

kaveri seed company limited



7th March 2016

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Dear Sir,

*Sub : Transcript : Kaveri Seed Q3 & FY 2016 Result Conference Call on
5th February 2016 - Reg.*

Please find attached herewith Transcript of Kaveri Seed Company Limited Q3 & FY 2016 Result Conference Call made on 5th February 2016. 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

Q3 FY16 Earnings Conference Call Transcript

February 05, 2016

Moderator	<p>Ladies and gentlemen good day and welcome to the Kaveri Seeds Q3 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.</p>
Vikram Rajput	<p>Thank you. 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.</p> <p>I trust you would have acquainted yourself with the highlights of the Company's Q3 FY16 results as shared in the presentation.</p> <p>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.</p> <p>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.</p> <p>Now, I would like to invite Mr. Chand to share his views.</p>
Mithun Chand	<p>I will start giving you the industry backdrop and then spend some time on our performance.</p> <p>FY16 continues to be a challenging year for the seed industry, the reasons for which I have shared on the earlier calls. Deficient monsoons impacted the Kharif season significantly, and the Rabi season has also had its share of challenges. This has 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.</p>

The percentage of returns also has been higher than anticipated. During the quarter, pest issues surfaced with the whitefly and pink bollworm impacting cotton crops in some states. Further, there is a liquidity crunch with farmers trading-down, commodity prices decreasing, inventories & receivables increasing. The silver lining this year is the Central Government's decision to regulate seed prices and royalty amount from FY17 onwards. This reduces uncertainty and improves business visibility for all seed companies.

Against this backdrop in Q3 financial year 16 the company has reported revenues of Rs. 91.9 crore with an EBITDA of Rs. 12.9 crore and a PAT of Rs. 9.2 crore. Revenue performance was moderated due to lower maize as well as cotton acreages, higher than expected returns, higher proportion of lint sales in this quarter. Profitability impacted by higher depreciation and provision of doubtful debts. Depreciation increased on account of new infrastructure which was commissioned in Q4 financial year 15. We also have changed the policy of provision of doubtful debts from three years to two years this year.

In terms of the volumes, for the nine months' financial year 16 we have sold 55 lakhs packets in cotton as against close to 85 lakhs last year in the corresponding nine months. During the quarter cotton acreages were lower in the Tamil Nadu. On a nine months basis cotton volumes moderated due to low acreages in Rayalseema and Karnataka, which are Kaveri strong holds and where we have more than 60% market shares and a limited participation in credit markets. And we have increased the market share in markets of MP, Gujarat and Maharashtra. Sub normal monsoon impacted maize with volumes at 8,730 tons against 10,890 tons last year. The maize acreages were lower in Andhra Pradesh, Karnataka and slightly lower in Bihar than anticipated. In terms of the revenues it is Rs. 148 crore this year compared to Rs. 166 crore last year. Meanwhile, hybrid rice reported volumes of close to 2,000 tons against 1,500 tons for the nine months last year.

I am pleased to share working capital management continues to remain strong and there is notable improvement in debtor levels. Debtors stood at Rs. 138.62 crore as on 31 Dec 2015 as against Rs. 229.8 crore on 31 Dec 2014.

To conclude, FY16 has been a challenging year on several fronts. We believe the sector has bottomed out and the medium to long term prospects remain robust. We are confident of delivering 20 - 25 % growth going forward. Strategy is in place to effect market share gains in Maharashtra, Gujarat and MP; and recapture market share in markets of Andhra, Telangana and Karnataka. Most of you are aware, a blockbuster product safeguards long-term growth for a seed Company. The success of our established products like Jadoo, ATM, etc. has already safeguarded growth for the Company from a 3-5 year perspective. On the non-cotton side, we have developed a sizeable and well diversified farmer centric portfolio which has been progressively gaining prominence in the marketplace.

To sum up, Kaveri Seeds is on an extremely firm footing both operationally and financially. We have progressively strengthened our moat and are best placed to capture the sector tailwinds expected going forward. 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. Our eyes are set on effecting 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. We will now begin with the question and answer session. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.
MukeshSaraf	Sir, first thing, could you just give some sense on what are the steps that you are taking like you have mentioned that you are going to step up activities in some states, so what are these steps? Is it just going back to selling on credit and if yes, so last year you did restrict selling on credit, so this year what gives you the confidence of going back and selling on credit?
Mithun Chand	Basically when you talk about the credit market, the credit markets are very much limited to some specific parts, especially, like Telangana. But the promotional activities what we are doing, like educating farmers in terms of the product performance, the field activities what we do when the crop is there, when compared to the competitors. So we are doing a lot of field promotion activities when we show our performance and then create a demand for it. So those type of activities we are aggressively participating in and definitely we will participate in the credit market also and we will be somewhat lenient in giving some time for the cash payment. We started the season with high debtors so we had taken a decision of not giving on credit but this time we have collected most of the money. So we will definitely participate in those markets as well.
MukeshSaraf	Sir, just continuing on that this year you stopped or you restricted sales on credit but other companies did go ahead and sell a lot on credit. So could you give us some sense on what has happened to those companies that have sold a lot on credit? Have they faced significant now financial crunch and so would your competition?
Mithun Chand	Yes, most of them have extended credit and now they are facing severe issues in collecting the money from the market. As you are all aware that the commodity prices are down and even the yields are lower than anticipated. So this is a tight situation for those who have extended credit. And it will take some more time for them to recover from this thing.
Moderator	Thank you, sir. We will move to the next question which is from the line of Abhijit Akella from IIFL. Please go ahead.
AbhijitAkella	First, if you could just help us understand the margin movement so the reasons for the compression in margin. If you could just break it down into how much was seed revenue, how much is the gross margin on the seed and then how the overheads have moved?
Mithun Chand	<p>If you compare on a quarter-on-quarter basis this year we had done Rs. 73 crore on a standalone basis against Rs. 83 crore last year. Out of this Rs. 73 crore, Rs. 13 crore is the sale which has come from the sale of lint. We take a production we get lint so that is not actual sale. If you see the actual commercial seed sale is only Rs. 60 crore against last year Rs. 80 crore of commercial sale. What I mean is to say is that out of Rs. 83 crore last quarter, only Rs. 3 crore was sales from lint and Rs. 80 crore from the sales from the commercial seed.</p> <p>If you take these two, in terms of the cost of goods, the consumption is only 28.19% compared to 30.38% last year; if you see the consumption of goods has come down this year. But because of the lint sale being the larger part this quarter it looks like the margins have come down. In fact, the margins have slightly improved than last year.</p>

