



NATH SEEDS®

Nath Bio-Genes (I) Ltd.

(CIN L01110MH1993PLC072842)

07th November 2019

The Manager-Listing
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400001

The Manager-Listing
National Stock Exchange of India Ltd.,
Exchange Plaza, Bandra-Kurla Complex
Bandra (E)
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BSE Code-537291

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Subject- Transcript of Conference Call with the Investors/ Analysts.

Dear Sir/Madam,

The Company had organized a conference call with the Investors/Analysts on 04th November, 2019 post declaration of its Unaudited Standalone Financial Results for the quarter and half year ended 30th September 2019. A copy of transcript of conference call held with Investors/Analysts is enclosed herewith and the same being uploaded on Company's website.

We request you to please take the above on record

Thanking You

For Nath Bio-Genes (India) Limited

Dhiraj Rathi
Company Secretary

Transcript

Conference Call of Nath Bio Genes – H1FY20

Event Date / Time : **4th Nov 2019 at 11 AM**

Event Duration : **33 min 11 sec**

Presentation Session

Hanila: Good morning, Ladies and Gentlemen. I am Hanila, moderator for the conference call today. Welcome to Nath Bio-Genes (I) Ltd., Q2 and H1 FY 20 earnings call. We have with us today Mr. Devinder Khurana, CFO and Mr. Madhav Dhande, Head of Marketing for the company. At this moment all participants are in listen only mode. Later, we will conduct the question and answer session. At that time if you have a question, please press star and 1 on your telephone keypad. Please note this conference is recorded. I now would like to handover the floor to Ms. Tanya Khosla. Thank you and over to you Ma'am.

Tanya Khosla: Thank you Hanila. Good morning everybody and welcome to the Nath Bio-Genes (I) Ltd.'s earnings call to discuss the Q2 and H1FY20 results. We have on the call Mr. Devinder Khurana, CFO and Mr. Madhav Dhande, Head of Marketing and Business Lead. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces. May I now request Mr. Devinder Khurana take us through the company's business outlook and financial highlights. Subsequent to which we will open the floor for Q & A. Thank you, Sir. Over to you.

Devinder Khurana: Yeah. Good morning everyone. I thank you and welcome everyone attending the con-call today. I am sure you have had a look through our results and the presentation which has been put on the exchanges and of course I would like to now address as such. I am happy to announce that Nath Bio-Genes (I) Ltd. has once again posted good results in the first half of financial year '20.

This has been despite several climatic disruptions, initially the monsoon got delayed by almost a month plus then the monsoon season got elongated with heavy rainfalls being witnessed even right up in the month of October. All in all, the company has sold a total of 1.1 million cotton packets and around 53,000 quintals of Paddy seeds in H1 FY 20. This is like completing almost about 85 to 90% of the volume guidance for the full year. As you are already aware, cotton and paddy are the key growth drivers for H1, while vegetable and our plant nutrient supplement Win-Chi-Win will drive the growth in the second half.

For the first time our company has been able to sell almost 14,500 liters of Win-Chi-Win in the first half also, which is like completing almost about 25% of the full year guidance. Driven by our superior product offerings and ramped up distribution efforts, our company saw a 23% increment in H1 revenues over the last year with the gross margins remaining intact between 50 to 52%. I will always reiterate, please compare the performance of the company on H-basis, because at this juncture the provisions are minimal. Operational efficiencies have allowed us to post a 29% growth in EBITDA and

30% plus growth in PAT as well. EBITDA margins remain strong at 23% while the PAT margins have improved to 20% plus in H1 FY 20.

Our working capital levels remain manageable. Delayed monsoon lead to a higher rate of receivables as the sales were pushed out, but we expect them to fall back to normal within a month or so. We continue to maintain our guidance of nil long-term debt and reiterate our revenue target for FY 20 of INR 280 to 310 Crores.

