



**Godrej Agrovet Limited**  
**Q3 & 9M-FY19 Earnings Conference Call Transcript**  
**February 5, 2019**

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**Moderator** Ladies and gentlemen, good day and welcome to the Godrej Agrovet Limited earnings conference call. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India. Thank you and over to you.

**Anoop Poojari** Thank you. Good afternoon everyone and thank you for joining us on Godrej Agrovet's Q3 and 9M FY19 earnings conference call. We have with us Mr. Nadir Godrej – Chairman of the company; Mr. Balram Yadav – Managing Director and Mr. S. Vardaraj – Chief Financial Officer of the company.

We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive question and answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect have been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Godrej to make his opening remarks.

**Nadir Godrej** Thank you, Anoop. Good afternoon everyone. I welcome you all to the Godrej Agrovet conference call. I would like to start with the key highlights of the budget for the agriculture sector and then discuss the operating and financial performance for the third quarter and 9 months of the financial year. The interim budget announced last week, had multiple measures for the agriculture sector with the purpose of boosting the rural economy. The budget aimed at bringing stability to farm incomes and provide relief to small farmers. In addition to the allocation and the various agri schemes and funds, a few key initiatives announced in the budget were:

- Income support scheme under which small and marginal farmer with land holding up to 2 hectares will get an assured income support of Rs. 6000 per annum,
- Extension of the interest subvention scheme to animal husbandry and fisheries farmers,
- Setting up of the separate department to fishery and,
- Setting up of Rashtriya Kamdhenu Aayog to upscale sustainable genetic upgradation of cow resources.

These measures if implemented well can bring a lot of benefits to the farmers and the agriculture sector in the long run.

Now moving to our performance:

For the third quarter of 2019, the consolidated total income was Rs.1,459 crore registering a growth of 19%. Consolidated profit before taxes excluding exceptional items, was 73 crore compared to 76 crore during the same period last year. Similarly, for the first 9 months of the year, consolidated total income was 4569 crore which is the growth of 13.4%. Profit before taxes excluding exceptional items, was 338 crore compared to 308 crore during the same period last year. Please note that the 9 month financials include nonrecurring income of 29.9 crore earned on the sale of land, which is included in other income.

Now, I will discuss the performance of each of our business segments.

For our animal feed business, this was the tough quarter. While volume and revenue growth remained strong at 12.5% and 18.5% respectively, segment results during the quarter was lower than last year. This was on account of a sharp increase in the key raw material prices across feed categories; however, we expect the situation to correct in the coming months as we have taken price increases of our feed in most of the markets and this should start contributing to segment profitability.

In the oil palm segment, as mentioned in the last conference call, there was a spill over of the season therefore we had seen strong fresh fruit bunch arrival. Our segment revenue and profit grew by 33.6% and 26%, respectively, in the third quarter. Also the new palm oil mill set up in Chintampally has become fully operational.

In the crop protection business, while the standalone segment revenues grew by 32.7%, segment profit declined by 9.1% during the quarter. This was mainly due to higher sale of traded products compared to our branded products. Further, due to a poor monsoon this year, farmers had lower cash flows for payment. We have seen some payment delays in this quarter and as a precaution, we have created a small provision of Rs.5 crore for receivables. However, we expect the provisions to be reversed in the coming month once the situation at the farmers end improves. Considering the 9 month performance, standalone segment revenue and profit grew by 11.5% and 10.4% respectively.

In our subsidiary, Astec Lifesciences, we have strong revenue and profitability growth during the third quarter, especially in exports. Further, our new plant which was being set up for backward integration has become fully operational. Creamline Dairy Products Limited, another subsidiary of GAVL posted revenues of 278 crore in the current quarter compared to 282 crore recorded in the same period last year. However, segment profitability improved by 25.5% year-on-year. Further, I am pleased to state that there was no butter provisioning or losses in this quarter. Also, our launches in the last 9 months have received an encouraging response from customers.

In our poultry joint venture, Godrej Tyson Food Limited, revenues grew by 16.2% in the quarter aided by increasing sales in the Yummiez business and in the Live Bird business.

GAVL's other joint venture in Bangladesh, ACI Godrej recorded revenues of Rs. 141 crore in the quarter compared to 150 crore in the previous year. This was due to the decline in the volumes in the aqua feed segment.

With this, I conclude our business and financial performance update for the quarter and first 9 months of the year. We will be now happy to take your questions. Thank you.

