakh packets as of now.
- Moderator:** Thank you. The next question is from the line of Anirudh Joshi from ICICI Securities. Please go ahead.



- Anirudh Joshi:** Just quick clarification. You said that how many packets sold, I guess in PPT we have seen the cotton seed volumes are given in million packets and maize volumes are given in metric tonnes. So I guess the numbers are in million packets and for maize also, is it metric tonne, are both the numbers same?
- Mithun Chand:** Usually cotton is measured in packets and the other things are measured in tonnes or kgs. So that is right.
- Anirudh Joshi:** Sir, just last quarter you had indicated a revenue target. So compared to that, this is the best quarter for the company and the numbers are significantly lower. So do we still stick to the guidance which was given in previous quarter?
- Mithun Chand:** Yes, we had given a guidance in between 15% to 20%. If you see the growth, we are at around 12%-13%. And we say that there might be spill over sales in the second quarter that will add to our cotton sales. So overall what we have given a guidance of 15% to 20%, we are in line with year ends.
- Anirudh Joshi:** Sir I guess means till the numbers in this quarter, if you look at, so the best quarter number itself is less than 15. So anywhere there is some higher growth still making up almost 20% revenue growth or even 15% revenue growth would be relatively tougher or you are looking at significantly.**Mithun Chand:** If you see, we have grown at around 12 to 13% as of now and some other if you take a half a million packets, it will have Rs. 35 to 40 crore which is a 3%-4% of the growth. So overall it will be in between 15%-20% and we had said that non cotton if you to recollect the statement, we said that cotton will grow in between 10%-15% and non-cotton will grow in between 20%-25%. Overall as a company, we were hoping to grow in between 15%-20%. So we are in line with it and if you see the non-cotton segment, we have grown by more than 23% even though maize volumes were down, maize acreages were down significantly in Telangana. Even in these tough conditions, we have grown at more than 23% in non cotton segment. And 2, 3, 4 are basically non cotton segments. So definitely we are hopeful to gain indoor markets and cotton if you see the last year last quarter, second quarter the cotton sales were only 1 or 2 lakh packets. This year, it will be 5 or 6 lakh packets. So definitely the growth will be there what we are targeting..
- Anirudh Joshi:** I guess in hybrid sales in the PPT, we have given sales volume in million packets that is 3,240 million packets. So I guess it is MT in my opinion.
- Mithun Chand:** Yes, sorry, that is my mistake. Except for the cotton, all are in metric tonnes. We will check it.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Just one clarification first on the liquidation of these cotton packets. You had mentioned that liquidation has now started to happen in some of the states down South. So out of this 6.6 million packets we have sold so far plus another 5-6 that is spilling over to next quarter, how much of it has actually been consumed by the farmers so far and where would you peg the risk of sales return if any? Is there any significant risk of that in Q2 or you think that is largely done given the liquidation?