In terms of specific product verticals cotton contributed to around 43% of H1, with key states like Maharashtra, Gujarat and Karnataka. Our main products NBC 102, 1022, 1111, 1103 have been ranked at first to third in the ICAR trials for two consecutive years and they are performing well. The farmers have accepted them widely across the Central and South regions. Pipeline variants of cotton like NBC 1821, 1851, 181, have already completed the first year of ICAR trials and will be ready for commercialization in a year or two. We expect the current rate of ramp up in cotton volumes to continue for the next few years, driven by our top line products and improved distribution.

Paddy contributed to around 44% of our H1 revenue and continues to be a strong source of revenue for the company. Nath Bio-Genes has many brands under its paddy portfolio like Loknath, Gorakhnath, Super Duper, Tehelka, Kabir, Gazab, Ford, Nath Mamra and so on. We are constantly testing and researching new products under the paddy portfolio, current focus is on introducing products specifically for new geographies like UP, Chhattisgarh, Jharkhand and Bihar.

Coming to our planning for the upcoming Rabi season. Due to the delays and elongated monsoon season, India's water table has risen significantly and thus we are expecting a strong Rabi crop across the country. As mentioned earlier, we have constituted a separate vertical for the higher gross margin business of vegetable seeds: a specialized Sales Team to be headed by a highly experienced lead Mr. Ravikumar. In fact, since Mr. Ravikumar's appointment in May 2019, we have already undertaken two price hikes and we are aiming at atleast 25% sales growth over the next few years in vegetables. Focus will continue to remain on crops like Okra, Tomato, Chilly, Brinjal, Gourds and Cucumber. We have high yielding product varieties in each with good acceptability amongst the Indian farmers.

I am happy to announce that Mr. Dhande's marketing efforts are paying off in Win-Chi-Win vertical as well. As I mentioned before, he has already been able to sell around 25% of this year's guidance in Win-Chi-Win in H1 only and we expect that the trend will continue. For the ease of farmers, Nath Bio-Genes has introduced new SKUs for Win-Chi-Win as well as a separate kit for one-acre land as a tiffin dose. We are hopeful of strong growth in this segment due to gradual shift to organic farming in India. We expect to benefit from having in place a long-term agreement as a sole seller of Win-Chi-Win in the country.

With this I would like to conclude my remarks and open the floor for questions. Thank you. Thank you very much.

Hanila: Thank you Sir. Ladies and Gentlemen, we will now begin the question and answer session. If you have a question, please press star and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to

withdraw your request, you may do so by pressing star and 1 again. We have the first question from Raghav Kabra from Excel Investments. Please go ahead.

Raghav Kabra: Hello.

Devinder Khurana: Yes, please.

Raghav Kabra: Yeah. I had a couple questions. The first one is related to our top line. We have done 187 crores in first half of this financial year itself. So, for the remaining, i.e. second half how much can we expect and what would be our strategy for the same to achieve the same?

Devinder Khurana: I think I have covered this in my opening remarks. I will take it up again. We expect to maintain our annual guidance of around INR 280 to 310 crores. Let us say, 300. So, Rabi crop in vegetable, in Win-Chi-Win, part of maize, part of paddy should be able to allow us to reach our expected target for the year.

Raghav Kabra: Okay. So, in terms of paddy sales we have sold 53,000 quintals so far, i.e. around 85% of this financial year guidance. So, what can we expect for the second half of the year?

Devinder Khurana: Paddy may be around 15 to 20 thousand quintals more.

Raghav Kabra: Okay, and lastly, I wanted to ask one question to Mr. Dhande. What is our broad game plan for increasing distribution, like what new geographies are we targeting?

Madhav Dhande: Yes. Raghav, good morning.

Raghav Kabra: Yeah, good morning.

Madhav Dhande: Are you hearing me?

Raghav Kabra: Yeah, Yeah, I am, yeah.