- Moderator** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara** My question is actually on the animal feed business. Generally, it has been observed that the second half of the year is significantly better than the first half in this business and while we have seen good volumes and value, but we have not been able to catch up as far as profitability is concerned. So just wanted to check whether the price hikes have been taken and would we start seeing immediate benefits in the coming quarters or are we still seeing some challenges in terms of taking price hikes?
- Balram Yadav** One of the reasons why profitability suffered, in spite of being season, was that the trend was reversed, instead of raw materials coming down, raw material prices increased. Now that hit us very badly in October particularly, but situation has been consistently improving for last 3 months and I am glad to say about November was better than October, December was better than November and the trend is still continuing. So I am saying that our pass-through profitability is back and you will see improved performance.
- Kashyap Pujara** And in terms of certain normalized margin levels here, basically how would you see normalized margins in this business, if one were to basically take a bit more longer-term view?
- Balram Yadav** This business, if you ask me on a steady state, will be anything between 3.5% to 4% PBT on sales with the ROCE of 60% to 65%, this is something which is the normalized margin for this business.
- Nadir Godrej** I think we should also bear in mind that we have several R&D initiatives, these will take a long time to play out, but they could improve the margins overtime.
- Kashyap Pujara** Just one more question was on the agri input side, while we are seeing a dent there also, just trying to basically understand if you can give more details as to what exactly, while you did mention about more of traded products having salience in this quarter, but exactly could you flush out the details as to what really happened during this quarter and why the brand sales were lower? Is it basically a constraint for us as far as any capacity or any market approach or are there any structural issues or it is just a mix issue?
- Balram Yadav** I think it is just a hygiene issue. The monsoon just tapered very fast in September, if you see September deficit was almost 13% to 14% over long period average. Just because there were lot of branded material in the market, from the hygiene point of view, we took some of that back in the quarter 3. Now is this material good for health, the answer is it is good for health, but we would rather keep it with us rather than keeping it at CNF points, etc., given the quality issues, but all this will be sold in the coming season. This is the only thing and the other two reasons are branded sale and provision and I am very sure that this is a temporary thing, mostly because of the financial discipline and I am sure like past also, we will recover this money.
- S. Vardaraj** In fact, if you add back the provision and then compare the numbers, you will see that the numbers are relatively better.

**Kashyap Pujara** And what is the total quantum of provision done in this business in the last 9 months, incrementally then compared to what you have been generally providing for?

**S. Vardaraj** This quarter was around 5 crore of provision which we made, so that is the reason why I said segment result of 21.8. If you add that 5, it will be around 26.8 and total around 7 to 8 crore of provision for 9 months.

**Kashyap Pujara** And lastly, could you also articulate how is the progress on in-licencing of certain R&D or molecules, how are those opportunities panning out? Are they still work in progress? Are we seeing completion?

**Balram Yadav** I think we have agreements in place with at least two in-licensing invents with two Japanese companies and they are under different stages of registration and completion of statutory formalities, but the first one we might decide for tea is likely to be launched in next 4 to 6 weeks.

**Kashyap Pujara** How would you quantify that size, in terms of an opportunity, for that product?

**Balram Yadav** Actually, the registration in that sector took some time, so we will catch the end of the season, so we are expecting 5 to 7 crore sales in this year, in case we get the registration in next 1 or 2 weeks, but next year, we are expecting 20 to 25 crore plus. Plus, some more molecules are also in the pipeline.

**Moderator** Thank you. The next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

**Prakash Kapadia** Two or three questions. On the crop protection business, any risk of incremental bad debts we foresee, given whatever the government is doing and which geographies are we seeing the stress on receivables?

**Balram Yadav** North and South are the geographies where some stress is there, but there is a significant improvement in North in January. Unfortunately, that is not getting captured in last quarter number. South is one area where probably we have to work more to recover the money, but I can definitely say that recoveries are happening and they are happening quick and fast. Because one of the things is that trades are also stretched as much as possible till the next round of material is needed, so my expectation is this quarter the recoveries will be very good. If January is an indication, then we are quite happy at what we are recovering.

**Prakash Kapadia** Last quarter, we had seen issues in terms of Kerala floods, palm oil postponement, which affected our revenues. This quarter, obviously, there were some one-offs in terms of the provisioning, so given that operating revenues have come back and have grown at 15%, but EBITDA has grown at a muted pace, what is your sense, I am talking more on the mid-term side, given whatever government initiatives our internal strategy, new products, do we see FY20 being sale and profitability both growing at a certain pace or still there are risks which are not clear, so how does medium term look like, I am not looking at the quarter in terms of what number are we targeting?