AbhijitAkella	And second, just on this whole Pink Bollworm issue, do you see this as a serious risk to the BT cotton industry over the next two, three four years? Is there a risk that the farmers will kind of prefer to move away from BT cotton seeds?
Mithun Chand	Yes,Pink Bollworm in the latter half has become major pest now. Nobody had anticipated whether the Pink Bollworm will be that major of an issue.The government and the seed companies are taking initiatives to control the Pink Bollworm.The Pink Bollworm is developing a resistance because there are no non-BT plants in the farm. So the government and the companies are working together to give the non-BT seed in the same seed so that the farmers will sow both the plants and it will survive and the technologywill remain for long. Yes, at this point of time we do not see that sort of a threat but it is developing a real serious issue that needs to be addressed. In the next two or three years we do not see that sort of a completebig issue but we need to address those issues. Also, the Pink Bollworm is only coming in the later stages not in the earlier stages. It is also very much specific to some parts especially like Karnataka and some parts in Gujarat.All the companies are taking it seriously.
AbhijitAkella:	One last thing. Just on corn, can you just comment on how your market share has moved this year and also what is your outlook for the corn market next year and any further share gains and what are the reasons for your gaining share if any?
Mithun Chand	This year overall the entire corn market was down,leaving some areas in Bihar where it was last yearbut it was much lower than the anticipated. If you see the quarter salein corn, we have done Rs. 53crore against Rs. 61 crore last year. We have gained market share in most of the areas especially in some parts of Bihar, we have done more sale in Bihar and even though the acreages are down in Andhra we have gained slight market share. As we are launching new hybrids and the existing hybrids are doing much better in some parts of the state, we are able to increase our market share. Going forward we are pretty confident that market shares in maize will be very much positive for us. As of now, this year even though the volumes are down, we are slightly higher in terms of the market share, it might be around 0.5% to 1%. Most of the Central and Northern India we are not that strong, in fact we need to admit that we are very weak in Central and Northern India. These areas are really where we are concentrating much. And the next three to five years these are the areas which will contribute more to the maize sales.
Moderator	Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
DheereshPathak	Mithun, can you just give the revenues for cotton and paddy this quarter versus corresponding quarter last year?
Mithun Chand	AsI said this year the overall quarter sale was around Rs. 73.74 crore compared to Rs. 82.91 crore last year. Out of which maize we have done Rs. 53 crorein fact this quarter. Last year it was around Rs. 61.3 crore. In this quarter we are negative in cotton. There was a sales return of close to 74,000 packets that comes up to Rs. 6.5 crore ofnegative sale whereas last year we had a sale of Rs. 1 crore,that is 7,000 packets.
DheereshPathak	And paddy was how much?
Mithun Chand	Research paddy this year we have done around 2.54 crore , last year it was 2.32 crore. And these are the main one and even wheat this year we have done around Rs. 7.3 crore even last year we had done around Rs. 7.7 crore. Wheat is a varietal crop we do not have much margins in wheat. But majority of the margins are

	contributed by crops like maize and paddy. And the other major portion this year was Rs.13 crore of kappas sale, the lint what we say. Last year it was only Rs. 3 crore.
DheereshPathak	For the full year cotton packets should be around 56 lakhs, right?
Mithun Chand	It is close to 55.5 lakhs to 56 lakhs.
DheereshPathak	What is the inventory that you are carrying now of the packets?
Mithun Chand	We have our inventory close to 4 million packets, 3.5 to 4 million packets. End of the year we will be ending up between 9 million to 10 million packets as we had stated earlier. Even though the season is not favorable we already accounted for all those things and we will end up between 9 million to 10 million packets.
DheereshPathak	In terms of dealer advances, what is the number and compared that to last year?
Mithun Chand	If you recollect in the earlier calls we were mentioning that we will not get good advance for this year because of the liquidity crunch in the market and we anticipated only Rs. 70 crore to Rs. 100 crore this year. But in fact till date we have collected close to Rs. 135 crore of advances and we further expect another Rs. 50 crore to Rs. 60 crore of advances in the coming season, I mean to say in the next 1 to 1.5 months' time. If you see in terms of the advances we are in line with last year, lower by 5% to 10%. At this junction we are almost same I think, 5% to 10% from the last year. Last year it was around Rs. 145 crore.
DheereshPathak	And just to understand this lint thing so when you say Rs. 13 crore of lint this year so this would you capture in the revenues, then corresponding cost you would capture in the production cost?
Mithun Chand	Yes, and if you see the average consumption for example if you take Rs. 73 crore of sales the consumption comes to close to Rs. 30 crore. So out of that Rs. 13 crore consumption is only of lint. If you take out those two, so Rs. 60 crore of commercial sale of seed, the inventory cost was Rs. 17 crore.
DheereshPathak	So cost of goods sold was about Rs. 44 odd crore on the P&L?
Mithun Chand	No, it is only Rs. 30 crore for the standalone. I am talking about the standalone.
DheereshPathak	So why are we taking just standalone because?
Mithun Chand	Because they are all inter party. Most of the sales what we do in the consolidated it is all coming from the other subsidiary companies like Aditya Agritech Pvt Ltd and Genome AgriTech Pvt Ltd which are all inter units.
DheereshPathak	But just to understand the underlying the thing between lint so lint is whatever lint you get from processing the seed that there is a corresponding revenue line item and the corresponding cost line item and which match each other and therefore you earn zero margins on lint, is that or you earn less margin, or you earn zero margins?
Mithun Chand	It is zero margin.
DheereshPathak	Because you have to return that to the farmer?