- Mithun Chand:** The sales what we have declared right now is the net sale liquidated quantity. Even though we dispatched the majority of the stock in the first quarter, I mean to say even the second quarter spill over sales are dispatched in first quarter itself, but we provide it for the returns. We take provision for returns. So in that manner, whatever we have shown at 66 lakh packets is all liquidated. And over and above, there is another 5 or 6 lakh packets which will be liquidated. In terms of the placement, we have placed more than 8.5 million packets now in market.
- Abhijit Akella:** In terms of the margins in the quarter, I guess with the lower cost of goods this year, there might have been some chance of maybe a higher expansion in margins. So could you just talk a little bit about the margin expansion, why it has not been as much as maybe potentially could have been. Has there been any inventory write down during the quarter?
- Mithun Chand:** Yes, there is some inventory write down in the quarter. That is a routine thing what we do, but we have provided more for the scheme this year. Because of the tough conditions, the discounts are higher. That is the reason the margins have slightly impacted as it is not in line with what we anticipated, but if you see the overall margin compared to previous year is slightly better.
- Abhijit Akella:** And in maize in 2Q, do you see a chance of volume growth or given that the season has ended, will it be a difficult quarter for maize coming up in Q2?
- Mithun Chand:** We do not see any spill over sale of maize as a crop because most of the sale has already happened and the delayed monsoon is not favourable for maize, but by seeing the commodity prices and good monsoon in the later stage, maize crop may come up in Rabi. We are very positive about maize rabi crop which was very bad last year.
- Abhijit Akella:** Right and you have a relatively limited presence in Northern India where rabi maize will be mainly grown. So how do you see the season shaping up for yourself in that context?
- Mithun Chand:** We have improved our network in Northern India in special states like Bihar. Last time, we were having a network, but because of late monsoon and irrigation facilities are not available that is the reason the crop has not come up, but now if you see the rainfall and areas like Andhra, which was almost down last year. These 2 areas we are pretty strong. So I think definitely this will add and other parts like Maharashtra and summer maize, we have also introduced some hybrids last year. So this all together, if we combine all these things, we are pretty positive that we will do much better than last year in terms of maize.
- Abhijit Akella:** One last quick clarification and I will come back in the queue. The consol revenues for the quarter are somewhat lower than the standalone revenues. Is this because of some sales return at the subsidiary company?
- Mithun Chand:** Yes. Usually, what we do is whatever packets we bill it to the subsidiary, they provide for the liquid returns. But eventually even that is liquidated right now.
- Moderator** Thank you. The next question is from the line of Omkar Kulkarni who is an individual investor. Please go ahead.



Omkar Kulkarni: There was a case on the company from SEBI. So what is the status of that?

Mithun Chand: We have mentioned it earlier that the communication whatever they required, we have given it long back that is in 2016. After that, we have not heard anything about this.

Omkar Kulkarni: There is no communication from SEBI's side on this and there is no communication from your side as well. So what should we interpret?

Mithun Chand: Yes. As we mentioned earlier, regarding the case, we had last communication with the SEBI appointed auditors in 2016. After that, we do not have any communication.

Omkar Kulkarni: So there has been no communication from SEBI as well for you?

Mithun Chand: Yes, that is what I am saying.

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

Chetan Thacker: Sir just on the non-cotton side, wanted to understand the margins look a little lower. So we also resorted to some bit of sharing of the revenue with the margins in the channel.

Mithun Chand: So if you see the margins compared to previous year, the margins were slightly improved. Even the majority of the improvement came from the non-cotton segment and as I said earlier, we have provided some extra amount in terms for the channel in terms for the schemes because this year it was very tough year and because of competition, we have provided mostly. That is the reason we see a slight decline in terms of the margins.

Chetan Thacker: Those are true for even the non-cotton portfolio?**Mithun Chand:** Yes.

Chetan Thacker: And sir second on the Aditya Agri Tech, I just wanted to check one thing, most of your subsidiary revenues are Aditya Agri Tech?

Mithun Chand: Yes, that is the major subsidiary what we do. The major subsidiaries which are majority of the cotton.

Chetan Thacker: And how is the transfer pricing done between Kaveri to Aditya Agri Tech?

Mithun Chand: There is a mechanism for that, we do it. As Kaveri we do research, produce and sell seed to Aditya. Aditya in turn sells with their own channel.

Chetan Thacker: The gross margin there would be fairly smaller compared to what is booked in Kaveri, that should be a fair understanding.

Mithun Chand: Gross margin in the sense like it is reasonably good, I mean to say at least 50% of the margins are covered in the transfer pricing.