**Balram Yadav** Short, medium and long, agriculture is a synonym of risk. That I think we have to live with, but if you see the stress in the economy is less because of say, drought or underproduction or low productivity stress is more because of surpluses. We are seeing the surpluses evaporating in the milk business, which hit us very badly last year. SMP prices from Rs.140 has jumped to almost Rs.200 in last 6 weeks and if you see everywhere, everybody is talking about shortages of milk in the coming month, this is also because of drought like situations in several district. My sense is

that problem because of milk surpluses will go and ofcourse milk procurement prices will rise, but we have seen with a time lag, there is a pass-through which happens in milk, so my sense is that this sector will get back to the levels it was a few years ago. We are expecting average monsoon this year and we are okay with average monsoon because the kind of portfolio we have. We don't expect a very wet monsoon to do well. My sense is that in crop protection, oil palm, milk, things will be better. In animal feed, I think our pass-through recovery of margins along with tonnage growth continues and we will start showing good results from current quarter onwards.

**Prakash Kapadia**

And lastly, on the animal feed side, what are the kind of price hikes we have taken and are we done with price hikes or currently in the current quarter also there is some room for price hikes?

**Balram Yadav**

Prakash, I think this is a good situation to be in. Normally what happens is that, I would say stress in the animal feed business because of lot of people take positions in raw material. Now, it is a very unique situation when raw material goes up leaving the season when it should have fallen, so none of these feed players, farmers, or any of the big integrator had any raw material stocks with them, so everybody had to buy at high price, so the pass-through became very easy and that we have been able to do it and even recover our lost margins also, what the kind of trouble we had in October and November, as in December was better and January is even much better. What I am saying that there is no player today has any position advantage to play the price game.

**Prakash Kapadia**

And on the macro side, you mentioned Balram about stress is more due to the surplus, so we see that changing by the government initiative or it is one of those another policy and regulation and implementation will take its own time?

**Balram Yadav**

It will take its own time, may be my sense is that in case there is a stress in monsoon, most of the surpluses will vanish very quickly and food inflation will rise, so lot of this stress will come down for at least a year. But long-term policy decisions are very important in this, If we continue to invest in irrigation, continue to put money with the farmer, farmer will invest in agriculture infrastructure and productivity will rise. So, I see that instead of shortages of past, we will start seeing surpluses in future and that is why export policy, food processing, etc. should we encourage now to get rid of the surpluses or at least add value on them.

**Moderator**

Thank you. The next question is from the line of Deepak Jain from Progressive Equity. Please go ahead.

**Deepak Jain**

I have got couple of questions. The first one is on the frozen food business of yours, it is getting a lot of cheaper and better competition from platforms like Swiggy and Uber Eats, so how can Godrej Agrovet defend against such market disruptions?

**Balram Yadav**

You are absolutely right because according to us, the food delivery platforms are going to be one of the big competitors of heat and eat and ready to eat products. However, I think our strategy is to also create a very vibrant new product platform, you have seen in the Yummiez, we keep on introducing new and distinct products, so this is the kind of excitement, which will keep brands alive. We have one manufacturing facility in Bangalore for non-vegetarian frozen foods, we are commissioning one more plant in Ludhiana. I think it is under commissioning for vegetarian frozen foods and we strongly believe that even B2B segment is likely to be a big segment in frozen foods. I will give you an example, i.e even the traditional Indian snacks like vada pav, etc., are now being manufactured in food processing factories, frozen and delivered to retail, so I think this is one big opportunity, producers like us will get once this food delivery platforms take off because we will probably be big suppliers of frozen foods to them.



**Deepak Jain** The other question I had was, if I look at the consolidated entity Godrej Agrovet, I will see this backend is all commodity, but lot of innovation is taking place at your Nasik facility and within the organization and you are trying to build brands in dairy and food to integrate that backend which is commodity and transform it into some sort of value added because you are Godrej, you want to sell your brand, so given that perspective, how do you see a very long term, say 5 to 10 year kind of road map for Godrej Agrovet, how will the company look like, say around 2025 as a big picture?

**Balram Yadav** I think one thing which is very clear to us is that I can say that lot of data about East European countries, North Latin American countries, East Asian countries, which have gone through this animal protein transition 15 to 30 years ago. Because of the food habits, this transition happened in these countries much earlier is that definitely there is a transition from feed to food which happens, so feed companies either are bought by animal protein companies or morphed into to animal protein companies, examples are CP of Thailand etc., who were feed companies and now they are very big chicken company. So this is the kind of transition we will see in India also. My sense is that aqua feeds and poultry feeds will definitely be integrated, but cattle feed, since it is very fragmented market, 99% of our 176 million tonnes of milk comes from farmers having 1 to 4 animals, and it will still be fragmented. Cattle feed will be very big businesses in future, but in most of the other feed categories, I think integration will take over and most of the companies will head towards making animal protein. Having said that in spite of having brands, new product development and this transition from feed to food, if these businesses world over have very normal margins, EBITDA of about 9 to 10% and PBT of 5 to 6% because people are very sensitive about food cost. Agrochemical, we are very optimistic, we will continue to build this portfolio organically and inorganically and through in-licencing, I think most of that you will see start rolling out from the next year onwards.