Mithun Chand Yes, return that to the farmer and sell it.

DheereshPathak But when you sell it, you have to return the proceeding again to the farmer, so you do not?

Mithun Chand Actually when we take the production even Kappas is our own seed because we take land on lease and do it. So whatever produce we get from that land, it is all owned by the company so we only take seed, the lint what we get we sell in it in the market the same cost we add it to the cost of goods. So it is like revenue and the cost, it matches.

DheereshPathak So the seeds you keep but the lint you sell and you return the proceeds to the farmer on whose land you produced it?

Mithun Chand Yes.

DheereshPathak Because as per the contract you would have told them that whatever lint you produce that you will get and therefore the production cost would be lowered by that amount, right?

Mithun Chand Sure, right.

DheereshPathak Just to get a sense of the per packet economics. Now x of royalty which obviously the government will decide can you just walk us through a simple per packet math that Rs. 930 is the retail price it is your dealer discount what is the realized price and then what is your cost of manufacturing x of royalty?

Mithun Chand So usually we sell at Rs. 930 MRP but the net realization after discounts to the company varies in between Rs. 750 to Rs. 780. Out of which the cost of production is close to Rs. 350 odd.

DheereshPathak How much sir, say it again?

Mithun Chand This year it was around Rs. 350. Going forward, the cost would have gone up then again the exact cash we get to know by next quarter end, it will go up by another Rs. 10 to Rs. 20 more from these levels. The production has gone up this year.

DheereshPathak This is what you will reflect in raw materials, right there will be some cost in overheads, on employees and other expense line item, right?

Mithun Chand Out of this Rs. 350, we are not taking any overhead expenses as a company, it is only the pure production expenses I mean to say the cost to produce seed and to pack including chemicals.

DheereshPathak And earlier up till last year you were supposed to pay Rs. 180 and now you are paying how much on a blended basis this year, how much have you paid?

Mithun Chand It is all different for different states we calculate on a different basis.

DheereshPathak No sir, when you blend that weighted average by packets, you will get to a number?

Mithun Chand Which number you are talking about?

DheereshPathak So let us say in Maharashtra?

Mithun Chand Royalty?

DheereshPathak Yes, I am saying per packet on a blended basis, this year how many?

Mithun Chand See we cannot take it on a blended basis because most of the sale comes from Telangana and Andhra, Telangana we have calculated Rs.50 as royalty in Telangana, Rs.90 for Andhra and Rs.20 for Maharashtra sales. Maharashtra contributes only a small portion of our sale.

DheereshPathak So can you just if I can just 55 lakhs packets just break it up between Telangana, Andhra Pradesh and Maharashtra?

Mithun Chand The combined Andhra it is close to 30 lakhs. If you divide the Telangana and Andhra I guess some few thousands of packets here and there I do not have the exact number.

DheereshPathak: Yes, you can give me a ballpark number between Telangana and Andhra if you can split that?

Mithun Chand Telangana it is 17 lakhs.

DheereshPathak 17 lakhs, Andhra would be 13 lakhs?

Mithun Chand Andhra is 12 lakhs.

DheereshPathak 12 lakhs and Maharashtra?

Mithun Chand Maharashtra is 11 lakhs.

DheereshPathak 11 lakhs, that will make it around 41 lakhs and the balance?

Mithun Chand And we can say other 2.5 lakhs to Telangana and 1.5 lakhs to Andhra, 31,000 to Maharashtra because we have co-marketers as well.

DheereshPathak Okay another 2.5 lakhs and 1.5 lakhs to Andhra. okay but still it will leave about another 5 lakhs, 6 lakhs that will be in North and Gujarat?

Mithun Chand Karnataka is there, 4.5 lakhs. MP is there 1.5 lakhs.

DheereshPathak And in Karnataka royalty paid would be?

Mithun Chand Rs. 90, we are calculating Rs 90 rest of India.

DheereshPathak So then let us say on Rs. 750 your net realized price, Rs.350 your cost of goods, then royalty depending upon state and then post that would be your overheads, right?

Mithun Chand Overheads is close to 5%.

DheereshPathak	And now you are saying going forward government is contemplating regulating the royalty aspect and the retail price, the dealer margin as well as the cost of production?
Mithun Chand	Not the dealer margin. Government is only regulating the prices, will decide the prices including the royalty by considering the margin and all that.
DheereshPathak	The cost of production that you reimbursed to the farmers on whose land you lease that also will be regulated?
Mithun Chand	No, only the selling price. But they capture all these factors to decide the price.
DheereshPathak	Any broad guidance for next year if you can share like how many packets you think you can do?
Mithun Chand	We are giving a guidance of +20% on the present levels. We may end up between 56 to 57 lakh packets and we are guiding for 20% plus. And on non-cotton growth we can considerably grow more than 20%.
Moderator	Thank you. The next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.
Balwinder Singh	Assuming that acreages remain same next year in FY17, what will be the industry size you expect and what was it in FY16?
Mithun Chand	The total market size for this year was around 4.2 crore packets. So we do not see much of an increase in the acreages at the same time we do not see a decline in the acreages. We see the cotton packets around 4.4 crore to Rs. 4.6 crore next year.
Balwinder Singh	And if you can just highlight I mean who all companies have gained market share this year among the organized?
Mithun Chand	Within this year in the organized guys this year Nuziveedu has gained some sort of a market share and Rasi is the one which has gained some market share. And all the other companies which have gained some sort of market share it is basically with the discounted prices and all those things.
Balwinder Singh	But they must be smaller companies, right?
Mithun Chand	Yes.
Balwinder Singh	Okay so out of the bigger company 5, 6 bigger companies?
Mithun Chand	Out of the bigger companies two have gained. One is Nuziveedu and the next is Rasi because of Nuziveedu's discount pattern they have gained market share and last year because of the product they have gained to some extent.
Balwinder Singh	And given that Nuziveedu's license as of now stands terminated and if it is not renewed before the starting of the season so how do you see the competitive scenario then?
Mithun Chand	See if Nuziveedu is out of the market then it is definitely positive for us. But I do not think they will be out of the market because the Termination Clause they can

