

kaveri seed company limited



06th December 2018

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

Scrip Code: 532899

Scrip Code: KSCL

Dear Sirs,

**Sub: Transcript - Kaveri Seed Q2 & FY 2019 Results Conference
Call on Friday, 16th November 2018 - Reg.,**

Please find attached herewith Transcript of Kaveri Seed Company Limited Q2 & FY 2019 Results Conference Call made on Friday the 16th November, 2018. The same was displayed at our Company's website: www.kaveriseeds.in.

This is for your information and records.

Thanking you,

Yours faithfully,

For KAVERI SEED COMPANY LIMITED



C. Mithun Chand
C. MITHUN CHAND
WHOLE TIME DIRECTOR

Encls: a/a.

Regd. Office : # 513-B, 5th Floor, Minerva Complex, S.D. Road, Secunderabad - 500 003. Telangana, India
Tel : +91-40-2784 2398, 2784 2405 Fax : +91-40-2781 1237 e-mail : info@kaveriseeds.in
CIN : L01120AP1986PLC006728

www.kaveriseeds.in



Kaveri Seeds Company Limited

Q2 FY19 Earnings Conference Call

November 16, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Kaveri Seeds Company Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you, and over to you sir.

Gavin Desa: Thank you. Good afternoon, everyone and thank you for joining us on Kaveri Seeds Company Limited's H1 FY19 Earnings Call. We are joined today by Mr. Vijay Kumar -- the CFO.

Before we get started, I would like to point out that certain statements made or discussed on this 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 this call with "Opening Remarks from Mr. Vijay who will share Updates on the Market Environment and take you through the Strategic Initiatives of the Company, he will also share with you Performance of the Company during the Review Period." We will then have the forum open for an "Interactive Q&A Session."

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

G. Vijay Kumar: Thanks Gavin. Good day everyone and a very warm welcome to all of you. Post what has been a relatively muted quarter for the company, I would like to take you through some of the initiatives taken by the company in line with our overall business strategy. Our emphasis as many of you would be aware is on expanding both our Seed portfolio as well as our geographic presence thereby minimizing the



sensitivity to particular seasons and regions and making our business performance more robust. We have, as you know consistently been a predominantly strong Cotton Seed player in the South. Over the last three years we have extended our presence considerably and are now for the first-time leaders in the State of Gujarat in cotton besides having established a strong foothold in Maharashtra as well. We are now focused on expanding our presence to the northern states of Punjab, Haryana, and Rajasthan in cotton and have already identified offerings specific for the soil of these regions. In line with our thrust on expanding geographic presence, we are also focused on strengthening our international presence. As you know we have been exporting to Bangladesh for some time; we are now in the process of expanding our presence to eight other countries and we expect by FY'20-22 exports will contribute a considerable part to our business.

From a product mix perspective from being a company highly reliant on Cotton Seed sales, we are seeing an encouraging growth in contribution from non-cotton seeds like Paddy, Millets, Maize, and Vegetables and anticipate that contribution from these crops will gradually over the next three to four years be more than the cotton. This transition diversifies the profile of the revenue stream.

Supply chain is another area where we have made good strides. The setting up of large-scale cold storages at our facility now ensures much better storage of sales return and is expected to reduce wastage.

Other introductions like GMS technology are contributing to a reduction in cost of production. These initiatives are being driven by a strong leadership team which brings about 20-plus years of industry experience to the table. Although the cotton acreage has been lower due to Pink Bollworm and other factors like HT Cotton sold illegally and downward pricing, non-cotton performance has compensated for this drop as these crops are more profitable. Non-cotton hybrids are doing well in UP, Bihar and West Bengal.

Coming to our financial performance in Q2 FY19, while standalone revenues increased by 8.04% YoY to Rs.75.19 crore; EBITDA was down by 32.78% YoY to Rs.20.93 crore and PAT was down by 42.9% YoY to Rs.11.93 crore.

H1 FY19 revenues down 0.47% at Rs.657.08 crore, EBITDA down to 0.043% at Rs.241.27 crore and PAT down to 0.34% at Rs.222.51 crore. Other income was lower by Rs.3.34 crore as compared to corresponding quarter of the previous year in Q2 FY19. Lower other income in Q2 is largely due to varying maturities of investments. Rs. 3 crore inventory write-off also reflected in cost of production in Q2 FY19. Increase in other expenses of Rs.1.91 crore over the previous year in the corresponding quarter i.e. Q2 largely due to cost incurred towards completion of our buyback program whereas in the last year this was reflected in Q1.