Madhav Dhande: Okay, okay. So, see, at present we have a pan India presence. So, there is no possibility of expansion of this area or that area but certainly untouched areas of the particular states, we are trying to cover very effectively and for that we are implementing the D4 model of the business.

For example, we take cotton. So, cotton is our main portfolio aggregating almost 40% of the business. Organization is growing very fast, so we have to get strong volume growth. For that, we have identified all over the country 217 key distributors, those who are good for us. They are having potential of almost 125 lakh packets that means almost 30% of the total potential. They are the distributors who will be paired with one individual officer who will provide the services to his sub-dealer and the villages. That is the model we are implementing which will result into assured sales, good trade push, loyalty, and the control on the sales return and accordingly from 11 lakh packets or 12 lakh packets of this year, we are planning to sell in between 20 to 22 lakh packet in the financial year 20.

Similarly, we did for the paddy also. So, we have strengthened our distribution network by implementing D4 model and providing them with staff and the second thing is monitoring of their activities of course, and the second thing is covering the untouched pocket. Suppose in Gujarat, Kheda is a district which we were not covering for Nath Poha but now we are going very aggressive in that area. There any many other areas where our paddy sales were very less, now we are covering them. That is the untouched area. Okay?

Raghav Kabra: Okay, yeah, that's all from my side. Thank you, Sir.

Hanila: Thank you Sir. The next question comes from Parthiv Jhonsa from NVS Wealth Managers. Please go ahead.

Parthiv Jhonsa: Yeah, hi, good morning. Hello.

Devinder Khurana: Good morning boss.

Parthiv Jhonsa: Sir, I have got a couple of questions. The first question is based for your, you know, receivable days and payable days. If you see from the presentation, the gap on the receivable and payable days have gradually been increasing year on year. What is the reason, like can you just tell the reason for the same?

Devinder Khurana: This question keeps popping again and again and I actually appreciate the concern of the market that the working capital position of the company is definitely stretched. Right?

Parthiv Jhonsa: Yeah, it can be seen, yeah.

Devinder Khurana: The reason is very simple. We are growing at a decent pace. When I grow at a decent pace, I am trying to currently grow from my internal accruals without falling back to the market for further funding.

Parthiv Jhonsa: Okay.

Devinder Khurana: As a result, I am expanding the days because I need to go into untapped market, I need to go into areas which have not been done before. I have taken up three verticals in the company with each distributor having three different accounts for three different verticals because we want to increase the growth in all the three verticals. That also results in my spreading of the days across the verticals.

Parthiv Jhonsa: Okay.

Devinder Khurana: The same thing also happens with inventory. I want to make my presence with almost about 2500-3000 distributors. My goods have to be spread all over the country. So, as a result my inventory is also spread. Lastly, as far the latter is concerned when you people calculate, you start calculating based on my days of this year, it is actually meant for next year also and I place my goods well in time, whereas the distributors starts counting only once the rain begins& sowing starts. So, there is a natural overlap of extended later period, but now let me put this to rest by saying that the working capital position of the company is well within our control, well manageable and

we are constantly improving upon it to ensure that our sales top line as well as the bottom line does not get affected.

Parthiv Jhonsa: Okay. My next question is based on the balance sheet. You have given certain 108 crore rupees of loans which is under current assets, can you just guide me like, you know, which party you have given the loan or what totals we lent for?

Devinder Khurana: Yes. Now what happens is in the seed industry, in order to take up seed production, we have to give advances to my organizer and farmers and growers. It is a well known fact that in India, land is of premium quality. It is not readily available, and everybody is vying to same farmer to lease land. So today I have to give advance just to book the land for my production for the coming season.

Parthiv Jhonsa: Okay.

Devinder Khurana: So, these are technically not loans, they are operational advances given to the organizers, to the farmers and the growers who are taking up production on behalf of the company. These advances will result into purchases and they will get booked as purchases and that will be adjusted against the creditors that get developed. In the meantime, the new advances will go into the market.