always pay under protest and do the business. All the seed companies have got enough cash so they can always pay under protest and do the business. The litigated money they will pay in court and one can do the business.

Balwinder Singh Okay but if Monsanto decides that they will not extend license to Nuziveedu that is not happening?

Mithun Chand It is not possible to terminate at a go. It is a procedure which needs to be followed, for that at least they need to have three years' time to terminate the license because the inventory will be there. Only on one clause if the payment is not done they can terminate for that the remedy is that they can always pay under protest and then do the business.

Balwinder Singh And see on one side you have been I mean along with Nuziveedu fighting I mean all the top four, five companies have been fighting on one side, for their royalty thing and that has gone to Centre. On the other side I mean Nuziveedu has eaten up your market share so I mean what kind of strategy is that I mean?

Mithun Chand See we need to see it in two different ways. As an industry we are united. We might be competitors in the industry but as an industry we are united, we are working for the industry. If the industry needs to survive we need to have clear cut policies, which was not clear earlier. So we wanted clarity on the policies; how the government is pursuing it. Whereas the competition among the players is a different aspect.

Balwinder Singh Okay now with Central Government coming, do you think your margins at Rs. 200 or Rs. 210 whatever roughly you were making will be maintained?

Mithun Chand Definitely, we do not see any decline in margins. What we need to see is that we cannot compare Kaveri's margin with other the industry players. Kaveri is one of the few companies having higher margins, scale and portfolio. Whereas if you take the smaller companies there are close to 400 seed companies in India out of which only 49 companies are sub-licensee holders with Monsanto. We maintain our selling price we are very strict in giving discounts, and because of product we have we enjoy margins. Whereas other seed companies only enjoy between Rs. 50 to Rs. 70 which is much lower than the royalty what they pay to Monsanto.

Balwinder Singh And what happens now to future technologies given that the battle has now become very bitter with Monsanto what happens to future technologies? Do you think I mean Monsanto will stay away from launching any new technologies going forward or it does not matter to Monsanto whatever they get they will be fine with launching in new technology?

Mithun Chand See one thing is India is a big country, nobody can leave India as a country as such because India is a growing country in terms of agriculture and lot of technology needs to come to India. There are many players, Monsanto is not the only player who is there as a technology providers, there are many players who are there. And the other thing what we need to understand is that the fight is not between the Company and Monsanto, war is with Monsanto and the government. The fight is only for the clear cut policy.

If Monsanto is strong and if they charge only Rs. 150 or Rs. 180 royalty if they say or we want Rs. 500 as royalty that can be negotiated with Central Government and the same thing they calculate in arriving at the MRPs. And the other fact we need to understand is that regulations came in only because of Monsanto's state model.

And all the other seed prices all the other seedsfee pricing. So there will be some solution which they will find out because that the entire battle is only to get clarity on it.

- Balwinder Singh** Last question and then I will get back in the queue. With this new regulation on the seed pricing that the Centre will come through, I mean how does the competitive scenario change for smaller players? Because you mentioned a couple of minutes back that obviously Kaveri makes higher margins because of scale and other things and assuming I would tend to think that smaller companies will not make more than Rs. 100, Rs 120 of margins. With the uniform price how does the competitive scenario change for smaller players, will they be able to survive if the margin there goes down?
- Mithun Chand** See, it is not about the margin. If the royalty is regulated definitely the margins will slightly go up. But when you have reasonable royalty there will be no chance of illegal seed going in the market because everybody will have access to the technology by taking a minimum cost. The reason if you see why is BT technology is popular in India and why farmers have adapted to a tune of more than 95% in India is the BT technology because of the price what we are offering to the farmers and even if the royalty is same as everybody will have a formal tie up and then do it. In that scenario the smaller players' market share will move to the larger players only and then it becomes about the product.
- Balwinder Singh** No, but they are currently making maybe making Rs. 100, Rs. 120 right post the new regulation obviously when there is a uniform price they will have to give out higher margins to the dealers and?
- Mithun Chand** No, even now it is a uniform price only.
- Balwinder Singh** But they are selling at a discount right?
- Mithun Chand** Even now the prices are regulated by the government.
- Balwinder Singh** Yes but they are selling at a lower price right than what Kaveri is selling?
- Mithun Chand** Even they can sell it tomorrow also.
- Balwinder Singh** No, but at the uniform price farmer will obviously buy the good brand?
- Mithun Chand** See it is not that they are only fixing the MRP, they are not fixing the selling price I mean to say even now if we take the scenario now, the MRP is fixed the maximum price is fixed they can sell at a lower rate also and they can continue tomorrow also.
- Balwinder Singh** Yes, which is what I am getting into. So let us say Kaveri is selling currently you told that net realization for Kaveri comes between Rs. 750 to Rs. 780, right? For smaller companies it will be in the range of Rs. 700 roughly. So they have a Rs. 50 hit on the margin straightaway and on top of that they have lower scale. So obviously their margins are lower by Rs.70, Rs. 80, right? When the new pricing comes and obviously there will be MRP then because they have a smaller reach or maybe not a negotiating power with the dealer, they will have to select a lower price than you or what Nuziveedu will sell?
- Mithun Chand** Even now they are doing it.