**Deepak Jain** And one last small question. In your previous interactions, you had confirmed that the feed business, the cost leadership is determined by the economies of scale and that is what you have been trying to do, you have been trying to push volumes may be at the expense of margins. You expect to do that into the next financial year as well or you believe that you now have this sort of economies of the scale where you can start pushing up some margins because a little bit of margin price change on a high volume can give you some operating leverage. Would you like throw some colour?

**Balram Yadav** We are very encouraged by last two years bump up in our sales volume, so at least we have established that if we deliver a particular quality at a particular price, they have takers for that and we also arrested the decline we were having in broiler feed because broiler is totally integrated, so we could make sense to B2B customers also in broiler feed and make a little margin. Having said that, that strategy I think has played out well, but we also now have embarked our journey of maintaining 15% plus volume sale but also adding 0.5% to 1% of our margins going forward because considering the margin levels of the current year, I think we are a little worried that beyond this, we should not try and push this strategy, we should try and now improve margins. Some of it will come from price increases, some of it will be coming from scale. As we are in the process of budgeting, we see that with capacity utilization improving, we can scrape through some of the margin from there and some of it will also come from some R&D initiative which are in progress at two places in India, Nasik as well as one more initiative is coming up in Bundi in Rajasthan.

**Moderator** Thank you very much. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra** My first question was on the animal feed side. So, last quarter, you had seen this pressure on shrimp feed, this quarter is obviously not the season but going ahead

we will get into that season, so any sense of have things improved on that part of the business going ahead?

**Balram Yadav**

The industry situation looks much better than what it was a few quarters away and I am sure we will benefit from that but considering that we are part of the big gang which is in the bottom 30%, I think that I am not expecting absolute volume growth. In percentage, it may look good because of low base, but with significant volume growth highly unlikely in the coming year, it will be a slow transition towards high teen growth for next 2 to 3 years.

**Arnab Mitra**

And on the margins in this business because those had also been significantly impacted, how do you see that going ahead?

**Balram Yadav**

So, margin also will improve because shrimp price has improved, so people have been able to take price increases and I am sure it will not be as bad as the last year.

**Arnab Mitra**

The second question is on this, sir this year first 9 months, I think the animal feed, the EBIT margin is about 3.7%, so your comment that this 0.5% to 1% increase you could target on an annual basis, it would still mean that your margins will be lower than what it has been in the past 2 to 3 years, so is that like permanent shift down in what level of margin ultimately this business can operate at?

**Balram Yadav**

I think the way to look at it is that we want to grow 15% still volume. The reason is because we got 2.3 million tonnes of capacity and we are producing about 1.25 million tonnes for our sale and about 150,000 for our integrated business, so we are producing about 1.4 million. Another 2 years of 14% to 15% growth will bring us to the level where scale will also start pushing, at least a percentage point improvement in our margin. I think this strategy initially for the first 4 to 5 quarters have played out well, my sense is that I would call it successful if we demonstrate an improvement in margin as well as volumes in this quarter also and first month of this quarter has been encouraging in both these areas.

**Arnab Mitra**

Secondly, I wanted to ask on the dairy business, so the margins have been quite volatile and low in the past, but this quarter has been quite decent, so do you see that there will be little more stability going ahead in the dairy margins or any reasons why one should expect kind of step-up in the margin overall on FY20 versus FY19 basis?

**Balram Yadav**

If you see this year, we have taken about 12 to 13 crore hit because of our butter stocks, so if you remove that there is a growth over last year and last month, we did more than 12 crore. The reason was there is no provision for butter stock; however, in this quarter, everywhere the milk prices are increasing, so 1st of February onwards, at several places, milk prices have increased by 1 to 2% and how fast the industry can respond and take price increase will determine how this quarter will shape up, but on the whole there will be no losses because of commodity at least in the next coming quarters, so I see more stability in the margins. The second thing is that we could only commission our extruded ice cream, other value-added products like flavoured milk, thick shake, yogurt, etc., towards the end of the season last year. Now, most of the production is stabilized, there is a huge push on sales and distribution and branding, so we will start salience of these products also in our total sale increasing which are much stable or more profitable product than liquid milk.