Parthiv Jhonsa: Okay. My next question is based on your auditor's report which is like point number 5A, basis for qualified opinion, under which you know, there are certain intercorporate loan advances, where no interests have been charged. Is it the same pertaining to the previous one or is it something else?

Devinder Khurana: See, if you have gone through my balance sheet and if you have gone through the advances, it's basically a part of that. IND-AS 186 is getting implemented very strictly, so we also plan to implement it accordingly. So, this issue is being addressed to and by the time we come back to you, this would have been taken care of.

Parthiv Jhonsa: Okay. My next question is based on your plant and machinery. If you see plant and machinery stands at around ~ 220 odd crores with FY 19 top line of 230 crores. When I start comparing your plant and machinery to the top line with you know, the peers, I don't want to name, but we are heavily relied on plant and machinery. What is the reason to you know, put so much of investment behind plant and machinery as compared to your investors who also in the same line of business who are putting like about good 20-25% of their top line behind this particular head in the balance sheet.

Devinder Khurana: I think you will have to go through my fixed asset schedule again. You will find that what you are mentioning 230 crores on plant and machinery is actually not plant and machinery, it is land mostly.

Parthiv Jhonsa: Okay.

Devinder Khurana: Our plant and machinery is not even 1-2 crores.

Parthiv Jhonsa: Okay.

Devinder Khurana: If you remove the land, and I will explain land separately, you will find that your observation automatically get answered. I am much better than my peers because as a company we do not maintain investing in capital assets, except land.

Parthiv Jhonsa: Okay.

Devinder Khurana: And in any case the company always requires land because all our research which is of genetic variety by the company and our feeder seed production which we want to keep it in-house, takes place on the lands which are generally owned by the company, so that there is no quality depletion in these areas.

Parthiv Jhonsa: Okay, okay, got it Sir, and my last question is your employee cost has been you know, reduced over year on year and your selling and distribution or the admin cost has gone up. Can you just give me some kind of reason for the shift?

Devinder Khurana: In H1 our selling schemes or the selling process has gone up from 19 to around 22%. The reason is that the products that are being floated into the market have to be given the kind of visibility that they deserve.

Parthiv Jhonsa: Okay.

Devinder Khurana: So, we have to do farm days, jeep campaigns, demonstrations, etc to showcase to people what our product is. It is cheaper than putting advertisement in the newspaper or going via TV because not many many people go through that. It's a very costly affair. So, Mr. Dhande has been spending these monies on the field to ensure that the visibility of the product increases. Hence the cost is going up, which is manageable again within the current margins. As far as employees to sales is concerned, sales are going up constantly year after year. I don't need to increase my marketing force or the employee force to that extent, so automatically the employee cost as a percentage to sales is going to be reducing.

Parthiv Jhonsa: Okay and Sir why no dividend to the investor?

Devinder Khurana: This issue has been popping up. We have put it across to the board & will come out with a solution soon.

Parthiv Jhonsa: Because that will give a lot of confidence I mean, if you start declaring or if you start awarding the shareholders...

Devinder Khurana: I fully appreciate that. The issue was put up again in this board meeting also. It is being actively considered. We will come back to you on this.

Parthiv Jhonsa: Okay, okay, thank you so much Sir. Best of luck.

Hanila: Thank you Sir. The next question comes from Mr. Rohit Nagraj, from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Hi, good morning sir and wish you a belated Happy Diwali.

Devinder Khurana: Thank you very much.

Rohit Nagraj: Yeah. Sir, we have done about 185 crores this first half and we have reiterated our guidance of around 280 to 310 crores. So, we will be making about say 50-55 crores reach in the next couple of quarters. So, which all are the crops that we are confident of that will be able to achieve these kinds of numbers for the second half?

Devinder Khurana: Rohit, we are trying to maintain that. Lot of effort is being put into that direction. Let's hope that goes through....