Moderator	Thank you. The next question is from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.
PrashantKanuru	Just wanted to understand the change in inventory like what is it, can you like give more granularity to that? On a standalone is Rs. 60 crore so net basis your cost of material consumed comes down to Rs. 30crore. So what is the Rs. 60 crore which is the change in inventory as in?
Mithun Chand	Basically as per the format we need to disclose. The change in inventory is the fresh inventory what we get, that different stages it will be there in the raw seed, it will be more in the finished crop. So we need to see the change in inventories and the material consumed to get the actual.
PrashantKanuru	Can you give me like some amount of more break up into that the change in inventory like what is it because it is very high so what is the?
Mithun Chand	When we get the fresh stock definitely there will be a change in the inventories because we get the fresh production from the market.
PrashantKanuru	But then if we look at last year that was not the case so what has changed there?
Mithun Chand	So that depends on the time of the arrival of the material also.
PrashantKanuru	So what was the arrival you are talking about what seeds?
Mithun Chand	The production whatever we produce for the next year sales that will be arriving now.
PrashantKanuru	I mean it has arrived earlier this year as compared to last year, is what it means?
Mithun Chand	No, last year in second quarter some has arrived the four quarter it has arrived. So this year in the third quarter most of the material came in. So that depends on the arrival of the materials.
PrashantKanuru	And you talked about maize seeds write-off and you said most of it is like open variety maize seeds which we had to write off because the shelf life is less than one year, because you do not cob dry it. So what is the usual volume of open variety of maize seeds sold and what is the revenue in a normal year?
Mithun Chand	So we all deal with hybrid seeds. Today we have not mentioned anything about the write off, I am not sure about last year. Are you referring to last con call?
PrashantKanuru	No, I am not talking about Q2 when there was a big inventory write-off and out of Rs. 55 crore, close to Rs. 30 crorewas from the maize seeds. So those maize seeds you said is if it is not a hybrid maize seed, you do not get the margins so you do not cob dry the non-hybrid maize seed so because of it?
Mithun Chand	All the maize what we do is only hybrid.
PrashantKanuru	Only hybrid?
Mithun Chand	Yes, we only do hybrids. You might have been confused between the single crop and the two variants of the maizecrop.

PrashantKanuru Sorry sir?

Mithun Chand There are other hybrids crops, single cross hybrids, three-way cross, double cross. Usually we do cobdry for single cross hybrids. Other hybrids we do not do because we do not realize much in that. That is what I meant to say last time.

PrashantKanuru Okay otherwise you do not sell any open varieties?

Mithun Chand No, we do not do anything in open varieties.

PrashantKanuru Sir, just squeezing in one question like what do you think about Central Government pricing, how much can Kaveri take? Like for example it is Rs. 930 and after dealer margins it is Rs. 750 to Rs. 780. And now do you think like what does the government of Ministry of Agriculture is indicating I mean like what do you think as an industry you can take realistically speaking? Because when it comes to Central Government they are bit basing it on say Agricultural University calculations. So would it be going in the direction of say utilities, ROE been calculated as 16%, 18% where there is a CAPEX involved? But here you do not have a big CAPEX involved. Maybe just the R&D expense, which is big. So what do you think, will it be just the offset of the lower royalty which used to be Rs. 185 to Rs. 200 per packet now coming down to Rs. 90 or less some states like Maharashtra it is Rs. 20? So what do you think can be the real drop I mean like realistically speaking in the worst case scenario?

Mithun Chand If you see the Central Government's price control order, they have clearly mentioned on what factors they will consider. They said that the seed value plus royalty and applicable taxes is what will derive the MRPs. And the definition of the seed value they have given as the cost incurred to produce the seed plus trade channels plus overheads plus R&D expenses plus reasonable return on the investments plus reasonable profit and scope for write-offs. So these are all points which they have mentioned in that. So based on all these aspects they will determine the price. And if you see the calculation submitted by the Universities or any other bodies, there is not much difference in the cost of production at all and all the other factors variables which I mentioned earlier are in line except for the royalty. If you take Maharashtra they have taken only royalty as Rs. 20 whereas the actual royalty what we are paying inclusive of taxes is close to Rs. 185, the difference is there.

PrashantKanuru Just one last question about the trans specific partnership which can affect the textile farms like further down in the value chain and Indian cotton is considered to be inferior as compared to Africa. So though we have some sort of question in terms of the volume that India and China produce but do you see like a particular section of textile industry going out to African cotton over a period of next four to five years? What is your take on that?

Mithun Chand Even in India we can produce those type of quality but we need to compromise on the yields. And in terms of the farmer remuneration the hybrids are much better than the varieties. So there will some segment here and there we should go for it like. For example organic food is expensive, then we go normal one.

PrashantKanuru So you are saying there are no hybrids for a longer staple cotton?

Mithun Chand Because in the smaller market we can produce hybrids like that but because of the smaller market nobody wants to go into that sort of small niche market.

PrashantKanuru But you do not see that sort of a threat coming because someone say someone sets it up in Vietnam, so if they shift to African cotton, that sort of a scenario happening to?

Mithun Chand We do not see that. Earlier it all moved from those varieties to these varieties we get. Africa is only developing that.

PrashantKanuru Okay and our soil conditions and climatic conditions in general can support such a long staple fiber?

Mithun Chand Yes, we can do it.

PrashantKanuru And sir, what about the high density planting variety, how is it going and what do you give as a guidance?

