

5th December 2015

Bombay Stock Exchange Ltd.,
1st Floor New Trading Ring
Rotimda Building
P.J.Towers, Dalal Street, Fort,
MUMBAI - 400 001

National Stock exchange of India Ltd.
Exchange Plaza, 5th Floor,
Plot No.C/1, G Block,
Bandra Kurla Complex, Bandra (E)
MUMBAI - 400 0051

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Dear Sir,

*Sub : Transcript : Kaveri Seed Q2 & FY 2016 Result Conference Call on
16th November 2015 - Reg.*

Please find attached herewith Transcript of Kaveri Seed Company Limited Q2 & FY 2016 Result Conference Call made on 16th November 2015. The same was displayed at our company's website : www.kaveriseeds.in

This is for your kind information and record.

Thanking you,

Yours faithfully,
For **KAVERI SEED COMPANY LIMITED**



C.MITHUN CHAND
WHOLE TIME DIRECTOR

Encls: a/a.



Kaveri Seed Company Limited

Q2 FY16 Earnings Conference Call Transcript

November 16, 2015

Moderator Ladies and gentlemen good day and welcome to the Kaveri Seeds Q1 FY16 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vikram Rajput of CDR India. Thank you and over to you, sir.

Vikram Rajput Thank you, Karuna. Good afternoon everyone and thank you for joining us on Kaveri Seed Company Limited's conference call. We are joined today by Mr. Mithun Chand, Executive Director.

I trust you would have acquainted yourself with the highlights of the Company's Q2 FY16 results as shared in the presentation.

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

We will begin the call with opening remarks from Mr. Chand who will take you through the strategic imperatives and 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. Chand to share his views.

Mithun Chand Thank you. Good afternoon and very warm welcome to all of you. I will start by giving you the industry backdrop and then spend time on our performance.

FY16 has been a bad year with a multiple negatives impacting the seed industry. The monsoons as you know were far below normal and resultantly FY16 is expected to be another drought year as per IMD forecast, hampering prospects of the Rabi crops as well. This has also been one of the most challenging years for cotton with a significant drop in volumes and acreage, no price hikes and one of

the shortest sales seasons. The percentage of returns also has been higher than anticipated particularly for non-cotton crops. The cropping pattern has shifted unfavorably – there has been a switch from corn and millet to pulses and oilseeds. Further, there is a liquidity crunch with farmers and dealers resulting increase in receivables.

Against the backdrop, in Q2FY16, the Company has reported consolidated revenues of Rs. 93.4 crore and a negative EBITDA and PAT. Our performance was impacted by quarter sales here and higher than expected returns which is an industry wide phenomenon this year. We witnessed a significant loss in the returns of non-cotton crops. Seeds of non-cotton crops have a much shorter shelf life as a result of which the percentage of write-offs are much higher.

In terms of the volumes in First Half 16 we have sold around 56 lakhs packets in cotton as against 80-84 packets in first half of FY15. Cotton volumes moderated due to low acreages and more specifically in the areas like Karnataka and Rayalaseema which are strongholds of Kaveri and Kaveri had a small market share of more than 60% in these areas and limited participation in credit markets like Telangana. On the other hand we have increased our market share in markets like MP and Gujarat and even slightly in Maharashtra as well. Subnormal monsoon impacted maize with volumes at around 6,300 tonnes as against 7,700 tonnes in the first half last year. In terms of revenue, it is Rs. 95 crore versus Rs. 105 crore last year. Meanwhile hybrid rice reported a strong growth with 1,750 tonnes in first half 2016 as compared to 1,425 tonnes in the last year first half and hybrid rice most of that comes in the first half itself.

I am pleased to share working capital management continues to remain strong.

To conclude, FY16 has been a challenging year for the company and sector at large. We believe the sector is bottoming out and the medium to long term prospects remain robust. The structural theme will continue to play out strongly with the advent of high-density planting, mechanical harvesting and the likely approval of BG2RRF and the under penetration of hybrids in non-cotton crops.

FY17 onwards we are confident of delivering growth, like we have for the past several years. The success of established product are Jadoo, ATM and the newly launched products like Super Duper and Three-by-One, etc., have already safeguarded growth for the Company from a 3-5 year perspective. Our FY17 cotton production guidance of 9-10 million remains intact. We expect to grow market share significantly on the back of our diverse portfolio and national footprint. The blueprint is laid out to intensify sales efforts to the regain share in markets of Andhra, Telangana, and Karnataka and to make further market share gains in Maharashtra and Gujarat.

On the non-cotton side we have a sizeable and well diversified portfolio which has witnessed increasing acceptance in the market place and as we mentioned earlier we are focusing more on the central and northern parts.

I am very sure that there will be questions which you are going to ask about the royalty payment in Monsanto. As the matter is in court I can answer to the extent I can. The revised royalty amount has been arrived at based on inputs by government recommended institutions, which has been a standard practice in the industry. We along with several leading seed companies believe our case is solid and with merit, and expect a positive outcome. We have always followed best accounting practices and transparent communication, and remain committed to

follow the same going forward as well. This statement that I have put out is as much as I am going to say on the matter.

To sum up, Kaveri Seeds is on an extremely firm footing both operationally and financially, and the long-term outlook remains growth oriented and promising. We are excited about the potential our business holds given the initiatives we have been implementing to strengthen our growth levers. Our multi-crop portfolio, superior R&D, strong product launch capabilities, brand salience, farmer relationships, human capital efficiencies, and strong financial position are cornerstones of a sustainable platform for long term success. We are committed to drive profitable revenues, a strong ROCE profile and strengthen cash flows.