Cotton volumes declined by about 12% in H1 FY19 and gained market share in Gujarat, Maharashtra, and northern markets. This is predominantly because of uncertain rains. The fear of Pink Bollworm also saw farmers go for smaller brands which had an aggressive pricing approach and hence small brands got sold more than leading brands this time. Small brands played aggressive pricing and margin to trade to clear inventories affected the cotton decline.



Non-cotton business has grown significantly by about 23% driven by volume growth in new hybrids and also price appreciation in a few products. Hybrid rice volumes increased by 27% in H1 FY19 helped by introduction of new hybrid 468 and doubling of government business. Further contribution of new products went up from 15% to 35% of volume. That shows our new products acceptance is very high in the market, that is giving a lot of confidence to us to achieve our new targets.

Selection Rice volumes grew by 31% in H1 FY19 with contribution of new products went up from 12% to 21%. We are sure that going forward also in the next three to five years this Hybrid Rice and Selection Rice growth will predominantly be strong and will be more than 25% YoY. In Maize, a new hybrid Drona scale-up done across markets with a good growth. Two new hybrids in Maize launched in this Kharif season. Drona performance is very good accelerated and acceptance is very high.

As on September 30, 2018, the company had total cash on books of Rs.427 crore. The company's strong balance sheet and cash flows enable us to reward the shareholders and that is also a part of our corporate philosophy.

In May 2018, our Board approved Rs.200 crore buyback program at Rs.675 per equity share, which was completed in September 2018 and that announced interim dividend of Rs.3 per equity share of face value of Rs.2 in our board meeting for this quarter.

Coming to the way forward, although the first half of the year has been difficult for cotton, we are already seeing a market share gain in Gujarat, Maharashtra north, expanding footprint outside Telangana, Andhra Pradesh and Karnataka. In non-cotton maize, new hybrid Drona scale-up was done across markets with a good growth. Two new hybrids in Maize launched in kharif season also will give lot of better results. Set of new products has been done across markets in Bajra in kharif and in hybrid rice new hybrids scale-up with tremendous growth across markets with more than 2x growth in 468 and 475. In Selection Rice, consistent performance across geographies and new product scale-up done with tremendous growth in Coastal King, Alto, and Shireen across markets.

I would like to reiterate that we have planned initiatives over the last few years and have been working towards that direction. This includes derisking our business model with more product lines, expanding into new geographies locally and also tapping the export markets. Our management commitment towards distribution of wealth to investors is always high and we will maintain the same spirit going forward.

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. We will take the first question from the line of Chetan Thakkar from ASK Investments. Please go ahead.



- Chetan Thakkar:** Sir, if I see your non-Cotton revenue, that has grown very well at 31% for the H1 this year but your OP for non-Cotton has grown by merely 2% while there are realization gain in hybrid rice and in Maize. So what is the reason for this that OP has not grown as much while your revenue has grown by 31% in non-Cotton?
- G Vijay Kumar:** The reason is hybrid paddy and paddy is doing well and maize is also doing well, but maize acreage has come down substantially in many parts only except Karnataka. The late rains have also affected the crop. We are hopeful maize will do well in the Rabi season.
- Chetan Thakkar:** I understand that, I just wanted to get a sense because we have sold 7,400 tons compared to 7,200 tons last year, increase in realization as well. But just wanted to get a sense why non-cotton margins have dropped – so is it a function of mix or is it that gross profit has dropped and this should be the new norm for non-cotton profit margin?
- G Vijay Kumar:** Non-cotton margins have not dropped, non-cotton margins are good. What happened is cotton margins have dropped to 7.5% because of the government's reduction in the price, that has affected the volume and margins, and overall margins have dropped.
- Chetan Thakkar:** No sir, that I understand. What I have done is I have assumed you would be making say Rs.140, 150 a packet on cotton at an OP level assuming that is a number closer to what it is, then I have tried to derive the balance sheet OP to the non-cotton, so there I do not see a growth. So just wanted to understand is my assumption of the cotton OP way of because of which I can see this or is there some compression that is there on the non-cotton profitability?
- G Vijay Kumar:** Last year, cotton cost of production also increased because of Pink Bollworm and unseasonal rain, that has affected around 8%, 9%, the recovery percentage has come down, so your assumption needs to be changed a little... in fact cotton contribution came down a bit whereas non-cotton contributions are pretty well.
- Chetan Thakkar:** So sir, on the non-cotton H1 this year to H1 last year, what would be the approximate operating profit then?
- G Vijay Kumar:** PBT is (+34%). For us depreciation is nominal and interest is not there, more or less same; depreciation is only 17-18 crore and interest is zero, almost nominal.
- Chetan Thakkar:** Sir, last year what was this number?
- G Vijay Kumar:** More or less same only. What happened is whatever the cost of production is increasing, we are also proportionately increasing the selling price. So that is how we are recovering the increase in cost and margins are being maintained.
- Chetan Thakkar:** But you would have increased the price proportionately also then the margin would look a little lower this year compared to last year mathematically so last year probably this margin should have been a little higher than 34 which is this year?
- G Vijay Kumar:** More or less same only. In the non-cotton, margins are not much difference, may be 1% or 0.5% here and there.