Mithun Chand It is picking up and this year we have sold some quantity of high density planting, the name of the hybrid is 3 X 1 it is doing well. Going forward high density will definitely pick up in India. Initially it will be high density and later on we will go to the mechanical harvesting. So we see a positive trend in high density planting now.

PrashantKanuru How many do we sell, sir?

Mithun Chand A few packets maybe around 20,000 packets or so.

PrashantKanuru In the next few years anything?

Mithun Chand In the next few years we are targeting close to 8 lakhs to 10 lakhs in the next three to four years.

Moderator Thank you. The next question is from the line of Prashant Tarwadi from Axis Capital. Please go ahead.

PrashantTarwadi I have three questions. First is what is your presentation implies FY17 cotton seed volumes had 9 million to 10 million packets. So how do you reconcile that given that our advances has already reduced by about 5% to 7% what kind of guidance we would look forward for FY17 as far as cotton seeds are concerned? That is one. Secondly, on this Pink Bollworm issues, just wanted to understand whether it is impacting seeds sold by only few seed companies or whether it is impacting all the varieties of seeds that are available in the market? That is the second. And lastly, your receivables have reduced sharply so congratulations on that. Just wanted some clarification whether this receivables how old are these receivables? Are they only one season old, or two season old? So that will be helpful.

Mithun Chand Yes, regarding the first question I have already answered the first question saying that the next year the volume or the targeted sale for next year is 20% more than the present levels. But we have done close to 56 lakhs this year so it comes up to in between 68 lakhs to 70 lakhs next year if you take 20% volume. In the presentation what we have shown as 9 million to 10 million is the production volume, inventory what we are trying to get in. We are talking about the inventory of 9 million to 10 million packets.

And regarding the second question on bollworm, yes it is because most of the technology is Monsanto's technology, in India more than 95% of the BT Gene Technologies follow the Monsanto's technology. So the bollworm attaching is for the technology not for the varieties. So all the varieties are affected by the Pink

Bollworm. It is not specific to one variety but we have seen some instances where the intensity is high in one specific regions not pertaining to hybrids or varieties. For example you have seen a high instance in Karnataka.

And the other one, regarding the third one regarding the debtors, yes, the debtors as we have said that from the first day we were saying that we are considering on a cash and carry basis that is the reason most of the debtors have come down compared to previous years. And the other part is that most of that as a policy we are writing it off more than two years as a debtor. Two years debtor we are writing off and if you see as on date, more than 180 days about Rs. 138 crore is only Rs. Rs. 76 crore. That is also the season which we have supplied in the month of before June. That we will get back most of the money we will get back before March 31. We are already getting that.

PrashantTarwadi	Given that there are two successive years of drought and the agri situation is really bad, so do you expect any sort of write off as well this year business are concerned?
Mithun Chand	Yes, we have really taken a hit in the second quarter itself. So write offs is basically on a year-on-year basis so for the entire year we are already taken it.
Moderator	Thank you. The next question is from the line of Gagan Thareja from Comgest. Please go ahead.
GaganThareja	The first question pertains to the two cases that are going on. One is Monsanto versus the government, questioning the government's right to control royalty. Is there not a possibility that the court might put a stay on the government's decision to bring out a new price order for cotton seeds if they intent to change the royalty in the order?
Mithun Chand	Actually Monsanto has already challenged the order but it has been postponed to March 4 or March 7. And even the Seed Association has also got included into it. So what we are saying is that if the government can regulate the prices, it can even regulate the royalty. Otherwise they cannot regulate the prices.
GaganThareja	So you are saying this is a separate legal dispute is the Seed Association involved in this?
Mithun Chand	In the same case but recently one week back also, Government of India has constituted the Committee and they are taking the inputs to fix the price and all. That will be done before March.
GaganThareja	But I mean just for hypothesis sake if the government comes out with an order before March, and in March the Court comes out with a decision which possibly validates Monsanto's position, then how does it unravel for the next year?
Mithun Chand	See basically if the Central Government is not regulating it comes to the State Government. As of now State Governments are already regulating the prices. And what we meant was that if the Central Government regulates, it will be only one body who regulates across India otherwise we have got different prices and different royalty in different regions. So that will prevail.
GaganThareja	And what is the royalty that Monsanto generally charges in regions outside India for the BG variety and for the flex variety, I mean in percentage wise?

Mithun Chand	For example in Chennai earlier it was only Rs. 25 or Rs.30 but usually it will be between 3% to 5%. One other thing the royalty prices are basically determined by the volumes. India has had the largest volumes. So that also needs to be considered.
Gagan Thareja	Is it possible for you to maybe give us some idea about what was the premise which the government has laid out in the Court to present its case for controlling prices? Is it simply affordability as an issue that has been raised or I mean because there were media articles stating that the Pink Bollworm infestation I mean the resistance of BG to Pink Bollworm infestation is now under cloud and therefore royalty should also consider these aspects? So if you could elaborate the position that the government and NSAI are taking in this case?
Mithun Chand	<p>See basically the cotton seeds prices have been regulated for the last ten years, it is not a new occurrence. I mean most of the cases of new technology, over the span of years the royalty gets reduced. Here the royalty only has gone up compared to the introduction and the volumes have picked up.</p> <p>The other point what you are saying is that regarding the Pink Bollworm even the Government is saying that even the technology, it is not that resistant to the Pink Bollworm by seeing the recent cases they say that the royalty should not be that high.</p> <p>In fact recently Andhra Government has written a letter to the Central Government saying that it should be made a compulsory licensing itself. Everybody should have access to it because it is an old technology and it is already there in India.</p>
Moderator	Thank you. The next question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.
Niket Shah	I just had a couple of questions. One is that if you can let us know, is there any one-off in this quarter I mean any specific provision which you would have done on account of say sales return or any bad debts written off or something? And the second question was regarding the ATM performance and if you can highlight how will be the performance for ATM in the next year going forward as well?
Mithun Chand	This quarter we have provided to a tune of Rs. 5.5 crore as provision for bad debts. This year we have changed the accounting standard, earlier we used to consider more than three years of bad debts, in the new policy we made it only two years. For the entire year we have provided close to Rs. 11.5 crore as bad debt still date, out of which more than Rs. 9.5 crore is of the government bodies only. Usually the money gets delayed in the government bodies but as a policy we have provided for it. In this quarter the actual hit is Rs. 5.5 crore regarding the bad debts.
Niket Shah	This is basically if you get the money then you will reverse it back again basically?
Mithun Chand	Yes, that is correct. And the other thing regarding ATM, ATM is doing very well in most parts of Maharashtra and Gujarat. And we see ATM picking up in the next three to four years. ATM will be like future Jadoo for the Company.
Moderator	Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.
Chetan Thakkar	Sir, if we see the notification that is there, so it talks about controlling all the aspects that are there in calculating the seed value. So that would in turn mean