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

- Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mitul Mehta from Lucky Investments. Please go ahead.
- Mitul Mehta** Sir can you guide us through the FY16 volume numbers for cotton and non-cotton?
- Mithun Chand** Cotton, as I mentioned in the opening remarks, cotton is around 84 lakh packets in the first half 2015 compared to 56 lakhs packet this year FY16. In terms of the revenue it is around Rs.748 crore and this year it is Rs.501 crore.
- Mitul Mehta** How much is this year, FY16?
- Mithun Chand** FY16 from the last year the cotton volumes are around 86 lakhs packets, revenue is around 750 odd crore
- Mitul Mehta** This year?FY March 16.
- Mithun Chand** I am talking of March '16,this year you want for the entire year or current financial year?
- Mitul Mehta** Current financial year.
- Mithun Chand** Current financial year, it will be around 58 lakhs packets.
- Mitul Mehta** And can you also help us to understand for non-cotton?
- Mithun Chand** Non-cotton crops, majority of that comes from maize. Out of maize in terms of the revenues we have done Rs. 95 crore for the first half against Rs. 105 for the last year. For the entire year we have done about Rs. 158 crore for the last year. This year we might think that we should be in between Rs.130-140 crore.
- Mitul Mehta** In rice?
- Mithun Chand** Rice, first half is the major one. Hybrid rice last year, we have done around Rs. 37 crore; this year we have done Rs. 45 crore and overall rice we have done a Rs. 70 odd crore last year. This year it should be around Rs. 75-77 crore.

Mitul Mehta Looking at the current conditions as to what is happening in the rural economy in terms of the netbags to farmers are stressed. So what sort of confidence gives you that will be able to deliver 9 million packets for FY17? Has anything changed at the ground level?

Mithun Chand No, basically what we spoke about 9-10 million that is the production figure that we are targeting as of now. But in terms of the growth we see around only 20%-25%, in terms of the cotton as well, seeing the situation with the farmer we do not see a major impact in the cotton acreages next year as well. Compared to last year when we spoke in the first quarter con-call we said that the market will end up between 4.2-4.4 crore packet market. But as of now it looks like it will end up only in between 3.8-4. So next year also we do not see any hope of going up as the cotton prices have been in the stable and I think the acreages should remain same. So best scenario 20%-25% growth is what we are anticipating.

Mitul Mehta What gives you the confidence to do this level of growth again next year.

Mithun Chand Most of the areas that were impacted were places where we were very strong and we think that those areas will definitely come back. And those are more specifically cotton areas, those areas have not shifted to any other crops this year. So basically it was because of bad monsoon and delayed monsoon it has happened. The next year definitely we think that we can regain it and there are some other decisions or strategic things what we have taken like not supplying in credit market, that is Telangana and stopping sales in the peak time in Maharashtra, which I do not think will be happening next year. So we think that we can definitely grow in between 20%-25%.

Mitul Mehta Any risk to price control in Andhra?

Mithun Chand It is a government thing. I cannot comment as of now but we need to watch closely because the situation with farming community is very bad and in terms of the output what the farmer is witnessing is also very alarming. We do not see negative immediate reaction like reduction in cotton prices but we need to wait and watch for it.

Mitul Mehta And sir lastly in terms of royalty can you help us to understand?

Mithun Chand The royalty is same as we have allocated in the first quarter. First quarter the balanced disputable amount which we pay at the normal course was around Rs. 65 crore, for this quarter we calculated the entire amount comes up to Rs. 66 crore. So we still have a strong faith to fight and we think that the seeds companies will be successful in fighting this battle.

Mitul Mehta What was the geographical mix of our sales in the current financial year in terms of cotton? It is 58 lakhs packets, right?

Mithun Chand You want for the entire year or for the first half?

Mitul Mehta For the first half.

Mithun Chand Majority of that is from combined Andhra, it is close to 32 lakhs from Andhra.

Mitul Mehta Can you give us a mix between Telegana and Andhra separately?

Mithun Chand Telangana is close to 20 lakh packets, in fact 22 lakhpacket. Andhra is around 11 lakhs.

Mitul Mehta And rest of the sales, 22 and 11, so 33 what about the balance 25 lakhs packets?

Mithun Chand Maharashtra is there around 12 lakhs packets.

Mitul Mehta So this Maharashtra has gone under price control, right?

Mithun Chand Yes. I mean they have reduced the prices.

Mitul Mehta So 33 and 12, 45 and another 13 lakhs?

Mithun Chand Karnataka is 5 lakhs, MP, Gujarat another 5 lakhs, rest of India is there.

Mitul Mehta Okay fine and what is our current market share in cotton?

Mithun Chand If you see our 4 crore packets market, we are having a market share of close to around 14.5%-15%.

Moderator Thank you. The next question is from the line of AbhijitAkella from IIFL. Please go ahead.

AbhijitAkella First would it be possible to quantify how much sales return there were this quarter?

Mithun Chand In terms of the percentage of the non-cotton profit revenue it was more than 40%

AbhijitAkella So basically we should take the non-cotton revenue and we can assume that more than 40% of that came back.

Mithun Chand Yes.If you have noticed this year we have reported a net loss because most of the non-cotton crops were returned that which were written-off.Every year this is a normal procedure but this year compared to previous year where we had a write-off of around Rs. 20-22 crore, this year we have a write-off of close to rs.55 crore, that is the reason the results have been impacted.