- Moderator:** Thank you. We will take the next question from the line of Nandan Vartak from Wealth Managers India. Please go ahead.
- Nandan Vartak:** So my question is on Cotton Seed business. So if you could tell me what has happened in key states for market and volume and value terms in industry and for company?
- G Vijay Kumar:** Cotton overall especially in South, the loss of volume has happened in most of the areas because of the Pink Bollworm, farmers moved to cheap brands and smaller brands, they got sold more this time. Small brands played an aggressive pricing to clear inventories. What happened is these people piled up stocks. Last year and this year, governments have conducted a lot of raids on them. To avoid that they are selling through one farmer to other farmer. That has dented the sales in South, especially in Telangana and Karnataka for our business though cotton volume has increased. We are very strong in AP, Telangana, and Karnataka and this has affected us. We gained our market in Gujarat, we are #1 this year and Maharashtra the overall market is down, proportionately we are also down. You are aware that in Rajasthan, Punjab and Haryana we are not present. Next year we are launching a couple of products which are focused on that region and market. Going forward, we are expecting good growth in those markets.
- Nandan Vartak:** So we have lost some market share in south due to this small company selling aggressively and pushing their inventory through farmer distribution chain, is that right?
- G Vijay Kumar:** Small brands most of them illegal and selling spurious seeds Though government is conducting lot of raids and there is a lot of education programmes, still farmers are tempted. That has affected all the companies in South.
- Nandan Vartak:** Second question is on employee cost. So if we look at employee cost percentage to net sales, that has been reduced to 13.5%.
- G Vijay Kumar:** That is because of the incentives whatever we give to the employees based on their performance has come down. Also a few employees have moved, so that is the reason the cost has come down. It will again come back to the normal level because going forward as performance improves incentives too will increase..
- Moderator:** Thank you. We will take the next question from the line of Shreyans Mehta from Shree Capital. Please go ahead.
- Shreyans Mehta:** I got two set of questions: First is about what you mentioned in answer to the first question about the government order or direction or regulation about price control of seed. Can you give some more color on that for better understanding?
- G Vijay Kumar:** This year in March the government gave a notification about the price reduction in cotton, compared to last year. From Rs.800, they have reduced it to Rs.740 and out of that royalty from Rs.49 to 39, there is a direct impact of Rs.50 on the company for the price reduction, though certain things were absorbed by the company through dealers and distributors, some effect was there on the cotton price reduction, that has also affected the top line. If you see vis-à-vis directly there is a straight Rs.60 reduction in the top line though we recover certain things in the



margins, that affected the top line. Second is as I told you small brands sold that affected the South business. These are the effects in the cotton.

Shreyans Mehta: This is specific to cotton seeds only. Is that right understanding?

G Vijay Kumar: This is only specific to cotton seeds and the Central Government of India has intervened in 2016 because of the royalty involvement and in order to control the price.

Shreyans Mehta: So is there a possibility that this is a secular and structural involvement of government and it is likely to happen over the next coming years as well so that there will be government interference from time and again to control the price in benefit of the farmer, is there a possibility that you look at?

G Vijay Kumar: All India Seeds Association also given a representations to the Government of India. wherein it explained that seed cost out of cost of production is only 4% to 8%, it is not a major cost compared to labor, fertilizers, pesticides and all. Hence anyt reduction of the seed price or controlling the seed price will only discourage the R&D in seed development that will not give any benefit. Now that we have given proper representation and proper clarity t hopefully going forward the government will not look to make further changes.

