INTELLIGENT

Entrepreneur®

www.entrepreneurindia.in

MAY 2013 • VOLUME 4 • ISSUE 9 • ₹100

[SEED STORY]

SOWING FOR SUCCESS

Nuziveedu Seeds is betting beyond cotton to continue on its growth curve

SHONALI ADVANI

The year 1997 was a significant year in the Indian seed industry. It was the year a hybrid variety of cotton seed called 'Bunny' landed in the Indian market. Apart from the name, the seed has other noticeable characteristics. It was able to withstand biotic and abiotic conditions and made a big difference to farmers—thanks to its adaptability to disease, resistance to drought and floods, and high yield per acre.

"Until then, hybrid seeds did not give good quality fiber," says Mandava Prabhakar Rao, Chairman and Managing Director, Nuziveedu Seeds Limited, the flagship company of NSL group and the creator of Bunny. 'Mallika,' its next variety, was launched in 1999 and set the course for future growth—the company was able to touch the ₹100-crore revenue mark in 2001 from just ₹1 crore in 1987.

In India, 11 million hectares of farmland are under cotton acreage and NSL claims that 25 percent of this has been planted with NSL hybrid seeds—made possible by its association with over 75,000 seed growing farmers. As India's biggest Bt cotton seed company in terms of volumes of seed packets sold, NSL occupies a 25 percent market share of the cotton seed market in India, which stands at ₹3,500 crore. This has also been made possible by its aggressive approach—it has acquired majority stakes in three domestic companies in the last three years, including Yaaganti Seeds and Pravardhan Seeds in 2010, and Prabhat Agri Biotech in 2011. Betting on the success of the cotton seeds business, and as a forward integration strategy, NSL has diversified into cotton production and textiles forming separate entities—NSL Cotton Corporation and NSL Textiles, since 2002.

First crop

Though NSL started small, today the ₹5,500-crore group has interests in power, sugar and infrastructure. The story started four decades ago, when Rao's father Venkataramaiah, hailing from an agricultural family, wanted to help farmers procure good quality seeds. He launched Nuziveedu Cotton Seeds in 1973, while still in government service at AGMARK, the agri-products certification agency. In 1982, Venkataramaiah moved base to Guntur in Andhra Pradesh to be closer to the market. Here, he set up a retail shop to sell to farmers and dealers.

Rao, 53, joined the family business in 1983, as a 23 year-old M.Sc graduate in agricultural sciences from Banaras Hindu University. His entry corporatized the firm from a partnership to a private limited entity. He began branding products, created a different packaging and focused intensely on research and development (R&D). Growth was slow until 1995, and they suffered financial constraints till Bunny catapulted them into the growth arena.

NSL became a licensee of Maharashtra Hybrid Seeds Company, popularly known as Mahyco-Monsanto Biotech in 2004 to sub-license Bt traits and related Bollgard trademarks which it used to develop advanced hybrid cotton seed products.

At start of the millennium, it enlarged its portfolio with non-cotton crops as a method to diversify, starting with corn seeds. The same year they shifted to Hyderabad, its head-quarters today, and moved into the vegetables segment as well. This was followed by forays into hybrid rice in 2006 and varietal rice in 2008. "You mitigate risks if you are not dependant on one crop. It gives you a wider play in the market," says Ramesh Viswanathan, COO at NSL. The company has spent considerable time on new product development even as business focus has centered on cotton that contributes over 80 percent to total sales. Of the overall crop area in India, cotton forms a small portion of landed area and Rao says that to be pan-India and profitable, they had to give attention to other crops.

Viswanathan joined the firm two years ago when NSL decided to become a brand and a more consumer-centric firm. "We are putting other crops on a growth trajectory as our aim is to have cotton seeds contribute 60-65 percent of sales in five years," says the COO, whose last stint was as executive director at Chennai-based CavinKare.

NSL is confident of unlocking the potential of new products given that they are agricultural inputs, just like cotton seeds. Four decades of efforts have helped them to establish a robust network of 2,200 distributors and 59,000 retailers who sell seeds across 17 states to 5.5 million farmers. Distributors earn 15-20 percent