AbhijitAkella So Rs.55 crore inventory write-off in 2Q results this year.

Mithun Chand Yes and it is in the first half.

AbhijitAkella But first quarter we would not have taken any write-off, right?

Mithun Chand In the first quarter also we have taken some write-off, that was around Rs. 5-6 crore, that is it. The majority is from Q2.

AbhijitAkella Understood and also just wanted to clarify when you spoke about the royalty disputed amount, you said 1Q was Rs. 65 crore and you said 2Q is Rs. 66 crore, is it?

Mithun Chand Yes, I mean to say cumulative of first and second as such.

AbhijitAkella So only one crore in 2Q?

Mithun Chand Because when we reported sale in the first quarter we get more or less return from specified area and each area has got a different royalty structure, for example if anything in return in Maharashtra, we calculate royalty as Rs. 20 only whereas in Andhra it is Rs. 90. So in that way the accumulative has come to 66 against 64 in the first quarter even though we have done 2 lakhs packets of cotton sales in this quarter, 2,36,000 but the royalty has impacted down the line.

Abhijit Akella And also just wanted to get a sense for excluding this royalty dispute what would the margins in cotton be right now on a per packet basis. Last year there may be around 225 or so per packet, have they come down significantly and what is the reason for that?

Mithun Chand In Maharashtra the realization are between Rs. 770 to 780, whereas the rest of Maharashtra the realization are Rs. 800 plus. If you take Maharashtra most of the billing we have done at Rs 830 but if you take the per packet realization overall of the net bags to farmers are stressed should be around Rs. 200-210.

Abhijit Akella Rs. 200-210 in Maharashtra?

Mithun Chand Overall, if you take the average realization at Rs. 780-790 but the production cost is close to Rs. 345, if you consider the royalty different, if you think of royalty as such, if you calculate royalty at Rs. 185, the net of what we receive is around Rs. 200-250.

Abhijit Akella So margins have not fallen much YoY despite the...?

Mithun Chand No. If you see the results also, the majority of the decline is basically because of the write-offs what we had and the decline in the overall average which has contributed the higher percentage of fixed cost.

Abhijit Akella Lot of this sort of announcements we made by the CICR Nagpur about BG-I cotton varieties they are talking about introducing. So do you see a realistic chance that this can come out actually in the market sometime in the next few years and can it be a threat to hybrid companies?

Mithun Chand I doubt that will be as popular as hybrid. If you see the conversion of non-hybrid to hybrid has taken place in the last 20 years because of the higher yield in the hybrid. BG-I technologies is already outdated and we do not see any hybrid of BG-1 now and even I think we have seen some cases that even BG-II has affected by some sort of pest. BG-1 second pest **heliosis(20.25)** is very difficult; Bollworm is very difficult to control the BG. I do not think it will be that popular as in the other countries are, I seriously doubt acceptance in the new market.

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

Mukesh Saraf You had mentioned that you are kind of looking to produce about 9 million packets this year and I guess we will already be having an inventory because I think we produced about 9 million last year and we have ended up now selling up less than 6 million. So we have an inventory of about 3 million plus we are looking to produce 9 million. So will be about 12 million kind of packets for next year but you are guiding a maximum of 25% growth but it will just be about 7 million packets. So we are expecting to end up next year also with about 5 million packet inventory, is that right?

Mithun Chand So the 9-10 million packets is considering the left out also.

MukeshSaraf So this year production will actually be just about 6 million?

Mithun Chand 6-7 million.

MukeshSaraf Plus the inventory that we have?

Mithun Chand Yes.

MukeshSaraf And next second thing is you mentioned about intensifying the sales efforts to regain market share. So could you just throw some light what you would do, is it just ready to give more credit or is it discounting or something else?

Mithun Chand Basically we are doing a lot of field activities now to promote our hybrids. This year was a very bad year and most of the hybrids have not done well, not only non-branded even the branded seed companies have not done well in terms of the productivity. I mean to say there is not lot of variations in the yields. So now we are carrying out awareness programs and benefits we have in Jadoo, because Jadoo is the high yield even in this condition, Jadoo is one of the best yielders in the market. So we are highlighting that through promotional activities and trying to regain our market shares of last year. Compared to previous years we are spending more on promotional activities.

MukeshSaraf So this per packet EBITDA, we kind of be lower to what extent of this higher promotional activities...?

Mithun Chand It is slightly lower but it may not be a significant drop in EBITDA level because hardly we spend around Rs. 3-5 per packet.

MukeshSaraf And the last question is on the opening remarks you also mentioned about how going forward may be not next year but you will be looking to introduce the RRF and better technologies, what kind of confidence we have sir that Monsanto will continue to kind of bringing these new technologies because of the outcomes of this current situation that we have with them on the royalties, so what could be the probabilities that the case could go against them and hence we cannot get new technologies, what could be the probabilities I mean either ways we see that we could be on the losing side, is that true or is that reading wrong?

Mithun Chand Basically seed companies require new technologies and Monsanto requires companies to launch its technologies, so both are equally important for the farming community. As a nation also there needs to be set guidelines what is the trait fee, how much they can charge, that should be based on the proper platform. If you see the dispute what is happening here because of the government intervention there is no clarity on what the royalty amount is and how the seed company should be benefited out of it or even the farmer. So clarity will come after this case and I do not see any doubt in new technologies being released. Yes, there may be a temporary pause in the introduction of the new technologies like say around like a 3 months or 6 months, but once things settle definitely the other technologies also follow. The thing is given size of the market; I do not think anybody can neglect Indian market as such.

