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Date: May 16, 2019

To,
BSE Limited
P. J. Towers, Dalal Street, Fort
Mumbai – 400 001.

To,
National Stock Exchange of India Limited
Exchange Plaza, BandraKurla Complex,
Bandra (East), Mumbai-400 051.

Ref.: BSE Scrip Code No. "540743"

Ref.: "GODREJAGRO"

Subject: Transcript of Conference call of Godrej Agrovet Limited with Investors & Analysts held on May 7, 2019.

Dear Sirs,

Please find enclosed herewith transcript of Conference call of Godrej Agrovet Limited held on Tuesday, May 7, 2019 at 4.00 p.m. IST. with the Investors and Analysts.

The aforesaid information is also being hosted on the website of the Company viz., www.godrejagrovet.com

Please take the same on your records.

Thanking you,

Yours faithfully,

For Godrej Agrovet Limited

VIVEK PRITAMLAL RAIZADA
Digitally signed by VIVEK PRITAMLAL RAIZADA
Date: 2019.05.16 16:25:38 +05'30'

Vivek Raizada
Head – Legal & Company Secretary & Compliance Officer
(ACS - 11787)

Godrej Agrovet Limited
Q4 and FY19 Earning Conference Call Transcript
May 07, 2019

Moderator: Ladies and gentlemen good day and welcome to the Godrej Agrovet Limited earning 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good evening everyone and thank you for joining us on Godrej Agrovet's Q4 and FY19 Earnings Conference Call. We have with us Mr. Nadir Godrej – Chairman of the company; Mr. Balram S Yadav – Managing Director and Mr. S. Vardaraj – Chief Financial Officer of Godrej Agrovet Limited.

We will like to begin the call with brief 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 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 the initial remarks.

Nadir Godrej: Good evening everyone. I welcome you all to the Godrej Agrovet conference call to discuss the operating and financial performance for the fourth quarter and the full financial year 2018-19. I shall take you through the summary of the results followed by the key developments and operational highlights for each of our businesses.

So the fourth quarter of 2019, the consolidated total income was Rs. 1357 crore registering a growth of 12.6%. Consolidated profit before taxes, excluding nonrecurring and exceptional items, was Rs. 54 crore. Similarly, for the full year of 2019, consolidated total income was 5896 crore which is a growth of 12.6%. Profit before taxes, excluding non-recurring and exceptional items, was 361 crore.

Please note that the above total income and profit before tax has been adjusted for 2 nonrecurring items which are part of other income. First, FY19 includes Rs. 29.9 crore of nonrecurring income earned on sale of land in GAVL. Secondly, fourth quarter and full year FY19 also includes a loss of Rs. 2.3 crore incurred on sale of land in the subsidiary CDPL.

Our balance sheet remained strong with the low consolidated net debt to equity of 0.18 as on March 31st 2019 compared to 0.22 as on March 31st 2018. Our return on capital employed for the year 2018-19 was 16.8%; however, adjusting the capital employed for recently consolidated business, the ROCE is at 18%.

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

In the animal feed business, volume growth for the fourth quarter was 10.4% supported by layer feed. We have taken a price increase for most of our end products which resulted in a year-on-year revenue growth of 21.8% during the quarter. The segment margin improved sequentially compared to the last quarter, but was lower than last year. This is because the entire increase in raw material cost could not be passed onto the farmers. For the full year, volume and revenue growth remained strong at 14.2% and 18.3% respectively. However, the segment results have been impacted by high raw material prices. In the coming months, we will continue to focus on maintaining our volume growth momentum along with improving the segment margins.