Shreyans Mehta: My second question is about the tax treatment of our income. As most of our income is treated or taken as the tax-exempt income, there were certain reports and I think it was in media as well that there is a contention, there is a dispute, there is a likely legal some litigation on this matter about our treating complete of most of the income tax exempt. What is the government view? Do we have presently anything which is going on in this matter in terms of any litigation between the income tax department and the company?

G Vijay Kumar: For our company, we do not have any litigation with any government departments. Up to financial year 2014-15 scrutiny is also completed and assessment is completed, and as on date we do not have any litigation with government.

Shreyans Mehta: We will continue to treat this income as completely tax-exempt income and there is no reason for changing that stand, is that what we are saying?

G Vijay Kumar: We are taking the land on lease and we are using our own foundation seed, producing, processing and selling, we are doing proper agricultural activities. It is not the question of stand, it is a question of activity.

Shreyans Mehta: This is exactly what was debated or disputed in some of the media reports that what we are claiming or what we are doing as against what the media is thinking of. So do we have any reason to worry about this or nothing at all?

G Vijay Kumar: Nothing to worry. Not only Kaveri Seeds, many multinational companies like Monsanto, Syngenta, Pioneer, Advanta, many companies... it is not right to name many private companies also, but I am saying that all have taken the stand and few of the companies cases are pending in Supreme Court for long time, they won in High Court, they won in Tribunals and, whoever is doing this activity like taking the land on lease, producing, processing and selling comes under agriculture.



- Moderator:** Thank you. We will take the next question from the line of Basant Patil from Mentor Capital. Please go ahead.
- Basant Patil:** Sir, what is the reason for actually significant fall in inventory which has come down; steep fall from Rs.434 crore to Rs.186 crore, comparing between March and September.
- G Vijay Kumar:** We cannot compare March and September because, March we will keep it ready the stocks for coming Kharif season. For us, Kharif is the biggest season for seed company, 70% business revenue will come from Kharif. Last year Kharif and Rabi products will be kept ready in March, that is the reason in any year March inventories will be high, September inventories will be low post Kharif. If you compare last year to this year, this has increased in fact. If you see March to September, you cannot compare because this is a seasonality business, we cannot compare quarter to quarter, same period last year we can compare, but this year actually we have Rs.186 crore inventory there, growth which we expect to be more than 20%.
- Basant Patil:** Can you share what is the advances given to the farmers particularly for the cotton seed sowing, for how many packets actually?
- G Vijay Kumar:** For more than 90 lakhs packets, we are expecting the inventory for next year.
- Basant Patil:** For 90 lakhs packets, we have already given the advances for sowing season?
- G Vijay Kumar:** The cultivation is completing and this year the arrivals have just started.
- Basant Patil:** Which is expected to sell it for the next kharif?
- G Vijay Kumar:** Correct.
- Basant Patil:** Is the understanding would be correct, we can maintain the volume growth going ahead if that kind of the volumes arrive particularly in cotton?
- G Vijay Kumar:** Next year, I can say that cotton will grow beyond 15%, non-cotton may be 20% to 25%.
- Moderator:** Thank you. We will take the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddha Joshi:** Sir, now this year monsoon has been relatively poor. So do you see this impacting our revenues in next year? Also this year we are seeing that despite increase in MSPs, many agri commodities are already still trading at below MSP prices and there is good amount of farmer distress as well. So do you see this impacting the seed offtake maybe in next year?
- G Vijay Kumar:** If you see the cotton point of view that is the most commercial crop and most of the farmers will buy. Commodity prices of cotton are highest ever post this MSP So we are expecting that cotton acreage and volume will increase, so we will also grow accordingly. Coming back to this year's monsoon, it affects only this year



production, and next year if the average monsoon is there and non-cotton and cotton will grow reasonably well.

Aniruddha Joshi: One data point; can you share the market shares in key crops at the end of September quarter? You generally give market shares, in this PPT I guess it was missing, so that is why.

G Vijay Kumar: Already given in the presentation and is uploaded; Cotton is 15% market share, Maize is around 11% and Rice and Paddy is around 9%.

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

Abhijit Akella: Just a couple of clarifications; one is the gross margins even if we adjust for this inventory write-off of Rs.3 crore for the quarter. Even then they seem to be quite significantly down from last year September quarter. Is this largely because of the increased cost of production of cotton as you had mentioned along with of course price reduction in cotton?