even controlling the price, the margins paid to the dealer plus a sum for R&D and even the margins. And you have highlighted that margin should not be impacted, whenever the pricing comes through. So what is your take on that because the notification says that it is evaluating all the aspects where the control would come eventually?

Mithun Chand

So basically they are evaluating all the channels to determine the price not to control the trade price. So they will take the average trade channel price; for example we are saying Rs. 750, the channel is around 20% some may say 15%. So they average it out and then the trade channel and build that cost to determine the MRPs. And the other thing is that all the varieties will not be produced at the same price. For example, if I say Rs. 350 to produce a variety and variety will incur a cost of Rs. 400, some variety will incur a cost of Rs. 300. So they average it out as an industry, what is the cost they take the average cost and build to get the actual realistic MRPs.

Chetan Thakkar

So sir, is it fair to assume that if the squeeze comes it will definitely be on the royalty and it will also be on the value chain as we are leaving aside what we paid for the farmers for growing the seeds for us because that was the entire agenda with which they started moving?

Mithun Chand

Not exactly, it is wrong to assume in that way because we are going to government to increase the prices because the costs have gone up. If you see the seed prices in India, more or less stable for last eight to ten years. MRP has never moved up but the costs has gone up in terms of the production and other aspects and we are always saying that we do not have any room to produce a hybrid which incurs a higher cost of the production. So in that way they are evaluating all the procedures and all the variables involved in it and then they will determine the price.

Chetan Thakkar

And it should ideally come through in March so that the season moves across smoothly?

Mithun Chand

The deadline to come up with the price in March 31 for next year. For every year before March 31, they said that they will come out with the price. Last date is March 31 before that they can come any time. And I think this year it will be much before I think by February end we will get the price because they are already calling for the information what is the production and all those things.

Chetan Thakkar

And sir, given that there is so many litigations across High Courts, so is there a possibility that everything will eventually move to the Supreme Court where it will be settled?

Mithun Chand

Yes, in a sense it will. There are many cases at the state levels. If the Central Government has come up with the price, so for the future it is settled for us because State Government does not have any say in it.

Chetan Thakkar

But still Monsanto could move everything to the Supreme Court as well once the High Court decision is there?

Mithun Chand

Yes, they can move. See we want the clarity. We do not want to fight against Monsanto or the government because both of them are using seed players as a channel. Now when the government is restricting the prices by controlling the royalty, Monsanto is collecting the royalty by saying that the government does not have the right. So we just want clarity, if Monsanto wins then government

	cannot control the prices. So we are okay with any sort of a decision. We just want clarity.
Moderator	Thank you. The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.
Rohan Gupta	Under the current uncertainty we have that Centre has not fixed the prices, so how actually you are carrying your business right now? Because this is a time when you actually should have started collecting the advance amount from the dealers you bill them and they also have clarity that at what price the seed prices are going to be there? So how you are carrying your business in the current uncertainty?
Mithun Chand	Basically we are not talking anything about the price. We only dispatch the material after March. So till then we do not even pack it. So till we will have clarity whether Central Government will have the right to do it otherwise the State Governments will always be there.
Rohan Gupta	Okay so you are just collecting the payment from the dealers I mean especially distributors as an advanced money without even telling them about the prices what will be that and product prices will be?
Mithun Chand	Yes. Basically we do not disclose the end prices. Advance what we collect it is only Rs. 200 or Rs.300 a packet.
Rohan Gupta	But sir, advances paid by the dealers is also the function of that you know what kind of quantity they are ordering and on that basis they get a huge discount and that is the only incentive for the distributor to order in such an advance. So if they are not clear that okay at the end how much per rupees per packet they would be able to make then what is the incentive for them for ordering as of now?
Mithun Chand	Basically as a whole, you see 20% is the distributor margin. That will be in line with the new pricing on whatever it is.
Rohan Gupta	So you are saying that whatever margins they have been enjoying earlier, there will not be any impact on that?
Mithun Chand	No.
Rohan Gupta	But sir, last year also some dealer in the Maharashtra base dealer when all of a sudden Maharashtra State Government reduced the prices by Rs. 100 and the product which was billed them earlier at the old price of Rs. 930 and later on was reduced to Rs. 830 for that period even they were not clear that what actual margin or who is going to bear that Rs. 100 impact on that?
Mithun Chand	Till we clearly come out with the margin policy
Rohan Gupta	Sorry?
Mithun Chand	Till we clearly come out with the margin policy, they will not sell it. For example last year they supplied at Rs. 930, then the price got reduced to Rs. 830 we said that we will not give a rate that is why we lost some sales. Unless and until we are clear with the pricing at the end at the selling price.

Rohan Gupta Exactly that is what my point is, that even neither companies have any clarity that what will be the prices, how much margin would you be able to give to the customer?