For the oil palm and crop protection businesses, given the slack season, quarter 4 revenues form a relatively lower share of the full year revenue, therefore we should look at full year numbers in these businesses. In the oil palm business, revenue grew by 16% in fiscal year 19 supported by increase in crude palm oil prices as fresh fruit bunches arrival volumes were flat. Segment margin was at 16.7% compared to 19.2% last year. Our emphasis will be on increasing the area under coverage and on improving the yield. Our new oil palm mills with the latest continuous sterilization technology commissioned in fiscal year 19 is expected to help increase the yield. In the crop protection business, the standalone segment revenues and segment results grew by 7.5% and 12.4% respectively. This was despite it being a tough year for domestic agrochemical companies. The sales mix during the year was more skewed towards traded products. In our subsidiary Astec Lifesciences, we had strong growth in revenues and operating profitability during the year. The revenue and EBITDA for fiscal year 19 grew by 16.2% and 14% respectively.

Creamline Dairy Products Limited, our dairy subsidiary, posted revenues of Rs. 271 crore in the current quarter compared to Rs 274 crore recorded in the same period last year. However, segment profitability improved significantly as there was no butter provisioning during this quarter compared to a butter provision of 8.5 crore provided in the same quarter last year. For the full year, while the revenue remained flat at Rs. 1161 crore, EBITDA grew by 21%. The salience of value-added products also increased to 27% of revenue from 24% last year. Going forward, our focus will be on strengthening the Jersey brand and increasing the salience of value added products.

In our poultry business under Godrej Tyson Food Limited, we had increased our stake to 51% on 27th March 2019 and it now becomes a subsidiary of GAVL. The revenues during the quarter and the full year ended March 31st 2019 grew by 12.9% and 12.7%, respectively, supported by growing sales in Live Bird and Yummiez businesses. Please note, while we have consolidated the balance sheet of Godrej Tyson with GAVL as on March 31st 2019, the profit and loss statement will be consolidated from the coming quarter onwards.

GAVL's joint venture in Bangladesh, ACI Godrej recorded a revenue growth of 12% year-on-year for the fourth quarter aided by volume growth in cattle and broiler feed; however, for the full year 2018-19, revenue declined by 3% due to volume decline mainly in the aqua feed segment.

With this, I conclude our business and financial performance update for the quarter and the full year. We will now may happy to take your question.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: While the topline growth has been healthy, working capital has decreased significantly, so cash generation, debt reduction all those things have increased. But, margins really are going up negatively as you mentioned regarding animal feed and dairy segments. But given the context that the company has displayed over the last 7 to 8 years a healthy crore, but in the last couple of years kind of be struggling to grow on profits especially at the net level. Just my question is only one that what according to the management, would it take for us to end up growing at 20% kind of growth at the net level? What it that we need for us to actually demonstrate close to 18- 20% profit growth?

Balram S. Yadav: Good question Kashyap, but a difficult one. Yes, future is not the extension of past and I think several things have changed. One of the things which we struggle with past few years was low growth in the animal feed business and if you remember, the volume growth was stagnant even though profitability was very high. Two years ago, we decided to go for a trade-off, aggressively reduced cost and re-priced our products in the market to compete with lot of competition which had come up very locally, so we have been able to restore the volume growth. As per the plan, I had mentioned that we will start expanding margins from quarter 2 of last year. Unfortunately, that got delayed by one quarter, but over the last 6 months, steadily every month our profitability in animal feed has grown, so you will see improved performance in animal feed from now on, because I think in some way we have reduced our costs and become more competitive while restoring margin. It is now time that through our R&D, etc., we need to expand the margin well about 1 percentage point, which will happen in the next few quarters going forward.

Dairy business, the problem was not to do with profitability of different products. It was the hit we took because of low prices of butter and SMP and if you see in the second half that butter and SMP hit was not there and we came back to about 2.5 - 3% margin. As the salience of value added products in dairy grows, we will definitely have margin expansion. Since the prices of SMP and fat has started improving in last few months, there is no longer mark-to-market hit which will come, so I am very sure that we will restore our lost pride as far as margin expansion is concerned and you will start seeing those results in the coming quarter.

Nadir Godrej: I would also like to add that two other engines of growth are acquisitions and R&D. While R&D takes a little bit of time to kick in, acquisitions depend on if and when opportunities arise and we capture them. But these engines were not very important in most of last year, but I think going forward, both will become more important.