G Vijay Kumar: Abhijit, if you see the recovery percentage in '16-17 the recovery percentage is 75% to 76% whereas last year it is around 67% to 68% in cotton, this quarter we sold more than 3 lakhs packets and that has resulted in a cost of production increase, and also in other crops also 2% to 3% of the cost of production increased mainly due to the unseasonal rain in October 2017 continuously for 25-29 days that affected the output, that is the reason there is a slight increase in cost of production.

Abhijit Akella: For next year where do you see the cost of production?

G Vijay Kumar: As I said arrivals have started just now, we are seeing that in the cotton again we bounced back to 75% recovery, it looks like cost of production will be better in next year, there will be a reduction in cost of production.

Abhijit Akella: Second question is in terms of the outlook for the second half of this year. Obviously, Maize as you mentioned was weak in the first half because of poor crop prices and then there is delayed rainfall down South and I believe the Northeast monsoon also has not started very encouragingly. So how do you see the corn season shaping up in the second half?

G Vijay Kumar: Second half, we are expecting a 10% growth. What happened in maize is that some new pest has come about and that is discouraging the farmers and creating trouble. That is the reason we are seeing a 10% growth in the second half of this year for paddy and maize.

Abhijit Akella: This is fall army worm, is it not?

G Vijay Kumar: You are right.

Abhijit Akella: But the acreages themselves, you do not expect them to decline for Maize?



- G Vijay Kumar:** Kharif is affected by this fall army worm. However so there is a lot of demand because India is short of maize, so I do not think that there is a great decline will be there in maize acreage, but volume growth may be not much. For new products, we will do well.
- Moderator:** Thank you. We will take the next question from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.
- Karthikeyan VK:** Can you explain what further scope is there for improving realizations in the Corn Seeds business, YoY basis there is actually 25% increase in realizations?
- G Vijay Kumar:** Year-on-year we are also increasing the proportion of our supreme products of 3% to 4%, some of the products 5% we are increasing. After offsetting this increase in variable cost and other things, the rest will go to the margins.
- Karthikeyan VK:** So how much of this is because of single cross percentage increase in the overall portfolio and how much of this is price increase, can you give some perspective on that?
- G Vijay Kumar:** Price increase will be 3% to 4% average we can say, some are 2%, some are 5% and all based on the premium products and the volume has increased around 15%
- Moderator:** Thank you. We will take the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, in cotton, we said that we are expecting next year production to be about 9 million packets. So given that we have sold 6.2 million packets this year, are we not creating higher inventories for cotton as such?
- G Vijay Kumar:** These inventories are at very low levels for all the crops because of last two years growth and all and production is affected last year due to unseasonal rains. Now we need the inventory because that seed business sales returns will be between 15% to 20%, so we have to keep in mind those things, we need to pile up some inventory. So overall we will end up with 97 to 98 lakhs packets, so we are targeting around 72 to 73 lakhs sales, so we need to have that much inventory.
- Rohit Nagraj:** On the guidance front during the first quarter concall, we had indicated that full year we are expecting about 10% of revenue growth in FY19; however first half there have been relatively flattish, so what is your expectation from a full year perspective in terms of revenue growth and is it possible that anything would trickle down further to the bottom line?
- G Vijay Kumar:** H1 is the major half for us. In maize we are expecting that about 10% growth in Rabi. Overall per annum growth may be between 4% to 5% only.
- Rohit Nagraj:** Any guidance on the bottom line, would we be able to expand margins to some extent because in the second half some traction...?
- G Vijay Kumar:** Margins may be 2-3% higher than last year, not much increase, because some vegetable sales will increase.