**Arnab Mitra**

And my last question is on the JV share and contribution to profit. This 9 months you have seen kind of a decline in all the 3 quarters, so how do you see that outlook on those businesses in terms of profit contribution to the consolidated over the next year or so?

**Balram Yadav** You are talking about GTFL. So, GTFL also, performance is improving.

**Arnab Mitra** ACI.

**Balram Yadav** ACI, I think one thing you must remember that animal protein sector worldwide behaves very similar, so the kind of turmoil we had in the first 6 months, we also had in Bangladesh, there volumes were hit particularly in cattle feed and the profitability was hit, but I am saying this is part of very important food in Bangladesh, so it comes back much faster than it comes back in India. Bangladesh also, things have started improving very well.

**Moderator** Thank you very much. The next question is from the line of Bharat Sheth from Laksh Capital. Please go ahead.

**Bharat Sheth** Sir, my question is regarding this, our post-merger with Astec Lifescience, so just wanted to understand the time schedule and the process and how the things work out. I think we have applied to NCLT and once the NCLT gives us the approval to move ahead, what could be the time schedule and how many months this process could be completed?

**S. Vardaraj** As you rightly said, the matter is with NCLT and we are sort of awaiting for hearing at NCLT whereby they give us directions to call for a general body meeting of the shareholders. Now, having said that in terms of timelines, given the various procedures involved, especially with various agencies being involved in this, slightly difficult to give a timeline to it. We are hoping that may be next 3 to 6 months is what we should see some progress happening on this.

**Bharat Sheth** Once you get the green signal from the NCLT, then the next step would be to go for the voting for both the companies because I think we will have to go for the voting of the minority shareholders of both the companies, is that right?

**S. Vardaraj** Once the NCLT hearing happens, then NCLT will direct us to call for a general body meeting of the shareholders for both the companies and then accordingly we will go ahead with the process involved in that.

**Moderator** Thank you. Next question is from the line of Yogesh Aggarwal from Aggarwal Associates. Please go ahead.

**Yogesh Aggarwal** Sir, I would like to know that the product mix of Godrej Agrovet is very good but as far as Yummiez and Real Good products are concerned, you are not very well and aggressively marketing it like we have seen in Venkys. We were expecting better than that from Godrej group?

**Balram Yadav** Definitely, I think I will take your feedback and I think we will try and improve on it and you will see that improvement. That is the only thing I can say.

**Yogesh Aggarwal** How early we can see this thing happening?

**Balram Yadav** I will just say that we are revamping a few things there and you will see some improvement there.

**Yogesh Aggarwal** Sir, the next question is, like last year we had a public issue at 460, but the stock is still languishing at the same price, even after 1-1/2 years, so can we see some improvement over there?

**Balram Yadav** The promoter hold about 69% of the company, they are equally worried.

**Nadir Godrej** And you see the third quarter has become a grip and not as indication of trend.

**Moderator** Thank you. The next question is from the line of Deepak Jain from Progressive Equity. Please go ahead.

**Deepak Jain** My question is on the acquisition. So, Godrej Agrovet acquired the majority stake in Israeli Biotech firm called Maxximilk, I think early last year 2018. Can you share some thoughts on how the integration is progressing and what is your long-term vision with this company? I know you have your R&D centre in Nashik and that is doing lot of innovation, but how do you plan to integrate Maxximilk with your existing R&D infrastructure?

**Balram Yadav** We have two R&D setups in Nashik, one is R&D setup for nutrition and the other is the R&D centre for genetics. Now Maxximilk is the genetic company and what we are doing there is that embryo transfer technology has been perfected there. Two Israeli scientists have relocated from Israel and are based out of Nashik, very sophisticated laboratory and a farm which can house about 1000 animals is already functional. Now genetics, you know is a long-term thing, even if pregnancy will take whatever time it takes, embryos will take whatever time it takes and then further regeneration of those animals will take whatever time it takes, so we definitely feel that this is a very time tested and a scientifically proven method of improvement in genetics, particularly in cattle. We strongly believe this country needs it and it can definitely revolutionize milk production in the country and having a rise on milk because we are in cattle feed, we are in milk, I think genetics is logical part of this chain, which will help us integrate all this in future. Having said that I think this is still at a very experimental stage, we are just 2 years into the project. My sense is that we will see results of this project in next 12 to 18 months when we can confidently say that we are good at embryo transfer technology and we can sell these technologies to our farmers and collect milk from them and process it and sell.