Kashyap Pujara: So, given that if one were to not include acquisitions for now, and if one were to just look at the current segments that we operate in, which are pretty large and we have a good potential to scale up within those given a brand positioning, 10-15% growth there with 15-20% expansion in profits purely because if the margins normalize in animal feed and in dairy which is again substantially lower is something which should be doable?

Balram S. Yadav: Yes, I agree with you. I think anything between 10 to 15% growth in topline and 15 to 20% growth in bottomline is doable and that is the plan.

Moderator: Thank you. The next question is from the line of Darshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

D Padmanabhan: My question is on the feed business. What I would like to understand is in this quarter, we have seen volume coming back pretty strongly and margins correcting. So I mean, earlier the issue use to be that the market use to go towards integrated players and what has really changed from a strategy point of view that we are seeing the volumes coming in this quarter? How sustainable are these volumes? Going forward, what we understand from the ground is the farm economics is not that great, so given that scenario the farmer doesn't really have liquidity or the funds at this point of time and also that there is fair amount of confusion with respect to how the monsoons are going to be with one saying below and one saying normal. How do you see this business, gaining and gathering momentum for you, both in volumes and profitability?

Balram S. Yadav: So from the opportunity point of view, if you see the animal protein market, we have had a steady growth of between 7-8% in volume for the last 15 years and I am talking about a mix of different animal protein which is fish, shrimp, milk, eggs and chicken. We strongly believe that considering that India is becoming richer, animal protein consumption will increase and the 7-8% growth in volume of animal protein will be maintained for at least next one decade till we come to global averages in animal protein consumption. That said, feed businesses will always be big. The only difference will be whether feed businesses will be standalone or will be integrated. Now, one of the things which we have seen particularly very fragmented market like fish and cattle that the feed businesses will be relevant and integration will take very long time to take it roots, but definitely in poultry integration has happened, but there is still sufficiently reasonably sized market of small integrated and independent farmers which the feed miller can cater to, provided the value proposition is right and that is what we corrected in last 2 years and that is why we arrested degrowth in our broiler feed and started growing very aggressively in layer feed. To what you said on growth, let me also tell you that in last one year, we have growth layer feed at about 42% and this is no mean achievement which is the highest ever growth achieved in any animal feed segment by the company. The second thing you were talking about monsoon. Yes, it is very critical for our oil palm plantation and for our CPB business and it will also have a ruboff on our other business, but fortunately we have seen whenever monsoon is little less, we see very big spikes in our sales of animal feed because cattle feed fodder etc., availability is a constraint, so that way we have hedged business as far as natural calamity or some noise in the market,whenever it happens. The only thing is that I can definitely say that in these businesses, we will never have a very high upside or very high downside ever, so I think if you are expecting a 25% growth that will not happen, but if you are expecting a 10-15% degrowth also that is also not going to happen.

D Padmanabhan: Sir, my second question is on Astec Lifesciences, I mean with Godrej deciding that it is not going to pursue the earlier plans of merger, has anything changed with respect to number one, outlook of Astec Lifesciences itself and number two, your go-to strategy with respect to Astec Lifesciences as a Godrej group?

Balram S. Yadav: There is no change in the strategy of Astec Lifesciences. This year also, we have budgeted 80 plus crore investment which is in addition to almost 40 to 50 crore we invested in the backend production capability to reduce our dependence from China, so the focus remains, the aggression remains. Then we are scouting for more customers and more molecules, more aggressively than ever before. However, we engaged with lot of state holders of both the company and we felt that leaving Astec Lifesciences standalones to pursue these opportunities will be better for next few quarters. Having said that, we have not totally given up our thinking on merging Astec but not in this quarter or the next quarter, but a few quarters later we will definitely revisit it.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, just regarding Astec, so what was the initial thought when we had decided to merge the business and then there were certain synergies in mind and now we have decided to not merge the business, so any particular reason why we have taken such drastic decision?