- Moderator:** Thank you. We will take the next question from the line of Siddharth Shah from Solidarity Investment Managers. Please go ahead.
- Siddharth Shah:** Sir, my question was a little more industry broadly related. We have seen a lot of churn in the market leadership in the cotton segment and also two products like corn and rice currently has MNC market leaders in India. So I just want to understand what is the roadmap of the company going forward and how would if they try to gain market share be able to do that?
- G Vijay Kumar:** No MNC is market leader, only Indian companies are dominating. There is one amongst Rasi Seeds, Kaveri Seeds, Nuziveedu, Ajeet and Ankur. We have just come to the third level from fifth level. Whatever the products we introduced, they are all competing with MNCs. Very soon we can occupy the second spot. Paddy, hybrid and what is called varietal any Indian companies are only predominantly strong, we are #3 in that one. And coming to hybrid rice some of the multinationals are strong, but we are also #4 position, we believe that whatever the new products doing extremely well, we will grow, especially hybrid and selection rice next three to four years we will definitely grow minimum 25% year-on-year.
- Siddharth Shah:** Sir, my second question was would you be able to give us a split between what percentage of sales are in cash versus cheque or any other mode of payment?
- G Vijay Kumar:** We do not accept cash. Entire money is through the banking system, RTGS or cheques only. **Siddharth Shah:** Sir, I want to understand what is the quantum and amount of sales team need to do, three years ago when we shifted to IND AS, that got netted off from your revenues, but then what would be the kind of sales schemes that we run – would it be cash base or would they be product plus, just want to understand that?
- G Vijay Kumar:** Sales schemes will vary product-to-product, overall the schemes and discounts will vary between 17% to 20-21% between the cotton to non-cotton products.
- Siddharth Shah:** So are there discount in terms of money or do we give as products?
- G Vijay Kumar:** No, we give as credit notes.
- Moderator:** Thank you. We will take the next follow up question from the line of Chetan Thakkar from ASK Investments. Please go ahead.
- Chetan Thakkar:** Just one clarification based on what we discussed in the first point, if I look at that number, then is it fair to assume that OP from Cotton is still more than 50% for H1?
- G Vijay Kumar:** Yes, that is more than 50%.
- Chetan Thakkar:** Sir, on the rice market share you gave of 9%, that is for hybrid or that is all put together?
- G Vijay Kumar:** Put together.
- Chetan Thakkar:** Last question is on the volume growth in Hybrid Rice that has come this year which is very strong. So is it because of participating in the government schemes that has



happened or that is varietal largely and this is pure market sales and if so then from...?

G Vijay Kumar: Whatever the new hybrids we release, those are all doing well and government sales also contributed, both.

Chetan Thakkar: Which states have done really well to drive this growth?

G Vijay Kumar: Bihar, U.P., Jharkhand etc

Moderator: Thank you. We will take the next question from the line of Gauri Anand from Old Bridge Capital. Please go ahead.

Gauri Anand: Sir, I have three questions: One, could you give us a write-off in H1 of this year versus H1 of last year? The second question is there is a jump in current liabilities in the September quarter versus last year. Can you explain that? Third is if I look at last five September balance sheets, this September there is a significant inventory build-up. So is it only led by cotton or because the other crop volumes are also increasing, there is a fair mix between cotton and non-cotton?

G Vijay Kumar: This year first half write-offs are close to Rs.5 crore whereas compared to last year first half write-offs are almost Rs.15 crore, this is between H1 and H2, last year whole year write-off is Rs.17 crore.

Gauri Anand: Of that Rs.15 crore was charged off in the first half?

G Vijay Kumar: First half. Second is inventory pileup you just asked. Apart from cotton, for non-cotton also we need lot of inventories. We are expecting lot of growth next year. So overall inventory pileup is increasing. That is the reason you can see that there is a growth in inventory numbers. To your next question on trade liabilities, inventories are increasing, payables are increasing, we have to pay to the farmer, we have to pay towards fertilizers and all, lease/rentals all these have increased.

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

Abhijit Akella: The other income, what is your outlook from full year perspective now? You have done Rs.30 crore in the first half almost.

G Vijay Kumar: First half is almost Rs.29 to 30 crore, may be another 3 or 4 crore will be there, not much redemptions will be there, only for dividend purpose and all another Rs.2 crore you can add it.

Abhijit Akella: I just wanted to get your thoughts on a couple of issues in the HT cotton market One is you have already talked about this herbicide tolerant cotton and the fact that it is still remaining popular. So, if you could just quantify what percentage of the cotton market that still is in terms of percentage? And then second on Pink Bollworm issue, what are you seeing in terms of the situation on the ground – is it still leading to a significant damage to yield this year?