Rohit Nagraj: Right but given that the reservoirs levels are higher and now the water availability is good, so what is our strength in terms of which crops will be more you know, beneficial from the reservoir point of view. I mean, our confidence is based on, maybe one month has gone. So, any feelers that you have got from the market?

Devinder Khurana: As I said for second half in Rabi, we are banking upon vegetable seed with the new vertical, new team. We are banking upon Win Chi Win. We are also banking upon partly paddy, partly maize and of course mustard and wheat.

Rohit Nagraj: Okay. Okay, so it will be a overall growth across the product category. So, it will not be concentrated into a particular crop or...

Devinder Khurana: The cotton won't go in the second half, right? Bajra won't go, maybe jowar won't go but the vegetable crops, bit of paddy, maize, win chi win will sell well. So, let's hope that we will be able to maintain our guidance. Let's pray for that and work for that.

Rohit Nagraj: Right, right. And Sir, since there was unseasonal rainfall during the month of September as well as October, have you seen anything on the ground level in terms of damage to the crops and that may have implications on probably receivables or some stress in the next half or putting up you know, new crops also?

Madhav Dhande: Mr. Nagraj, myself Dhande. I can answer this question. We've seen this prolonged drench and still there is a possibility of rains in certain parts of central and western India. So, certainly, crops which are at the harvest stage might see damages; could be 10%, 15%, 20% but farmer will harvest crop eventually. Only thing is that harvesting will get delayed. Thus, cash flow will get delayed. That is one thing. It may affect the position of the receivables days again. The second thing is because in every part of the country, it has rained 10-15% extra, it has aided the water table i.e. soil is full of water. So, every inch of soil in India can come under the second crop or even the third crop cycle. So, it is going to benefit the agriculture economy, farmers economy, farmers can go for multiple crops and ultimately the farmers will get benefitted. This is a temporary delay & certain damages are there and that is why there is a hue and cry; mostly it's of a political nature. But it is going to help the agriculture industry to a very large extent, particularly for the vegetables & for the nutrition. Fertilizer sales may boost up, which is a win-win situation for agriculture for this year and I am expecting for the next Kharif season also.

Rohit Nagraj: Okay. And Sir in the initial commentary you said win chi win sales were about 14,500 liters and that is about 25% of the yearly target that we have set up. Is that the number, which is correct?

Madhav Dhande: Yeah, yeah, 25% of the targets we have achieved. Normally it should be 10-15% but this time we did well in cotton, cotton crop was good and that is why it has reached to 25%. Now real season will start, because the Rabi crop is affected by frost and for that win chi win is a better product, for vegetable it is a best product.

Rohit Nagraj: Right, right. And third is last bookkeeping question. First quarter we had 1,14,600 odd packets of cotton. What is the same number for second half and the revenue? Similarly, for paddy...

Madhav Dhande: Cotton is the only June sowing crop, normally all over the country. Some places it is early also, little bit early. Now only in South, there is a little bit, you can say 95% of the cotton season gets over by August.

Rohit Nagraj: Correct.

Devinder Khurana: And only 5% or 10% remains in the balance part. So, from there we are expecting 50,000 packets also.

Rohit Nagraj: Yes, yes, yes, that's what I am saying. The H1 performance in terms of cotton and paddy, just bifurcation that's it.

Devinder Khurana: You are talking quarterly bifurcation?

Rohit Nagraj: No, no, just H1. If you can give me the consolidated numbers for cotton, paddy etc in H1FY20.

Devinder Khurana: H1 I have touched it. We have already crossed 1.1 million in cotton.

Rohit Nagraj: Right.

Devinder Khurana: Which is around 43% of the top line.

Rohit Nagraj: Okay, if you can give me the exact number of revenue, if it's possible, if it's handy?

Devinder Khurana: We can do that. It will be around 79-80 crores.

Rohit Nagraj: Okay, fair enough.

Devinder Khurana: Yeah, it's around 80 crores. Okay?

Rohit Nagraj: Okay.

Devinder Khurana: And paddy is around 65.