Balram S. Yadav: At that time, synergy benefits for Astec are actually housed in GAVL. So for lot of synergy benefits in terms of staff functions, etc., we could do without merging it. So we provide HR support, legal support, accounting support, secretarial support, but it is very easy because it is only marginal cost for us in Godrej Agrovet. Having said that, Astec has few challenges in the export market, you know that our exports have slowed down because of postponement of some of the orders in quarter 4 last year. It is likely to pick up in this quarter and the next quarter largely because of a glut in agrochemicals in Latin America and American markets plus they are pursuing several new opportunity where we feel that keeping Astec as a standalone company is better in terms of pursuing and getting those opportunities going for them. So there is no change in thinking. Definitely we will back Astec to whatever extent required, but we think that merger can be postponed by a few quarters.

Aniruddha Joshi: So have we decided the timelines for the revised dates, for the merger or we will take in due course of the time?

Balram S. Yadav: So there are 2 to 3 initiatives on in Astec Lifesciences, one is the world class R&D centre, the second is we have to invest in one herbicide plants and some more debottlenecking we have to do very quickly and I think that is something which will take about year to year and a half. We are also pursuing some more opportunities on contract manufacturing side. So I think I am very sure that at least for next 4 to 5 quarters we will allow all this to play out and then think about merging this company.

Aniruddha Joshi: Sir, in case of oil palm business, we have seen significant drop in profitability in this quarter, so is there any extraordinary item in that?

Balram S. Yadav: Seasonality might be seasonality, oil palm season is from May to November and it peaks in July, August, September, so you will always have quarter 4 where we will make loss because we are not running the mills, the fruits are not coming. So it is a seasonal business, so I think you will have to and we will have to live with that.

Balram S. Yadav: And we have a new plant also which is fairly idle in this quarter.

S Varadaraj: Almost Q4 constitute only 10% of the total annual number.

Aniruddha Joshi: But that should be the case actually on a Y-o-Y basis also. So on a Y-o-Y basis, we have seen oil palm has done decently well, means at least it generated profit in March 17 or even March 18 quarter?

S Varadaraj: As Mr. Godrej mentioned, what happens in an off season, even in last year, for example- if you have to see previous year same quarter that has had 4 crore kind of profit number, segment result number. This year with that small kind of a number, as we mentioned earlier, we have put a capacity in oil palm, the Capex that has resulted into depreciation in interest charge, and all those kind of things will sort of impact this number.

Nadir Godrej: The interest in depreciation will be much higher this year than in the year ago quarter because of the new plant.

Aniruddha Joshi: Last question on dairy, so with rising milk procurement prices and I guess we have less than 20% milk direct procurement. So our procurement cost might go up, so despite rising procurement cost, we remain confident about expanding margins of dairy business?

Balram S. Yadav: One of the things is that the process of passing on the additional cost of procurement to the consumer has started happening in all southern Indian states because the election is over. Cooperatives are the reason why the passthrough of this cost was delayed. So that said, profitability of our dairy business hinges on the salience of value added products which is slowly and steadily rising because our contribution are upwards of 20% in that, and as the salience increases, the profitability will become more scalable and sustainable.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Given the challenges seen in the agri sector over the last 4 to 5 quarters, isn't this the time to step up inorganic opportunities because under difficult times, you will find value and strategic fit, so any thoughts on that?

Nadir Godrej: We entirely agree, but these things have a process in timeline.

Prakash Kapadia: I am sure there have you mentioned in your opening remarks that was not a focus area, so just make logical sense to pursue?

Balram S. Yadav: Strong balance sheet ,standalone our debt equity was 0.07.

Prakash Kapadia: Yes, absolutely everything is right, I am not even denying, just it seems we should focus more was the idea.

Balram S. Yadav: Sure.

Nadir Godrej: Yes, we entirely agree with you.

Prakash Kapadia: On the palm oil business, you talked about seasonality, but if I look at the entire year for palm oil business, the segment margins are still lower, so was the one-off for the year as a whole or those margins were maybe big margins and these are normalized margins?

S. Vardaraj: I think in the current year if you see the margins did get impacted because unfortunately the fresh fruit bunch price which we had to pay the farmers has been increased during the year. As you are aware that in the current year, in terms of the fresh fruit bunch arrivals there was a small challenge which we had faced and hence we had sort of increase the fresh fruit bunch price and to that extent.