Mithun Chand One thing we need to understand is that this is not the time what they sell it to the farmer that can always come up, that can be always negotiated. As of now we are saying that the prices were Rs. 930 only.

Rohan Gupta Okay and even in Maharashtra also you were saying the prices were Rs. 930?

Mithun Chand We are not committing for it and basically the advances whatever they pay now they only pay Rs. 200 to Rs. 300 per packet for that they usually get a return of some 18% to 24% on it. That is how it is calculated. Whatever the money they pay, they get 18% to 24% as return and the allotment of seed will be there.

Rohan Gupta Okay so probably if right now they pay Rs. 300 per packet assuming at Rs. 930 tomorrow Central Government comes and they say no prices will be at Rs. 700 only. So at that level they will get a higher allotment?

Mithun Chand No, they say I am paying Rs. 200 per packet, they are not saying that out of Rs. 700 I am paying Rs. 200.

Rohan Gupta Okay so they are paying Rs. 200?

Mithun Chand It might be Rs. 700 or Rs. 1,500 they are only paying Rs. 200 per packet.

Rohan Gupta So ultimately the 20% to 24% return which is assured to them will be calculated on Rs. 700 right on the selling price?

Mithun Chand On Rs. 200.

Rohan Gupta On the advance money?

Mithun Chand Yes.

Rohan Gupta And sir, if we do not get any clarity from the government by 31 March, then how you will be carrying your accounting?

Mithun Chand The government said that it will give the price before March 31, that is what the notification says. I do not think they will push, I do not think they will not come up with the prices. Unless and until if the court gives a stay order and as earlier they asked about the question that Monsanto will get then only, there is only one channel State Government. The Central Government will not come up with the price. Even in that State Governments have already regulated the price. In Andhra it will be 930.

Moderator The next question is from the line of Amit Kadam from LIC Nomura. Please go ahead.

Amit Kadam Sir, my question is regarding that particular letter what we have received from Sarath & Associates, regarding some forensic audit. Can you throw some more light on it, what is it about and then we had to also come out with an explanation regarding stating where our cash has been deployed in which of the liquid funds

	and other parts? So again like regarding that Sarath & Associates, the audit have been appointed for doing the forensic Audit. Can you throw some light on it?
Mithun Chand	It is a routine process by SEBI to appoint a forensic audit. As a company they have appointed certain company to do the forensic audit. So they will do their own work and they do not have any timelines to do it.
Amit Kadam	And then like basically the objectives of doing is like any key items they what look for or something like this? Because the word forensic?
Mithun Chand	They have not given any sort an indication what they are looking at. We only got a letter that they wanted to check the financial accounts. That is it.
Amit Kadam	So the audit is still going on, sir?
Mithun Chand	It will go on. It will go on for long and they will not inform the company whether what is they are looking at and what is there in the report. That will be directly submitted to SEBI.
Amit Kadam	So can you say like why SEBI like is it a regular process like SEBI appointing a forensic auditor for this particular thing?
Mithun Chand	They say it is regular activity.
Amit Kadam	And the second thing on the Pink Bollworm part. So like how we measure that particular impact like the total if that acreages what we have in that there is like 1 crore hectare kind of thing. So what will be the areas got impacted by this or may be what is the year-on-year change what we are seeing in this particular thing?
Mithun Chand	This is the first time we are seeing a larger instances of Pink Bollworm that too more specific to Karnataka and some parts of Gujarat.
Amit Kadam	So 10% or 5% of the area would have got impacted?
Mithun Chand	No, it is only less than 1% not more than that.
Amit Kadam	Less than 1%, so maybe this?
Mithun Chand	India whole it will be less than 1% or 2% not more than that. But even when we are seeing the larger instances it was more, we need to be more cautious that this should not occur. And that is the reason we are taking the proactive steps. As of now it is not a big thing in India I think and that is what matters.
Amit Kadam	So this season will be an important one to see that what will be the chain because that will be the second season if it really gets impacted this time?
Mithun Chand	So we are seeing that Pink Bollworm in last five seasons. But this year we are seeing the larger instances. And the other thing is that the weather was also very dry so that is one of the point where we can see the Pink Bollworm because actually the Pink Bollworm have matured in the later stage. Actually we have not seen any Pink Bollworm in initial stages but this year they have they came up after 100 days.
Amit Kadam	Which means like if the monsoons are proper and we think so is that?

Mithun Chand Yes, that is one of the concern what we need to see. We cannot say that the monsoon is the only one. But this is also one of the factors which has resulted in more Pink Bollworm cases this year. And Karnataka facing a very drought year we are seeing more instances.

Moderator Thank you. We will take our last question which is from the line of Amit Mantri from Hornbill Capital. Please go ahead.

Amit Mantri So as of December end we had close to Rs. 345 crore on cash investments however the interim dividend for this quarter has been cut. So what is the reason for the discontinuation of the dividend?

Mithun Chand So basically the dividend we wanted to make a policy like 20% of the net profit should be given as dividend. And this year we have given dividend in the first quarter. Unfortunately we were not able to do same this year and there are lot of uncertainties which are coming with the Monsanto and other things. So for that reason we have hold on the dividend from this quarter. But definitely going forward the dividend is something which we are looking at. Definitely 20% of the net profit should be given as dividend.

Amit Mantri And what is the CAPEX that you have incurred in this financial year?

Mithun Chand This year I do not have the exact figure but it should be below Rs. 15 crore. And most of the CAPEX is already incurred till last year and going forward we do not see much of a CAPEX. Hardly in Rs. 15 crore to Rs. 20 crore will be the run rate for now.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Mithun Chand for closing comments.

Mithun Chand It has been a pleasure interacting with you all 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 you would like to know more about the company kindly reach our investor relation desk.

Moderator Thank you. 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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