- Chetan Thacker:** Because broadly so the question was coming from the fact that at PAT level it is still around a crore or Rs. 2 crore and revenue is obviously much higher, so just wanted to know what is the difference between the gross margin?
- Mithun Chand:** Majority of the profit margin is captured in Kaveri Seeds itself. That is the reason you see the margins slightly low. If you compare the margins, compared to previous year, this is one of the points where we sell something a lower margin to Aditya rather than marketing. That is one part and even in Aditya we have 70% holding at Kaveri, so that margin has also added up, but majority of the profit margins captured in Kaveri book sheet itself.
- Chetan Thacker:** Sir, what is the reason for having Aditya Agri Tech if the same sales can be done through Kaveri??
- Mithun Chand:** There is another segment which requires a different brand. At Kaveri, we produce many hybrids, there are many hybrids like me-too hybrids which are there which we can't market in Kaveri that we market in Aditya.
- Moderator:** Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.
- Sumant Kumar:** My question is regarding the cotton sales volume guidance, the management has given 7.5 million packets in Q4 FY19, so now as per your guidance the million packet is likely to be 7.15 and 7.25, so we are reducing our guidance, right?
- Mithun Chand:** I am not sure that we never give a guidance of 7.5 million. We said that 15 to 20%, in fact we said that 10 to 15% is the growth in cotton. We have done 6 million packets last year, we said it should be in between 6.5 to 7 million packets, not 7.5.
- Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Sir, we have seen flood like situation in Maharashtra and some others, so what is your assessment in this regard and any impact you may foresee for Q2?
- Mithun Chand:** No, most of our sale is done in this part, so we don't anticipate any dent in the sale, but in terms of the farmers, we need to assess like what is the actual damage is, still it is staying in most of the part, it is not yet cleared, definitely not cleared, we need to assess it. But terms of the Kaveri's performance, it will not have any impact because most of the sale has already done for us.
- Rohit Nagaraj:** And in terms of receivables, will it have any impact on receivables?
- Mithun Chand:** No, compared to previous year, the receivables are being bit delayed because of the late monsoon, but majority of the receivables we have already received. We don't see any threat in the receivables.
- Rohit Nagaraj:** And you mentioned the other income has been down on a year-on-year basis, any particular reason for the same?

Mithun Chand: Nothing. Last time there were some investments which if you see our balance sheet we have done most of our investments in the debt related fund. Some might have matured last year in that first quarter. That is the reason we have booked in the first quarter.

Moderator: Thank you. The next question is from the line of Nandan Vartak from Wealth Managers. Please go ahead.

Nandan Vartak: Sir, my question is that could you split revenue geographically, so north, south, west and east?

Mithun Chand: We don't split in that way, we have a state wise that we don't disclose that because of competition.

Nandan Vartak: So what I want to understand is what is the potential of north, we are looking at growth in the north region, so if you can give some idea about it that would be helpful?

Mithun Chand: Yes, if you see our market shares in north, especially in crops like cotton wherein Punjab and Maharashtra we are lower and even in maize, we are lower across Northern India but in the last few years we have intensified our network there and we are slowly growing in Northern India as well. Majority of the growth contribution in the coming years will come from Northern India. If you talk about hybrid rice or the selection rice, it is majorly sold in Northern India especially, so we have very good strong hold in UP, Rajasthan rice and where we sell both bajra and rice. So only in crops like cotton and maize, even though we have network we were developing right production there. For example in Northern India, we have introduced a product last year in cotton segment and that we have multiplied by more than 6 times this year, but even though that has small bid but we are increasing our whole in both cotton and maize in Northern India. In the next 3 to 4 years, it will have some sort of meaningful contribution to the sale in terms of the market share.

Nandan Vartak: So currently the revenue from Northern India would be less compared to South and West?

Mithun Chand: Yes, I can say that but in UP we do a very good sale in UP, most of our rice were sold in UP only and bajra is also sold in UP.

Nandan Vartak: Another question is in last season, cotton sales in key states, so AP, Telangana and Karnataka, it was understood that there was a loss of market share to some illegal and small players, so how has been the competitive condition over there in key states this season?

Mithun Chand: We have lost market share only in Andhra but not in Karnataka. This year we will be getting a market share in all the parts, so Karnataka, anyhow we have a strong hold.. We maintained our market share, we will slightly up in Karnataka as well. If you see the overall cotton acreages across India, we have taken a figure as on August 9, but majority of the acreages came in from July 15 to July 30th. If you see in that manner, cotton is only up by 5% but if you see as of now the cotton sales are up by more than 12% for us. That itself shows that we have gained market share in most of the parts.



Nandan Vartak: So AP, the condition is similar to last season but Karnataka and Telangana?

Mithun Chand: Everywhere we have increased market shares because Telangana still the season is going on, we need to see, but we think that even in Telangana that will strike better improvement in market share or acreage will remain same, and will not go down, but whereas the other states definitely we will gain market shares.