- Rohit Nagraj:** Okay.
- Devinder Khurana:** And balance is of other forms.
- Rohit Nagraj:** Okay, fair enough Sir. Thank you so much and best of luck.
- Devinder Khurana:** Welcome.
- Hanila:** Thank you Sir. The next question comes from Mr. Anirudh Agarwal from AAA Investments. Please go ahead.
- Anirudh Agarwal:** Yeah, hi Sir, thanks for the opportunity. My first question was on the cotton seeds return. So how has the seeds return, it has been so low in this year, relative to the performance that you had in the last 2-3 years?
- Devinder Khurana:** I had provisioned 21% of the sales return in Q1, hoping that the market will support. In Cotton, I am happy to tell you that the cotton sales return has only been around 11%, as compared to our provision of 21% in first quarter which has given me a boost of around 1 lakh packets plus.
- Anirudh Agarwal:** Okay.
- Devinder Khurana:** On an average you can work out separately, but cotton had given me better boost to the topline, so the products are genuinely well accepted and as far as the other crops are concerned, we are almost about 25% which is normal.
- Anirudh Agarwal:** Right. Okay, but in terms of cotton, I mean all the sales return which were to come in, would have come in by end of Q2, right? And there would be no slipover of returns in Q3 or Q4.
- Devinder Khurana:** No, that hold true for almost everything.
- Anirudh Agarwal:** Right. Okay. Thank you, that's it from my side.
- Hanila:** Thank you Sir. Ladies and Gentlemen, if you have any question, please press star and 1 on your telephone keypad. I repeat, if you have any question, please press star and 1 on your telephone keypad. We have the next question from Mr. Himanshu Pant, an individual investor. Please go ahead.
- Himanshu Pant:** Hi, good morning Mr. Khurana and Mr. Dhande and team and I want to congratulate you on your lowest sales return of 11%, when you were anticipating around 21% in your last conference call. So, Sir, and one thing I would like to know about when we are anticipating any sales in Philippines and Sudan. It is going for so long. So, when we can expect to have a good return for the investor?
- Devinder Khurana:** Let's retouch it. I have touched it in the last conference call also. Philippines like I told you last time, we have nothing that we can do now at this stage. All of the stakes, all test, all trials everything, everything is already done. We are standing at the mouth of the deal completion. We are only awaiting the government approval. It is still pending at the Presidential level in the ministry of Philippines, the government of Philippines and nobody at this juncture can intervene. We are only

hoping, because we are the only cotton business in that country. They genuinely want to do it, but it is stuck at the political levels. We will wait.

As far as Sudan is concerned, I have made a statement that we have already made forays into our cotton seeds which have been planted in Sudan in this season & we are expecting the results by about January-February. I am sure they will come out well because the trials had been good last year. After that, cotton sales to Sudan and subsequently other African nations will commence. Apart from that let me also tell the forum that we are also venturing into trials of vegetables in Sudan that is tomato and okra. If that goes through, maybe we will start selling from next year onwards. Volumes are not predictable; it will depend upon the demand and supply condition at that particular time.

Lastly, now that we are touching exports, we have also started making forays into Myanmar, which is also a good area to venture into. We have started sending crops for trials there. If they go through, maybe next year, this time I should be telling you that Myanmar is also added to our list of export destinations.

Himanshu Pant: Alright Sir. Best of luck Sir.

Devinder Khurana: Thank you very much.

Hanila: There are no further questions. I now would like to handover the floor to Mr. Khurana for closing comments. Over to you Sir.

Devinder Khurana: Okay. Let me thank you again, all of you. It was quite good and a very pointed and good set of questions. I am happy that the interest in the investor and the analyst community for the company is growing. We feel challenged. We love the challenges and we expect to come back to your expectations. See you after the next results. Thank you, Thank you very much.

Hanila: Thank you Sir. Ladies and Gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may all disconnect your lines now. Thank you and have a wonderful day everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.