**Deepak Jain** And just to follow on from that how much you spend in the research and development on an annualized basis, is there a certain percentage like X percent of sales or is it our absolute number? Can you share some colour on the R&D spend for this year as well as next year or so?

**Balram Yadav** Four of our businesses are doing R&D, one is Maxximilk, you all know that, so there I think we have already invested capital plus losses in past 2 to 3 years more than Rs. 25 -30 crore plus it is likely to still continue to take investment of about million dollars a year for next 2 years. Apart from that in animal feed, we have this R&D centre and some of the things which I need to tell you is that when we perfect a technology or we develop additive or we develop an ingredient which can be used, there is another CAPEX which we need to make to produce that material, so the R&D spend is about 10 crore in animal feed, but we are investing close to 100 crore in two plants, one at Nashik and other at Bundi to produce some of the R&D products which will be used in the animal feed business and the poultry business. Similarly, in agrochemical also, we spend close to 10 crore both in Astec and our own agrochemical business and today, we have so much of work at our hand, particularly in Astec that we have run out our lab facility, so we are temporarily expanding our lab in Astec at Dombivli, but already plans are underway to put \$5 to \$6 million GLP lab somewhere near Mumbai of the scale where we can really do all the technology work we want to do particularly in agrochemicals.

**Nadir Godrej** I would like to stress that the return on capital and R&D investments is very good. In agrochemicals, it takes a little bit longer to get the returns because the approval process is quite long, but in animal feed, we get the pay back very fast and as Balram

says, we have already commissioned the first step of plans in Nashik. We will expand our capacity for these new technologies very soon and the Bundi plant should come during the next calendar year hopefully and we will expand that capacity also once we establish the process properly.

**Deepak Jain**

And just one thing, in your previous concall last quarter, you said that one of the rationale behind merging Astec Lifesciences with Godrej Agrovet was to help attract better talent under the Godrej umbrella, do you see that sort of synergy or gains coming from the B2B customer side as well, where Astec supplies innovative patent and molecules to MNCs globally. So do you see that gaining traction as well under the consolidated entity where Astec is part of Godrej Agrovet itself?

**Balram Yadav**

We could recruit a new R&D head, Dr. Anuj Mittal who joined about a month and a half ago. He has got more than quarter century experience in agrochemical and pharma and he is in Godrej Agrovet and will also oversee Astec Lifesciences. We are selecting a team, several people are Ph. D's from IIT and some foreign university in Godrej Agrovet who will be available for Astec Lifesciences also.

**Moderator**

Thank you very much. The next question is from the line of Utkarsh Maheshwari from Reliance Insurance. Please go ahead.

**Utkarsh Maheshwari**

It is encouraging to see that dairy has improved the performance, but I think there has been some decline in the profitability at the oil business, so is this the new normal kind of thing or do we see some sort of pull back happening in the coming quarter? The vegetable oil part, if you see on Y-o-Y basis, the margins have come down and even for the 9 months also, the margins are lower at 18.4 versus 20.3, is this the new range what we have to see or there has been relaxation in the import duty also?

**Balram Yadav**

No, there are two main reasons and I will be very honest with you, one is that there is a difference in the prices of Telangana and Andhra for the first time in past so many years, so our fruits had started leaking to Telangana and so to those farmers, we had to pay an incentive to bring the fruit to us, so this is one of the cost which came. The second thing is that there is 180 crore investment of a new plant with new technology which has been capitalized this year. Now this plant is one of the most modern technologies and such plants are only there in Indonesia, Malaysia. It is a continuous sterilization technology, much safer from human safety point of view because earlier plants had manual interventions, so this is fully automatic plant along with 4-MWt electricity production and this plant is going to significantly improve our OER – oil extraction ratio, as it has done in several other countries. So, this is the first plant of this technology which we have set up and this was capitalized for the second half of the year.

**Utkarsh Maheshwari**

So, what could be the expected OER for us from the bunch to the oil?

**Balram Yadav**

Today, we are hovering at about 17.5 to 18% and my sense is that this will change to 18 to 18.5% in future.

**Utkarsh Maheshwari**

Is it fair to say that this margin should come back, say another by 50 basis points over next couple of quarters?