Prakash Kapadia: Lower supply that higher price would be because of lower supply or what?

Balram S. Yadav: Prakash, let me explain to you what happened. Our plantations are largely Andhra Pradesh, but on border of Telangana and Andhra Pradesh. There was a differential of 1% in terms of price to be paid to the farmers and Telangana was higher by 1% and most of our fruits started escaping to Telangana because Telangana government was paying slightly higher. So in those districts, we had to pay Telangana price and that was one cause. The second cause we were expecting Andhra Pradesh government to react and implement the act because as per the act, they have to prevent this kind of an outflow from our areas to some other areas, but as you know the government can control very little. By the time, we realized that there is no other go, but to pay more almost 30,000 tonnes of fruits had escaped to Telangana, so that was a hit. In the second half, we capitalized this 183 crore plant and interest in depreciation came on us and also second half was off-season.

Nadir Godrej: But we will get the benefits of this plant now in the season which will start soon. Our strategy will be to run the new plant as much as possible and keep the older plants idle and use the older plants only in the peak season.

Balram S. Yadav: But Prakash, the oil prices have also dropped, so there is almost 10% reduction in oil price in last one month. Of course we pay the percentage of oil price, but on absolute level, our margins have contracted.

Nadir Godrej: Our contribution margin is the direct percentage of the oil price and our profit margin can even go negative if fixed expenses are higher than the contribution in off season.

Balram S. Yadav: The only expectation is once this little bit of glut in olein is over which is most likely because of Ramzan consumption, so more probably the prices will start going up in a few weeks time.

Prakash Kapadia: And lastly on Godrej Tyson, what is the plan with it becoming the subsidiary, if you could give us some sense of new product pipeline, reach in terms of modern trade general stores, sales from general, modern stores and distribution available for growth?

Balram S. Yadav: So two things will happen at a faster pace than it happened in past. One is that the expansion in Yummiez which is the food product which we have, there a growth of 40% plus per annum can be achieved for next few years. I think that will be accelerated and one of the things which we have done which we were pursuing for the last several years which we were only able to do last year is to set up a new facility in Punjab for production of vegetarian Yummiez product. Earlier, we used to outsource and there was always a problem of supply, so that I think we have achieved and the plant is already operational.

Nadir Godrej: And this is a state-of-the-art plant.

Balram S. Yadav: State of the art plant and new product pipeline has become strong now, because we were outsourcing, we had not introduced a vegetarian Yummiez product for almost 2 years. That is point number one. Point number 2 is that Tyson had a strategy of not playing commodity which is Live Bird and Live Bird is 96% of the total Indian market which is 70,000 crore and that is a profitable market even though it is commodity. We were between 5th and the 10th percentile in cost of production of Live and we thought that strategically because we understand this segment very well through our feed business and since we are already at a very low cost, we should be able to make profits in this segment much better once we grow. Having said that, I must tell you that we look at data of last 10 years, ups and downs in live market have been there from quarter to quarter, but in whatever little live business we did, we never lose money.

Nadir Godrej: And as R&D in poultry feed progresses, we will get a lot of benefit in our live business.

Prakash Kapadia: And if you could give us some sense, I was trying to understand the reach, distribution, that leg for growing this business in terms of our modern trade or general?

Balram S. Yadav: I can't give it off hand, but can I send it across to you?

Prakash Kapadia: Yes.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: So what I am talking about the maize price is surged by 40 to 48% in the recent month and soya bean prices are still firm. So assuming normal increase in milk prices, do you think the margin pressure will persist and if yes, what will be the normal margin for animal feed segment going forward?