- G Vijay Kumar:** One is HT Cotton as you are aware especially in south, is almost 15% of the market size. There are small players taking that share and going forward maybe it will come down because government is not encouraging those things. So again private companies like us and also informing the government agencies about we are selling and all to curtail those sales. So this year based on information given by the various established branded companies, government is able to control certain percentage, maybe next year they may cut more percentage. So that is one point of the HT Cotton.
- In terms of Pink Bollworm, we are doing lot of workshops and education for the farmers apart from the government. We are spending good amount of money and we are doing lot of field level workshops recently post sales also. That is giving lot of education to the farmers to timely utilization of the states and volume and quantities and going forward that will curtail the Pink Bollworm substantially.
- Abhijit Akella:** In terms of severity of Pink Bollworm thing, how severe is it this season – is it as bad as last year or better?
- G Vijay Kumar:** Pink Bollworm is not coming in the entire area. Farmers on being educated are increasingly vigilant and using properly pesticides and curtailing the impact. This year compared to last year the impact is reasonable, a little bit of an increase is there in Maharashtra and some parts, but going forward, I think it will come down.
- Abhijit Akella:** The illegal cotton you mentioned is 15% of south sales. So in terms of packet volumes can we assume it somewhere around 5 million packets or so or is it even larger than that?
- G Vijay Kumar:** Yes, close to 5 million packets.
- Moderator:** Thank you. We will take the next follow up question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, one question on the vegetables front. We did about 6.5-7 crore in Q1. What was the run rate in Q2?
- G Vijay Kumar:** Normally vegetables sales is very high in third and fourth quarter in any company. 35% to 40% comes from H1 and (+60%) will come from Q2 and the second quarter is only close to Rs.3.5 crore.
- Rohit Nagraj:** So we will be doing somewhere like Rs.24-25 crore for the entire year?
- G Vijay Kumar:** Rs.25 crore is what we are targeting.
- Rohit Nagraj:** For next year also we are expecting maybe 75% kind of growth in vegetables seeds. So are we sufficiently equipped in terms of the vegetables seeds for next season?
- G Vijay Kumar:** Yes, vegetables seeds next year we are expecting Rs.40 crore business and we are sufficiently equipped with the inventory.



- Moderator:** Thank you. We will take the next question from the line of Arun Baid from BOB Capital. Please go ahead.
- Arun Baid:** My question was with regards to other expense. If you look in this first half of this year we have done Rs.76 crore of other expense and Rs.83 crore was last year in the first half. So if I adjust that Rs.1.9 crore you spoke about as buyback expenses, that would come down to about Rs.74 crore. So why the other expenses is down by about Rs.9 crore, a significant drop?
- G Vijay Kumar:** Other expense mostly consist of royalty. Last year the royalty price is more, that is the more expenditure.
- Arun Baid:** But royalty drop was just Rs.10 a packet sir. So if you do even that adjustments still the number is very-very high?
- G Vijay Kumar:** Royalty difference itself is 6-7 crore coming.
- Arun Baid:** But our sales has gone up and there is so much of spending on education, there is no increase in other expenses, sir? Actually sir below your gross profit, all your expenses are coming down, you mentioned that there were some people who left, but Rs.23.5 crore is down to Rs.21.7 crore, other expenses even if I adjust for that royalty and this Rs.2 crore is down significantly. So what I am trying to indicate is that we have been somehow able to reduce all the expenses below absolute number wise, not just percentage wise?
- G Vijay Kumar:** What happened, two things; one is employee cost as I said some of the incentives are curtailed because these are performance based incentives, those things will come back to next year Coming back to the other expenses, one is royalty part, second is in the past we used to use the outside cold storages for the purpose of the sales returns and all. We used to pay a lot of rentals. Now we have established our own in-house cold storages. Those rentals and all come down substantially.
- Arun Baid:** Sir, actually if we just look at cotton seeds sales which is down from 69 lakhs packets to 62 lakhs packets, so 7 lakh packets is lower and royalty was down just by Rs.10 as per government norms, right, so Rs.70 lakhs difference come from there?
- G Vijay Kumar:** You are seeing only volume reduction into Rs.10. Overall Rs.10 reduction also there. That means last year 69 lakhs packets Rs.10 more, that is Rs.7 crore. Total impact of royalty is close to 1.7 crore.
- Arun Baid:** Means Rs.83 crore to Rs.74 crore, so Rs.9 crore, I am just trying to understand, do we continue to see this trend of other expenses being very low even going ahead because that will lead to good margins for us in that case?
- G Vijay Kumar:** Deduction of Rs.9 crore I have already clarified Rs.7.7 crore, only Rs.1.3 crore reduction is there.
- Arun Baid:** So should we see this trend going ahead also, other expenses to be low only in the sense of the same region of this Rs.74-75 crore?



G Vijay Kumar: It all depends upon business increase. Business increases means some of the other workshops, say cost and all will increase, maybe the same trend of 5% here and there will be there.