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

Amit Vora: The question is regarding paddy. We have taken market share from any particular player or is the market itself expanded?

Mithun Chand: No, we have not taken from any particular as such but as a market share we had gained from different players. If you see overall hybrid rice market, initial estimates are only 2%, the overall market has gone by only 2%, but we will get the clarity once the season is done, but in terms of our hybrid we had grown by more than 50 odd percent, in fact 53% hybrid variety that itself shows we had gained significant market shares in hybrid rice.

Amit Vora: And this has been majorly in the state of UP?

Mithun Chand: UP and Chhattisgarh, these are the two states where we sell a lot of rice.

Amit Vora: And your market share in Telangana remains higher, has it gained further or the majority of the growth has come from UP and Chhattisgarh?

Mithun Chand: In which crop are you talking about?

Amit Vora: In paddy.

Mithun Chand: Paddy, we don't sell much in Andhra at all, 80 to 90% of this paddy we sell only in Northern India.

Amit Vora: And one more thing, if I have missed this on the buyback you maintained the stand that the buyback will be considered whether with new tax implication as well?

Mithun Chand: Yes, if we want to reward shareholder as we are generating cash, we want to distribute to the shareholders, we think we will continue with our stance.

Amit Vora: It is buyback or through dividend, everything above Rs. 300 crore you will be distributing is what you have maintained and that continues?

Mithun Chand: Yes, if you see in the last few years whatever cash margin we have generated, more or less we had returned into the shareholders. So we will maintain the same stand, whether it might be buyback or dividend but we prefer buyback.

Moderator: Thank you. The next question is from Anirudh Joshi from ICICI Securities. Please go ahead.



- Anirudh Joshi:** Sir, can you please indicate about the distribution network initiatives, I guess the CFO also used to speak quite a lot about the distribution initiatives, how many retail outlets we are touching right now and what is the addition that we have seen in last one year and what is the plan for the next one year?
- Mithun Chand:** We don't hunt in terms of the number in terms of the actual additions or deletions because that all the strategy depends on the market where and how we operate, but in terms of the reach, we are already there in more than 20 states. We are operating in more than 20 states and we have got a significant market share in the crops where we operate, so in that manner I think we have got one of the strongest distribution networks in India. To be more precise in terms of the number of dealers, it should be more than 35,000 retailers or dealers, directly or indirectly we are dealing with all of them and we are pretty strong in terms of the distribution network.
- Moderator:** Thank you. The next question is from the line of Omkar Kulkarni who is an Individual Investor. Please go ahead.
- Omkar Kulkarni:** If you see over the years, the second, third and fourth quarter, we have seen lower margins, but now you are saying there will be a much greater impact on sales front due to spill over, what would be the EBITDA margin you can expect or the PAT margin?
- Mithun Chand:** Basically, two, three, fourth being the lean quarter, the gross margins are same, but in terms of the operation, the other expenses like the employee cost, the other expenses, depreciation remain same that is the reason the margins are impacted in 2, 3, 4. Higher the sales, different the margins.
- Omkar Kulkarni:** Yes, but this quarter, you expect higher sales compared to the last year second quarter, right?
- Mithun Chand:** Yes, because cotton crop is a bit spill over to second quarter.
- Omkar Kulkarni:** So we can safely assume the margins will be also higher from the last quarter?
- Mithun Chand:** Sure, definitely because the other components like depreciation, employee cost and other expenses almost remain in terms of the percentages compared to the previous sales.
- Moderator:** Thank you. The next question is from the line of Nandan Vartak from Wealth Managers. Please go ahead.
- Nandan Vartak:** So just I wanted to know update upon any export country we have started to export again?
- Mithun Chand:** We have given trials in many countries. Definitely we are focusing on those crops. As I said earlier, it will take 3 to 4 years to make meaningful sale in that, but we are in continuous process of launching, testing new hybrids and wherever registration is required in the process of doing it.



Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Mithun Chand: It has been a pleasure interacting with you over the call. We thank you for taking timeout 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.

Moderator: Thank you very much. On behalf of Kaveri Seeds Company Limited, that concludes the conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.