MukeshSaraf So whenever the outcome of the current case happens and even if Monsanto is on the losing side wherein they will not get this additional royalty and you will continue to pay royalty is based on what the state governments have directed. We are

expecting that they will somehow come out to these new technologies and give it to the same seed companies who they have been issuing with all those royalty.

- Mithun Chand** Yes, once the issue is cleared then they can say what is the amount that they can charge on the MRPs or the fixed rates what they charge. That is how it should be. The technology provider, neither the seed companies nor the farmers should be affected by the entire thing. Everybody should be benefited out of the chain. That is how we can reinvest into the R&D and get new technologies and new hybrids. So there will be some proper solutions which we are waiting for. The entire battle what we are fighting is to get a proper solution for the current and new technologies.
- Moderator** Thank you. The next question is from the line of Prashant Kanaru from Karvy Stock Broking. Please go ahead.
- Prashant Kanaru** First thing is. I just want to understand is this patent for BG-II is, when you think it is going to get expired?
- Mithun Chand** It is in 2021-2022, end of 2021, early 2022.
- Prashant Kanaru** So the relationships are not going to get strained because of this NSAI (National Seed Association of India) putting up, NSAI versus MMB case happening in Mumbai High Court, the commercial relationship is not going to get affected?
- Mithun Chand** As of now we are doing our business and the entire battle is like whether the government can control the prices, can they can control the trait fee or not. So these need to be addressed and based on that the selling price of the royalty should be fixed. That needs to be probably understood and taken by the companies. It has put both our problems and discuss it but first of all we need to get clarity whether government has got the right to control or not, if so to what extent?
- Prashant Kanaru** So there should not be any problem in terms of you getting the BG-II crops from MMB?
- Mithun Chand** Yes, not only we, the entire industry has the BG-II technologies from 2004 and it's not a recurring transfer every year. We use the same old genes for next generations also. So I do not think the continuation of the businesses is an issue, but the only issue what we are facing is the clarity about the **prices**.
- Prashant Kanaru** You already have the breeder seed with you?
- Mithun Chand** Yes.
- Prashant Kanaru** Okay, it is not that you have to sell it to MMB and MMB keeps the particular seed, you only have your stock of breeder seed along with you?
- Mithun Chand** Yes. For example if you see when we are talking about 9-10 million production for the next year that means that we have already given production for next year.
- Prashant Kanaru** But it happens around Feb right, Feb-May?
- Mithun Chand** We start sowing from the month of February to up to June. We did the produce from October to March, March in fact in May also.
- Prashant Kanaru** So the seed production starts from October?

Mithun Chand This will start from October.

Prashant Kanaru I did not get you sir, the sowing or production?

Mithun Chand We sow the seeds in the month of February-June and we produce whatever is produced on land, we will get from October to May.

Prashant Kanaru Okay, so that is how it goes and all of it is in Telangana?

Mithun Chand Telangana is there, Karnataka is also there, some extent it is in Tamil Nadu and Andhra is also. But majority of that comes from Telangana.

Prashant Kanaru But for your seeds in Andhra, Karnataka and Tamil Nadu you do not have the Rs. 340 procurement price, or is it uniform across...

Mithun Chand We do not have the procurement price but anyhow these all are inter related, most of the prices are in line with other states.

Prashant Kanaru So just 1-2 questions, I mean coming to this write off of seeds, what is the shelf life for maize and rice hybrids?

Mithun Chand Rice, it can be up to 1.5 to 2 years, but maize if you don't do cob drying, it will be only 6-8 months.

Prashant Kanaru So bulk of the write-offs is maize?

Mithun Chand Yes, maize is the major write-offs. Out of that Rs.54 crore maize itself is around close to Rs.33 crore.

Prashant Kanaru Last year how much was it sir?

Mithun Chand Last year maize was around Rs. 15-16 crore.

Prashant Kanaru So which means that even H2 we are not going to see any great increase in maize that last year we had around 10,800 tonnes, out of which 7,700 came in H1, so we did around 3,100 in H2 last year, so this year we know how to do even half of it.

Mithun Chand So this year we are expecting between 1,500-2,000 tonnes.

Prashant Kanaru So it will be a pretty big fall as compared to the last year?

Mithun Chand Because we have not received any rainfalls in most of the parts and most of the lands is barren.

Prashant Kanaru So your major H2 areas where maize sale would be Bihar and Uttar Pradesh or Rajasthan?

Mithun Chand Bihar and Andhra.

Prashant Kanaru Even in H2?

Mithun Chand Yes. We have commissioned the major part in Andhra.

Prashant Kanaru Andhra majorly has shifted to pulses, so you were to lose it there?

Mithun Chand Yes, it is all losing to pulses. Even the pulses rates are very attractive now and don't have water.

Prashant Kanaru Last year out of 3,100 tonnes how much was from Bihar in H2?

Mithun Chand Bihar was around close to 650 tonnes.

Prashant Kanaru And one last thing, how many rice hybrids do we have that are certified because when I check from the public sourcing we have just around 3 or 4 and that we have got bulk of them in the last 4-5 years in this, so we have this 3-4 right sir?

Mithun Chand Yes, I think we have 4-5 hybrids, most of that has been notified in the last 3-4 years.