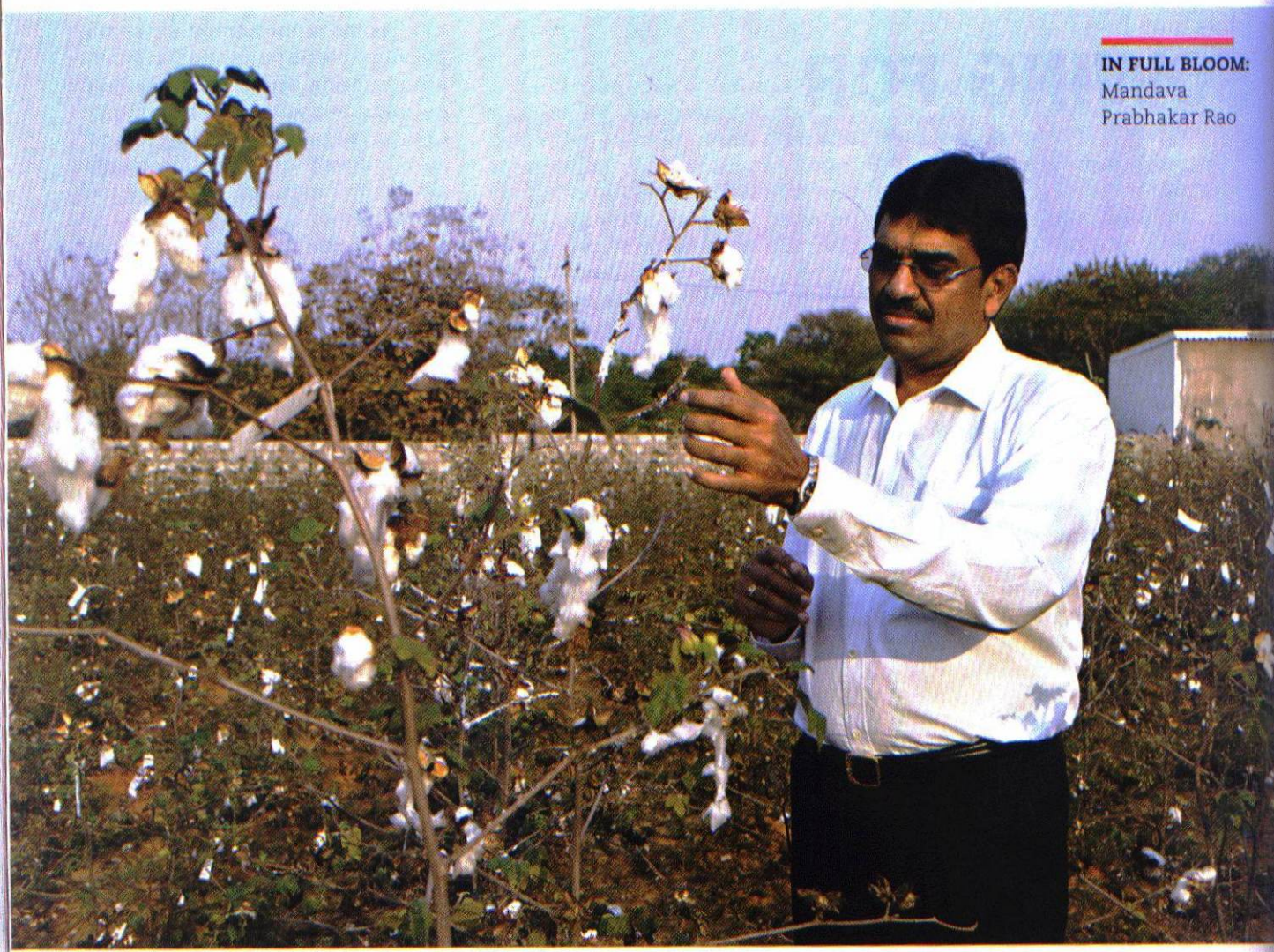
FARM FACTS

Size of Indian seed industry:
FY12: ₹11,500 crore

FY13 (projected): ₹13,000 crore

All India cotton production: 2010-11:
33 million bales (of 170 kg each)

2011-12: 35.2 million bales



IN FULL BLOOM: Mandava Prabhakar Rao

as commission, a portion of which is passed on to retailers. Distributors ultimately receive four-five percent of their total turnover. "Our activity does not stop after we sell," says Rao. NSL uses this network for micro-marketing activities and during non-sales periods, to engage with farmers, understand their experiences, and help extract optimum benefits from seeds; efforts that have garnered farmer goodwill. "We will use the power of our distribution network for other products as the channels and end target audience are same," Viswanathan states.

Counting on corn

Established as the market leaders in cotton seeds, NSL wants to ride the next wave of growth with corn, its next focus crop. According to Viswanathan, the market size of corn in India is ₹1,400 crore, of which NSL holds 10 percent share, putting it at fourth place behind Pioneer Seeds, Monsanto India and Syngenta India. Corn acreage, currently at 7 million hectares, is projected to surge in the next five years. "A lot of usage of corn will come with ethanol production. Global linkages of export and import will impact commodity price," he says.