Arun Baid: Sir, employee cost as you have told in the first Q1 concall will go up by 9-10% for the full year, so that should be the case or should we change that assumption sir?

G Vijay Kumar: That will be continued. Next year incentive also will increase.

Arun Baid: So this year we will not see any change in absolute number of employee cost, right, sir?

G Vijay Kumar: Not much.

Arun Baid: On the maize side, despite whatever you are seeing the issue on the ground, we are still expecting 10% growth. That is mainly because of price realization or is there some volume growth expected sir?

G Vijay Kumar: Volumes whereas our products are doing well and we are expecting 10% growth for our company.

Arun Baid: Next year we will see the same kind of growth from Maize, 10-15% growth?

G Vijay Kumar: Yes, Maize we are seeing more than 15%.

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

Nandan Vartak: So my question is on investment. So if we look at medium-term investment comprises 50% of total investment. So why are we not investing in accrual products rather than taking a duration call?

G Vijay Kumar: We know that certain amount we do not need immediately. That is the reason we are looking at some FMPs where fixed income will be there with good rating, AAA rating funds. We are investing half of the money around Rs.200-250 crore in three years period. Two advantages are there; one is returns will be certain, second is we will get indexation benefit, on income tax That is the reason we are doing like this. The second is whatever the money we needed for distribution to the investors and investment capital assets, we are investing in short-term category.

Moderator: Thank you. We will take the next question from the line of Basant Patil from Endure Capital. Please go ahead.

Basant Patil: The Rs.30-40 crore what you have mentioned, that is largely for what kind of investments?

G Vijay Kumar: Some lines we will increase and some lines will be replaced and cold storage facilities will be increased and we also purchased land recently in the first quarter, you must be aware, we want to build our new corporate office.



- Basant Patil:** So this is Rs.30-40 crore is for the FY'19. So next two years would this kind of run rate will continue?
- G Vijay Kumar:** Yes, that is the maximum run rate will continue for next three, four years.
- Basant Patil:** We were looking for some R&D company to acquire particularly for the seeds segment. Is there any kind of development?
- G Vijay Kumar:** We have been looking for some strategic acquisition but as on date we have not received any good proposal.
- Basant Patil:** But we are keen on the strategy?
- G Vijay Kumar:** We are evaluating.
- Basant Patil:** Particularly whatever we have cotton seed packets sales return we get back from the dealers, so how do we account that in H1 largely?
- G Vijay Kumar:** We will again test it and whatever inventory passes the quality test will be included in the finished goods and whatever inventory is not through with the quality, we will write off.
- Basant Patil:** So largely which we are not viable to sell the goods so that is the write-offs'?
- G Vijay Kumar:** The seeds are expired or in the sales returns any goods are not through the quality check, we will write-off.
- Basant Patil:** So for the first half, what is the percentage of sales return if you compare with the sales?
- G Vijay Kumar:** The sales returns are close to 16-17%.
- Basant Patil:** So is that higher compared to last year?
- G Vijay Kumar:** Industry benchmark is around 20-21%. We are doing well. Even our own industry compared to last three years we are expecting the sales returns and all, that will give a mileage and all, reducing the inventory write-offs and all. So as soon as the season is over, we are expediting and ensuring that sales return should be completed in a limited period.
- Moderator:** Thank you. We will take the last question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** On the international front, you mentioned that we have done registrations across nine countries. So what is the status of the same and what kind of traction do you expect in the next couple of years from these newer geographies?
- G Vijay Kumar:** We are expecting some of the approvals in January-February from Bangladesh and Pakistan. For a few other countries it will be over next two years because of the approval process - we have to cultivate under their regulatory authority two



times and then they will give the approval. So next two to three years we are expecting some 8-9 countries approvals from certain vegetable seeds, maize and paddy and expecting that down the line by FY2022 we will do some reasonable export sales compared to overall sales.

Rohit Nagraj: What was the exports number probably for FY'18?

G Vijay Kumar: FY'18 around Rs.20 crore, by FY'22 we are expecting that we will cross Rs.60-70 crore.

Moderator: Thank you. Ladies and gentlemen, I now hand the conference over to the management for their closing comments. Over to you, sir.

G Vijay Kumar: It has been a pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We value your continued interest and support. If you have any further questions or would like to know more about the company, kindly reach our investor relations desk. Thank you very much.

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