Prashant Kanaru Four hybrids, right sir?

Mithun Chand 4-5, will confirm later.

Prashant Kanaru Just want to understand bulk of this comes from how much of that comes from UP?

Mithun Chand That is from the notified hybrids, we do a very negligible sales because only in subsidies we participate with notified hybrid. This year we have not participated in subsidies in majority areas.

Prashant Kanaru I am talking about rice.

Mithun Chand Rice, also most of that goes in the subsidies. We have not done much of the sales with notified varieties in rice, it is only non-notified hybrids we have done majority of the sales, say around 90% of the sales, of the hybrid sales is from the non-notified hybrids.

Prashant Kanaru So it is apart from these 4-5 hybrids the other hybrids which are not notified you have done your sales through that. Is it allowed? Is it okay?

Mithun Chand Notified hybrids are not much for sale. Notified hybrids gets some sort of an advantage in getting government subsidies, apart from that nothing very important.

Prashant Kanaru So non notified hybrids which form our sales are like how many numbers?

Mithun Chand Just need to check it, but more than 90% is from the non-notified hybrids.

Prashant Kanaru What about promoter stakes, has it stopped now. Are the promoters still serious about the Greenhouse project.

Mithun Chand The Greenhouse last year itself we have told that we are not going ahead and that project is already shelved. But the other promoter sales, some 2-3 lakhs other directors have done it, not the main promoter group, they have done some sort of a sale but that was only acquired from the market, they are not the major shareholders in the Company. In fact the main promoter of the Company Mr. Rao has increased his shareholding.

Moderator Thank you. The next question is from the line of GaganThareja from Comgest. Please go ahead.

GaganThareja First of all can you may be explain a little in detail how you have accounted for this sales returns, what line items?

Mithun Chand We usually report sales when it is directly liquidated. So whatever is not liquidated these all comes under sales return.

GaganThareja I mean in the revenue itself you have adjusted for the sales returns?

Mithun Chand Yes, that is the net of sales return.

GaganThareja And secondly is it possible to understand your market share in each of the geographies that you have presented versus how it was last year, for example your market share in Telangana this year versus last year and so on.

Mithun Chand As of now I don't have the ready figures. In Maharashtra, slight increase in terms of the market share compared to previous year. In Karnataka we are down by say around 4%-5% in terms of the market share. In Telangana and Andhra combined we are down in terms of the market share by more than 7%, it has been the major impact what we had and in market shares of Gujarat and MP we have slightly gone up.

GaganThareja Given that you know the issues that you have seen in Telangana and Karnataka you refrain from selling in the credit markets as well. Is it therefore not going to impact your goodwill with the farmers subsequently even if the season is normalized?

Mithun Chand Basically we do not have any financial transaction with the farmers, we only deal with the dealers. For example the credit what we give extended, is to the dealer. So this time we have done it cash and carry basis and not extended much of a credit. This year will be very difficult to recover money from the market and we are not having enough inventory, so we have taken that strategy. But we had not anticipated such a worst season this year. So that has impacted to some extent. Going forward definitely we will give some sort of credit to market because all the cotton monies is required for the Company. We do not see that as an issue going forward.

GaganThareja When you guide for 25% sales growth in cotton next year?

Mithun Chand We are pretty confident that 25% growth will be bare minimum for us in cotton.

GaganThareja So that rest on the premise that you will be able to go back to your normal market shares in each of the geographies is it, or more?

Mithun Chand In Andhra it is very difficult to go back to last year level but in all other markets we will grow.

GaganThareja So in Andhra how much do you estimate you can be recoup?

Mithun Chand If we go back last year we had close to 40% of market share in Andhra. This year we have only around 30%-32%. So going back to 40% is a bit difficult in the immediate next year. In other areas like Maharashtra we will definitely increase our

market share. In Gujarat we are increasing our market share. Majority of the market is Maharashtra and Andhra, these are the two major markets. In Andhra when compared to this year we would have definitely increased some extent of market share next year but again going back to the 40-42% levels looks a bit difficult level in immediate next year.

GaganThareja

Finally I mean picking up from Abhijit's questions on CICR introduction from what I gather there are two transgene traits, one is bollworm resistance, **(Inaudible)37:10** resistance, the other is the third issue is that these varieties are draught resistant and they are also amenable for high density planting. Given that CICR is possibly planning to integrate four very good or very relevant features into the product and the product itself will be a variety which we pay at least as of now seem to indicate they are priced at Rs. 150 something of that sort, what reason would have to not believe that this could be a really strong threat to the existing structure of using hybrids?

Mithun Chand

If you take the current scenario, if you take Rs. 930 as an MRP and if he buys two packets per acre, it is only Rs. 1850, if you buy a good brand seed. He is spending only Rs. 1850 per cotton seed. If he wants to go for varietal he may spend around Rs.500-600 but he again going to have three or four packets of variety. Even if you calculate Rs. 160-200 a variety so it comes up to 600-800. The maximum he can save is only Rs. 1,000 per seed. But the advantage what we get from hybrid is far better from the varietal and now we are giving a BG-II technology. The technology is much advance that in the BG one and that is already proven. So I do not think that Indian farmers will go back to varietal side as of now and more or less they have transformed from varietals to hybrid seeing the advantage.