Rao bets on India's consumption story to increase his slice in the pie. Higher per capita income has increased consumption of non-vegetarian food. Demand for corn, used as feed for livestock and poultry, has therefore risen considerably. Industry estimates say that demand for meat, fish and eggs is slated to zoom from 11.6 million metric tons in 2007 to 30.1 million metric tons by 2020.

NSL has concentrated on corn and vegetables R&D since 2008. They are now stressing on marketing to triple business in the next five years. "Not only because the market is good, but because we have products which can improve our share," says Rao.

In the vegetables and rice segment, NSL has marginal industry presence, not more than two percent each. About 42-44 million hectares of India's farmland is under rice cultivation today, dominated by government-developed varieties. "The level of hybridization

Photos Lakshmi Prabhala

by private sector has been low with regard to rice," says Viswanathan. "Varietals offered by the government versus those by private players, in terms of yield per acre, are not significantly stronger for farmers to switch," he elaborates.

NSL is eyeing this segment too but Viswanathan says they will work in the non-hybrid space.

"Hybrid rice is not well accepted in the Indian context with regard to its aroma and stickiness." Vegetable seeds—tomato, okra, chilli and brinjal—currently generate ₹25 crore in sales, but NSL optimistically expects sales to touch ₹200 crore by 2018. "These account for 50 percent of total amount of vegetables produced and consumed in India," he says.

Bt Cotton yields in India have been falling from a peak level of 554.39 kg per hectare (ha) in the ,cotton year 2006-07 (October–September) to an estimated 488.89 kg per ha in 2012-13, a media report points out, citing data from the Cotton Advisory Board.

"Cotton acreage will stagnate over time. Yield will come from high density crops," Rao reasons. So, NSL with the Department of Agriculture of the Maharashtra Government, undertook a public-private partnership (PPP) project from 2010-2012 for high-density planting of Bt cotton seeds in the Vidharba region covering 10,000 acres, benefiting 3,500 farmers who doubled their yield by 52 percent.

It is also in the final stages of talks with the Uttar Pradesh and Andhra Pradesh governments for the same.

"We have identified high density planting as a breakthrough concept to increase yields. This, we believe, is the way forward for cotton in the future. We would be spreading this concept across the state (we have got sanction for this year as well) to make farming more remunerative," Viswanathan comments.

This year NSL is setting up operations in SAARC and ASEAN countries to produce seeds. "We will start with R&D and then evaluate the situation," Rao says.

Agri advantage

Though clear on strategic business direction, NSL has to tackle dominance by multinationals since these three product categories—vegetables, corn and rice—are global crops, unlike cotton. Nonetheless, Viswanathan highlights their competitive advantage, "We understand local agro climatic conditions better."

In August, 2010 NSL raised ₹250 crore ($53.67 million) from private equity firm Blackstone, to write off debts incurred by the demerger of its renewable energy company from NSL in 2008. In 1999, NSL had set up wind farms in Karnataka for tax-saving purposes.

"Those days accelerated depreciation was available. If you invested in wind farms, you could write off assets to the extent of 80 percent," Rao explains.

Says Richard B Saldanha, Vice-Chairman and Executive Director, Blackstone India: "NSL is a well managed business at the heart of India's consumption story. They have competent supply chain, innovative R&D, and their distributor network has a large footprint—factors which are strong barriers to entry for competitors."

Study and sow

For a seasonal business such as NSL's, the sales cycle is short—a couple of months from May-June, while the production cycle (R&D, testing, etc.) is four-five years. "Companies that miss out on the cycle of innovation get lost. We need to develop superior products to our own existing ones," Viswanathan says. Nuziveedu's R&D activity primarily focuses on conventional breeding practices—breeding superior hybrids from germplasms to suit various agro-climatic conditions. "Breeding is a combination of art and science. If you know the science, art can continuously improve it. Selection of a plant is the art side of it. Science tells you how to match traits and pass it on to future generations. That comes from experience," Rao says.

In October 2012, a court appointed scientific panel called for a 10-year moratorium on genetically modified (GM) crops in India because of its unpredictable impact on the environment. The issue is still under debate between anti-GM activists, scientists and the government. Referring to the impact of this on Nuziveedu, Viswanathan says, "The GM part of the technology is licensed by us from Mahyco. While we do some work on that, our emphasis is on conventional breeding. We will continue to develop hybrids suitable to customer preferences and educate them on agronomic practices to enhance yields. We believe there is great scope in this area. There is a ban on new technologies but existing technologies will continue."

Going forward, NSL will invest eight-nine percent of its bottom line per annum in R&D, amounting to about ₹25 crore. "The more they spend on R&D, they will stay ahead of the curve," Saldanha of Blackstone affirms. To scale, he suggests NSL build an ecosystem around distributors as a one-stop-shop solution for farmer needs—nutrients, implements, insurance and technological advice.