**Balram Yadav**

There are a lot of moving parts. I am saying that this margin can expand also. The reason is that oil prices have started rising, point number one. Point number two, CACP- the commission of agricultural cost and prices has written a report to the government on how to sustain oil palm plantation and make it profitable for processor as well as farmers. If all those recommendations are implemented by central and state government, we will see a very rapid growth of margins for both farmers and

us, plus we will also see rapid growth in the expansion of this. Now that has to be adopted by cabinet and implemented and there are some financial implications. I am not talking about 1000s of crore, I am talking about 100s of crore about probably cabinet will approve it quickly. So, this is one of the big changes in this industry which will happen, which will benefit processor and farmer the most, because government will start taking responsibility for giving MSP to the oil palm farmers. On saying that there are lot of things depending on oil price, but I can tell you our cost will not increase significantly, our efficiency we will go up, our area coverage will go up and productivity per farm will go up.

**Utkarsh Maheshwari** Is there any incremental areas under coverage for this quarter from this 66000 hectares from last quarter?

**Balram Yadav** I don't know, but I think this year we are going to add +4000 hectares.

**Utkarsh Maheshwari** Sir one more thing, slightly long-term question ambition. For the Agrovet as a whole, we have seen the margins at the EBITDA level has actually come down at 8.4 for the 9 months versus 9.2 for the corresponding 9 months last year and probably for all the known reasons to 6.9 in this current quarter because of the raw material impact. What should I see as a margin ambition from your part if you see 3 to 5-year long-term horizon? What is your ambition range if you can just highlight on that side?

**Balram Yadav** What is the current EBITDA margin?

**Utkarsh Maheshwari** 6.9 if you adjust it for the other income, for this 3 months and 9 months it is down to 8.4 versus 9.2.

**Balram yadav** I am saying that I don't see any problem in going back to 9.2 to 9.5 very quickly and I think that we will demonstrate very quickly, but that does not fulfil the ambition we have. We are very ambitious on our high margin businesses like agrochemicals, oil palm plantation, etc., so inorganic growth can definitely improve our position there.

**Utkarsh Maheshwari** But what could be the range on ambition. I have to say, you will be looking at 12 to 14% is the range as in and next 3 to 5 years horizon I am asking?

**Balram Yadav** It is too forward looking, but we are not happy where we are, you will definitely see rapid improvement there.

**Utkarsh Maheshwari** Just to reconfirm that, we have taken the required requisite price hike in the animal feed and probably now we are fully pass-through on the part of animal feed, right?

**Balram Yadav** Yes.

**Moderator** Thank you very much. Next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara** Just a couple of book keeping questions. One is on the yield that we are currently at on the oil palm plantation side this year and what has been the total fresh fruit bunches processed in the current year. Could you be able to please share that?

**S. Vardaraj** In terms of the fresh fruit bunches processed for the year, we have processed around 4 lakh and 55,000 metric tonnes of fresh fruit bunches.

**Kashyap Pujara** And how would that stack up versus the same period prior year? Last full year was 433, right?

**S. Vardaraj** No, last full year was more, in 9 month basis, it is at last year levels only. As we rightly mentioned that we saw some kind of slippage of our fruits into the neighbouring Telangana state which was some kind of fruit loss for us during the current year because there was a price differential between Telangana and Andhra Pradesh, but for that our fresh fruit bunches process procured would have been much more. We are at similar level in-terms of fresh fruit bunches processed vis-à-vis last year.

**Kashyap Pujara** And what would be the yield per hectare currently?

**S. Vardaraj** That we can share with you in offline in terms of what kind of yield, based on the ageing profile.

**Kashyap Pujara** And lastly, if I just see the capital employed in the animal feed business, in 9 months it has come off quite significantly versus the same period last year. So, is this an aberration or do we consider this as the norm in terms of going forward as to the level that it should remain at?

**S. Vardaraj** We are now focused on improving the working capital in animal feed and that is what one would see in terms of the capital employed on animal feed in this quarter has sort of come down and I think there is no reason for us to not see a similar kind of capital employed going forward.

**Kashyap Pujara** So, essentially though the profit margins are down, but the overall cash flow generation from the business has been better, I mean in the relative sense?

**S. Vardaraj** Absolutely, similarly even if I have to look at the other ratios like return on capital employed etc., that has sort of impacted favourably because of this.

**Moderator** Thank you. Next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

**Sumant Kumar** My question is regarding the price increase you have taken in animal feed, so what was the last price increase you have taken, how much percentage and which month you have taken?

**Balram Yadav** I think the total price increase is close to about 6 to 7% in last 30 days or so, 30 to 35 days.

**S. Vardaraj** We keep on revisiting the price based on how the raw material price are and try to pass on as much as possible to the market, so this is the ongoing process. There was a gap between the raw material price increases and the price increases if you could take, but we are trying to catch up on that.