GaganThareja

But there are already some cases where Bollworm resistance to BG-II plus the fact that the entire north Indian cotton crop got wiped by whitefly, it is pretty obvious that BG-II itself will not address all the issues that are faced by the cotton farmers. The other more relevant issue to my mind is also the fact that the bulk of the cotton seed or rather the cotton crop market is in areas which are largely prone to draught all the times. So don't you therefore think that the future growth trajectory in this area therefore lies in being able to address these kind of cases rather than simply bollworm?

Mithun Chand

Basically in the question there are two points. One is regarding the technology which concerns the bollworm the second is regarding the traits of the mix of the plant. When you talk about crop tolerance or a high yield or a stress tolerance this all comes with the parent type, what I mean to say hybrid. So that is what we are bidding for and I think the hybrids are in existence because we are addressing those issues when compared to the varietal. When we talk about the resistance we are only talking about Bollgard-I, even Bollgard-II can get Bollworm. But, definitely Bollgard-II is much superior technology than the Bollgard-I.

GaganThareja

I do not think the CICR is using BG-I. It is another trait, it is not BG-I that has been incorporated.

Mithun Chand

The trait is like BG-I only, they do not call BG-I, but the gene is **(Inaudible) 41.04**. The other thing is that when you talk about the whitefly issue in northern India especially Punjab, basically that is because there is not enough crop protection. **When you receive the entire debate** because we are seeing some instance of resistance in Bollgard-II now, entire industry is working on how to control or how to increase the resistance for the Bollgard-II. It has come in because what we are giving as a Refuge we give you 120g extra then 450g to farmers to plant that seed. But they are never planting it. That is the reason the existence itself is a difficult

issue for the Bollgard, that is the reason they are developing far superior resistance to all this thing. Now the government and we are working together to mix the Refuge which is a non Bt gene and the seed will look same and the farmer will definitely need to sow it because we cannot identify what this non-BT and what is BT. So in that way we are trying to address the issue.

- GaganThareja** But in that case did the sales of seeds, I mean BG-II transgenic seeds itself should drop because ideally the optimal penetration there should not be more than 80%, theoretically speaking?
- Mithun Chand** No, the weare working out.The 75% or 80% already what they talk about usually they are talking about 45g for 450g that is 10% of the seed.That will be mixed homogenously, even that will be distributed to the farmer, so that will address the resistant issue because the Bollgard will survive on the non-BT.
- Moderator** Thank you. We move on to the next question that is from the line of Sharad Shah from First Finance. Please go ahead.
- Sharad Shah** Yes, if the judgment goes against the Company do we have resources to pay whatever dues are there?
- Mithun Chand** If you see the disputed amount through Monsanto is only Rs. 66crore, as of now . We have got more than Rs. 300 crore of cash balance. If you see the cash balance as on 30th September we had Rs.314 crore of cash with us.
- Sharad Shah** No sir, I saw it was around 5 to 6 crore only.
- Mithun Chand** No, I think you have seen only cash in hand but you need to consider the current investment which are like cash equivalent, leaving inventory.
- Sharad Shah** Other current investments don't you think in the present environment it will be very difficult to liquidate?
- Mithun Chand** It is all in the debt instruments and it is all parked for half year, one year and some are even parked in the short term funds like liquid or liquid plus, these are ready to invest, only Rs. 40-50 crore is parked for one year plus, but others are all in below one year.
- Sharad Shah** No, but if they are instruments where you cannot liquid, we will have a lot of liquidity, issues right?
- Mithun Chand** No, we do not invest in a non-liquid instruments, we only invest in a good sizeable AUM and liquid funds.If you go to our annual report you can see investment where we have and you can easily judge yourself that whether the funds have liquidity or not and I do not think liquidity is an issue in that front.
- Sharad Shah** Two three months ago I understand there was an income tax search at your company, is it?
- Mithun Chand** No.
- Sharad Shah** Are you sure?
- Mithun Chand** I am pretty sure about it.

Moderator Thank you. The next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh Firstly on the previously participant's question I missed, the initial part. Have you taken any provision in the balance sheet regarding the royalty if in any case or in the worst case we lose out?

Mithun Chand See we have not made any provision in the balance sheet but if something goes wrong, we need to pay Rs. 66 crore more than the provision.

Balwinder Singh Will that get subtracted from your 300 crore cash balance?

Mithun Chand Yes.

Balwinder Singh You highlighted that this year cotton seed industry volumes are close to around 3.8 to 4 crore, is that right?

Mithun Chand Yes.

Balwinder Singh And what is the outlook for next year on acreages and what are likely the cotton seed volumes for industry for the next year?

Mithun Chand We do not see that the acreages will move much up but at the same time we do not see that acreages will fall from this level. We see a cotton market in between 4.2 to 4.5 crore next year.

Balwinder Singh Okay, so that is a growth of around 10-12%?

Mithun Chand 8-10% because hoping that we think that the areas like Rayalaseema, Karnataka, which have not received rainfall, there we lost have some packet that will come back. I mean Maharashtra and some areas we think it will come back, but overall it will remain same like this year. The other part is that this year we were not having any re-sowing, so that may also come in. So as a whole we see optimistically it should be between 4.2-4.4.

Balwinder Singh And I suppose first quarter post the results in the con-call you were guiding off some 8-8.5 to 9 million packet of cotton seeds sales volumes for Kaveri for FY17 and now you are talking of 9 million production but sales of only close to 7 million based on your growth of 20%-25% what you are guiding, so are we cutting down on the guidance?

Mithun Chand Yes, we thought that the cotton acreages will go back to the last year level but by seeing the cotton prices and by seeing others commodity prices especially pulses which has grown much I do not think the cotton acreages will come again. By seeing the whitefly affecting Punjab after the post-quarter results even there the acreages are going to come down. So in that way we see a decline as a whole for cotton, the next year looks difficult. That is the reason why we have cut down our guidance.

Balwinder Singh So next year when you are talking of industry being around 4.2 to 4.5 crore and Kaveri being around say 70 lakhs packets, so you are talking about market share improvement by almost 300 bps, from 14.5 to 17.5 kind of roughly?

Mithun Chand I do not think so.

Balwinder Singh Because you are talking of 8%-10% growth on the industry volumes about 20%-25% growth on Kaveri's volume, so definitely it will lead to some 200-300 bps of market.

Mithun Chand Yes it will be will between 1.5%-2% is what I believe.

Balwinder Singh And who all are the companies that have gained market share this year within the organized players?

Mithun Chand I think in terms of the market share in terms of the sales all the companies are down. In term of the market shares, in organized players Rasi Seeds, and to some extent Nuziveedu has gained the market share

Balwinder Singh Okay, Rasi and Nuziveedu.

Mithun Chand Rasi and to some extent Nuziveedu. Rasi to some extent the sales remain same that's the reason their market shares have gone up. But most of the market shares are taken by this non-branded seeds.

Balwinder Singh Down-trading you mean and my last question is related to the royalty thing. I think last week there were some hearing in the Telangana high court which and the government had filed some petition related to getting the stay, or removing the stay on Monsanto royalty cuts, so I think the Telangana government get the decision in favor of Mahyco Monsanto, so what is your take on that?

Mithun Chand Actually the government has filed a petition to vacate the stay on Telangana government. But the stay was not vacated, so the government is again going to appeal for that.

Balwinder Singh So what is the argument that the court is giving for the final decision and what gives you the confidence going forward that seed industry as a whole will win the case?

Mithun Chand See basically we are not worried about whether the government wins or whether Monsanto wins. We want clarity; Monsanto is saying that government does not have a right to pick the trait value itself. Government is saying that we have a right to fix the MSPs including trait value. So that is the discussion. If they say that they do not have a right to fix trait value and MSP then the selling price will go up and we will pay as usual royalty. If government wins and if it controls trait value we will pay as per the government. So we are just waiting to have a clarity whether the government can fix or not. So that is taking time and any outcome I think it is a win-win situation for us. But any decision if the government wins at this particular point, the amount what we are paid from the last 4 years will also be refunded which is close to Rs. 200 crore, up to 2015.

Moderator Thank you. We have the next question from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar Sir just wanted to understand the mechanism through which ongoing basis if the different states having different royalty, there will be a pilferage across the states where from where low royalty states the goods can move to the higher royalty states as in black market. How would Monsanto will keep a check on those kind of stuff, it will be very confusing from Monsanto to get a complete hold on how the royalty is actually moving?

Mithun Chand You rightly pointed out. If we have difference in the sales prices in each state and more or less prices are based on the royalty and since that is the case is very difficult for Monsanto even for the companies and government to control this thing. So that is the reason if you see historically there was a consensus in terms of rate and royalty. It is the first time where it is disputed but it is too early to draw any conclusion on it but end of the day we strongly believe that it should be uniform price and uniform royalty across all states then only the industry will survive.

Nitin Gosar And one point you said the maize sales return were high because the corn crop drying wasn't being done, what is that you were hinting towards to?

Mithun Chand Maize is a very delicate crop when compared to crops like cotton or rice, so usually the write-offs are pretty high in Maize.

Nitin Gosar And I believe that couple of years back you had put in a lot of CAPEX with regard to corn cob drying facility and post that you are of the view that this corn cob drying was not done and that is why the sales returns are higher?

Mithun Chand We progressed close to 22,000 metric tonnes of corn, 18,000-20,000 metric tonnes of corn. Whatever is produced is not cob dried. The dry field cob hybrids are expensive because to do the cob drying activity it takes Rs. 10-12 per kg. So low margin, low trade that we do not do. Even if you do crop drying, if the sales are returned back because of the transportation there will be a huge damage to the stock inside. So that is the reason there will be a high write-off. That is the reason we say if the returns are high the write-off will also be high. The same stock if you store in a proper storage place that can last for 12 months but if you send it to market and get it back it needs to be discarded.

Nitin Gosar Got it. So the basic difference between corn cob drying, shelf live and without it would be? What is the basic difference between shelf life between the two theory where the corn cob drying is done and ...?

Mithun Chand Cob driving is done to reduce the moisture percentage in the cob. So if it is in between 10-11% moisture, it can stay for 1.5-2 years, in some cases it stays for more than two plus years if it is stored in a proper cold storage. But if you do not do cob drying, usually the crop will be between 13%-15%, so germination will be much higher in those high moisture levels.

Moderator Thank you. The next question is from the line of Kuntal Shah from SageOne Investment Advisors. Please go ahead.

Kuntal Shah The credit worthiness, the receivables which you have outstanding till date, , you can give us some flavor on the credit worthiness, are there going to be some write-offs on the receivables front?

Mithun Chand We have taken a policy like anything above 2 years we are treating as a write-off. If you see our aging, most of the receivables they are all more than one year is close to 15 odd crore. Let me check that figure,, but most of that is from the government institutes. Out of more than one year balances are more than Rs. 23 crore in the sundry and more than 2 years is around rs.5 crore, so this 5 crore we have already provided in terms of bad debt but if you taking this 5 crore, more than 90% is from the government body which is definitely due to come in.