**Sumant Kumar** How much gap is there?

**Balram Yadav** The main problem was that in the first 6 months the pass-through was short by about 2% that we caught up in the last quarter and in January I think we have far exceeded that.

**Sumant Kumar** We can say the 3 month lag you were taking price increase for 2 months?

**Balram Yadav** No, it is never like that. Now we are taking a price increase of 3 days lag because the competitor also, it is now level playing field. Nobody has any position on raw material. You know how the commodity is, everybody is buying from the market, we

know at what prices people are buying. The problem happens when people have 3 months position, 4 months position on raw material, so they can stretch the price war a little.

**Sumant Kumar** What is our raw material buying for 3 months, 4 months and what is the local player raw material buying, they are buying for say, 1 month and 2 month and we are buying for 3 months and 4 months?

**Balram Yadav** No, I am saying that today the situation is so volatile that everybody is keeping material for only 15 to 20 days because there are a few things in the macro environment also. In spite of soya meal prices going up, we all know that soya is a bumper crop in US, so when it will fall, it is just matter of time. The second thing is that rice bran prices have gone up because certain states during election promised a high price for paddy and farmers kept on holding on to paddy expecting the new governments in different states will give a very high price. The whole season has been delayed by 4 to 6 weeks and that is hitting us, but is there a shortage of paddy, the answer is no. Is there a shortage of soybean, the answer is no. So, it is just a matter of time that rationalization of prices will happen once the raw material is in the market in full flow.

**Sumant Kumar** What is your view on that? The price will start correcting from here and in that case, do we have inventory loss also going forward in couple of years?

**Balram Yadav** No, we don't have inventory for more than 15 to 20 days.

**Sumant Kumar** And you just said that you lost FFB to Telangana, so your competitor has taken FFB?

**Balram Yadav** Actually, how it happens we are on the border of AP and Telangana in AP, so legally the farmers cannot go and give it to somebody else as per the AP Act, but farmer-farmer brotherhood prevails there and in Telangana, there is the mill AP Oil FED Mill which is the government mill and they were very happy taking more and more because normally that mill is most of the time underutilized.

**Sumant Kumar** How are we going to handle this kind of scenario situation?

**Balram Yadav** Good Question. I think one of the things which we are also pushing the government to adopt, particularly the central government, is the CACP recommendation, which creates level playing field not only but in AP and Telangana but also throughout the country because the formula is fixed for everybody, the pay-out will be fixed for everybody, the methodology will be common, so everybody will be adhering to the same formula.

**Sumant Kumar** So, the government organization is more active than us?

**Balram Yadav** Yes. Farmers, you know their behaviour. If they get little more, they will go to that place. I think this kind of disparities were never seen and we approached both the state government that this is like unfair to the processors when you keep a differential like that but you know how it is, so the Andhra Pradesh government was very proactive to our request and they immediately corrected the formula to certain extent and we also threw in a little bit of incentive for the farmers.

**Nadir Godrej** So, our contribution margins slightly fell.

**Sumant Kumar** Is there distance issue that farmer is more close to that mill?

**Balram Yadav** No, it is equal distance, actually most of the mills are located in the middle of the plantation and we have adjacent plantation. The Telangana oil feed and Godrej, we have adjacent plantation, so difference is 5 to 7 kilometre here and there.

**Nadir Godrej** Basically, Telangana was offering us slightly higher price, so we lost a lot of volume. Now that has been corrected.

**Sumant Kumar** So, what initiative we have taken? So, we are talking to the government and what other initiative we have taken? We are talking to the farmer, our relationship with the farmer, these kind of initiative, what initiative we have taken?

**Balram Yadav** I am saying one of the things is that when government sets a formula, then it is very difficult for us, our intervention has no meaning. I think one of the things which central government promptly did that they knew this is the problem and that is why they brought in CACP. CACP did a very exhaustive study over 6 months and has given a very wonderful and progressive report. Now, the ball is in the court of the central government to adopt those recommendations and implement. All state will implement. It is a wonderful report, it has all the data, the calculations are correct. We are extremely happy about this sector. So, I think it is just waiting for adoption at the cabinet level.

**Sumant Kumar** In couple of quarters, do you think it is going to be solved?

**Balram Yadav** I don't know, it is election here, your guess is as good as mine.

**Moderator** Thank you very much. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management team for closing comments. Over to you.

**Nadir Godrej** Thank you. I hope we have been able to answer your questions satisfactorily. If you have any further question or would like to know more about the company, we would be happy to be of assistance. Thank you once again for taking the time to join us on this call.

**Moderator** Thank you very much. Ladies and gentlemen, on behalf of Godrej Agrovet Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.