Kuntal Shah So are you saying you have written-off 5 crore in spite of the fact that this owned by government institute to you?

Mithun Chand Yes. As a company we are following a policy from this year anything above two years should be covered as write-off. Technically these all will come back to the Company because they are from government institutes, we do not have any disputes with them and not only us most of the industry itself had not received payment. For example say Telangana because of the bifurcation they have not given.

Kuntal Shah So as of date today what is the receivables outstanding which we have to collect?

Mithun Chand It was around Rs. 190 crore as on 30th September, it should be around Rs. 160-170 crore.

Kuntal Shah My subsequent question was on the payout policies and the auditor, any thought on change on auditors?

Mithun Chand Basically we are thinking from April 1st we will be appointing one of the big four as our auditor that is the reason we have taken most of the advice from them and we have provided most of the bad debts and everything as per the norms we are providing it now. Most probably April 1st that is the next financial year you will see any big four as our auditor most preferably I think E&Y will be one of them.

In terms of the dividend payout, we thought of taking a decision but we could not take it this year as every quarter has been a tough quarter for us. But most of our discussion is happening on these issues; definitely I think we are making it a point to address as early as possible. We are working on those things and you can expect this clarity any time in the near future.

Moderator Thank you. The next question is from the line of ArunBaid from Religare Capital. Please go ahead.

ArunBaid You mentioned that the seed production is normally given in February to June, right?

Mithun Chand Yes.

ArunBaid So for this year production you would have given them the farmers the mandate by June of this year, right?

Mithun Chand Yes.

ArunBaid So when we did a call on 14th Aug, after your Q1 numbers you have guided for 1.1.crore seed production for FY17, you have given the mandate to the farmers by June, right?

Mithun Chand Yes.

ArunBaid But now you are saying like 60 lakhs packets, so I am just a bit confused.

Mithun Chand In the last quarter we have said that the consolidated figure is of 1.1 crore. But season being very tough and last year how we lost the production yield and this year also we are losing it, that is the reason I have lowered the guidance in between 90 lakh to 1 crore.

ArunBaid So when you are saying 90 to 1 but you have given new orders of only 60 lakhs packets, right?

Mithun Chand Yes. The fresh produce will be between 6 million to 7 million is what I mean to say.

ArunBaid So in the last call you said that 1.1 crore seed packets would be produced and your target sales was 9 million, last time.

Mithun Chand Yes, I will correct it, 1.1 crore packet was targeted for the total inventory including the left out, out of which fresh production was 80 and left out was 30.

ArunBaid And now that fresh is down from 80-60?

Mithun Chand Yes. 60-70 will be the figure.

ArunBaid So the cost should go up because if the loss of seed is higher, then our manufacturing cost would be higher, am I right?

Mithun Chand No, irrespective of the increased in the yield or a decrease in the yield, more or less the cost remains same because it all works on a fixed cost. So that will not have impact on the actual cost of the seed.

ArunBaid So the 345 which you are supposed to pay will stay at 345 only, right, roughly?

Mithun Chand But this year the production cost has gone up to some extent.

ArunBaid How much did it happen?

Mithun Chand Rs. 15-20 per packet of working cost.

ArunBaid Compared to FY15 right?

Mithun Chand Yes because to the government we are paying more and all those thing, the production cost has gone up. But not in respect to the decrease in the yield but as an industry the production cost has gone up.

Moderator Thank you. We have follow up question from the line of AbhijitAkella from IIFL. Please go ahead.

AbhijitAkella If you could just give us the Microtek and KexVeg sales, EBIT for the first half?

Mithun Chand ForKexVeg is not been doing well because compared to previous year it has not done much and we don't have much activity in KexVeg. Compared to previous years even including Microtek most of our sales are in Andhra and Karnataka and these are the worst affected states across India in terms of the rainfall. And we are seeing a severe draught condition in these areas that is the reason even Microtekis not doing well this year. In KexVeg also we have planted some materials in that but the yields are much lower. So that is the reason we have seen a loss in both KexVeg and Microtek. So this year because of rainfall most of the other subsidiaries have also been in affected.

AbhijitAkella Possible to just give us the revenue numbers for Microtek.

Mithun Chand For the year it is around Rs. 10 crore.

AbhijitAkella First half?

Mithun Chand First half.And with a loss of 2.27 crore. And in this quarter we had some profit in Microtek of Rs. 12 lakhs but the main loss was in the first quarter, that is around Rs. 2.4 crore loss is there in the first quarter.

AbhijitAkella And by March what is the kind of cash balance you are projecting now, you are already at Rs. 300 crore and normally the cash would tend to increase I guess in the second half?

Mithun Chand It is a bit difficult to answer as of now because we do not see much of an advances coming from this cotton, usually we get a lot of advances from cotton in the month of December, January. But seeing the farmer condition and dealer condition we do not see good advances coming this year. So we need to see and I think ours. 400 crore should be a good balance because we need to pay something and outflows will be also there. I mean 400 crore of balance for year-end seems very good I think for us.

AbhijitAkella Understood and just to clarify all these write-offs that happens of the inventory all of that goes under cost of goods sold right?

Mithun Chand Yes.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question, I would now like to hand over the floor to Mr. Mithun Chand for his closing comments, over to you sir.

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

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

- ENDS -

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