Balram S. Yadav: First and foremost, very little corn and soya and no soya is used in cattle feed. So these are the raw materials for poultry feed. You are absolutely right in asking this question because passthrough of this increased cost should be possible to maintain margins in animal feed business. Now if you take the first half of last year, the raw material increase price costs were very difficult to pass because very low animal protein prices that is chicken and eggs for some time. But this year the chicken and egg prices are very good and we strongly believe that passthrough will be possible with a little bit of time lag, so there, we think that we will be able to maintain margins. In cattle feed, raw material prices are definitely going up, but we have been able to pass the raw material prices because in certain pockets the milk is still short and the prices have not fallen the way they were expected to. So we believe that we will be able to maintain the margin at the Q4 level in the coming quarters also.

Sumant Kumar: And regarding the fresh fruit bunches arrival was flat this year, so assuming normal case scenario and whatever step you have taken, the price increase you have taken in FFB, what kind of volume growth we can expect in FY20?

Balram S. Yadav: FY19, if you heard my earlier answer was an exceptional year when two states had a differential and we lost some of our fresh fruit bunches illegally to Telangana. Now that we have been very proactive, Andhra Pradesh government has been very helpful in controlling this leakage of fruits to Telangana state. So as per our survey, we should be having 15% more fruits than we got last year and considering last 5 weeks of this year, I think our survey is proving to be right.

Sumant Kumar: And then talking about the Astec Lifesciences, we have seen a decline in margin, so with backward integration what we are going to have? Do you think what kind of margin expansion we can expect in FY20?

Balram S. Yadav: So one of the reasons for decline in margin in Q4 is that as I already told you that there was lot of postponement of export orders and some of the products were very highly profitable products for us. Even though there is overall growth of upwards of 20% in exports in Astec Lifesciences, but quarter 4 which is definitely a big quarter, was a little subdued. Going forward, definitely we have planned and we will see expansion in margins because of this backward integration. According to me, 0.75 to 1% expansion of EBITDA margin will happen in the coming year because of our backward integration investment.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Just one question on the crop protection side, you mentioned that we have increased sales of credit products and pesticides in this quarter and in this year. Going forward what is the strategy on the portfolio because we have always had a better operating margin compared to the industry but as we grow and scale up, can we see margin normalizing more towards what the other domestic peers make?

Balram S. Yadav: Yes, I think one of the reasons why margins will continue to be good is its launch of a few new products. We are going to launch Hitweed plus which is a mixture of two herbicides, so that we provide one single solution for weeds in cotton crop. This will be the first year of the launch. The second product is a product which is an in-licensing arrangement with the Japanese company which will be launched in tea and I think as we launch more products which are more proprietary, the margin can be maintained. Yes, last year because of the market condition, the generics sales was little high, but we believe that this year in case the monsoon is average and above, we are very sure that our proprietary products and in-house products will have very good demand.

Madhav Marda: And just one other question, I think you have already answered this, but the fresh fruit bunches, I mean the volume growth for the year was flat just because of the diversion between the two states, is it?

Balram S. Yadav: This thing is that there is no way unless and until there is a very big drought and extended drought that fruits will produce less as more and more area comes into production which is very predictable because this area was planted 4 to 5 years ago, so it is a very predictable thing that barring 1-2% variation in our calculation the fruits will come. In case, the fruits do not come as per that standards that means that there is a leakage of fruits either to competition or to other state of something like that. So we have fixed that and we have been successful that is what our data for last few weeks.

Madhav Marda: Just one last quick question, on the dairy business, what would be the outlook for the margin for the next couple of years, I know it is still a new business and we are still trying to grow it, but do we see margin go into 4 to 5% levels on the EBIT basis?

Balram S. Yadav: I must tell you that this business is more difficult than we thought. From the point of view of the stranglehold the cooperative have on the liquid milk business. Liquid milk for all companies continues to be the main product and the product which gets us scale to grow processing, so that I think is something which is very unpredictable come elections, come other disturbances in market, the cooperative just refused to increase prices at consumer level, but increased cost at the farmer level. So that said I think what the profitability will be determined largely by increase in salience of value added products where margins are stable and if I have to tell you that last year our salience grew from 24% to 27% and this year, we are looking at increase from 27% to 33%. So as this salience increases, the margin expansion automatically will happen.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: Sir, you mentioned 80 crore investment plan for Astec Lifesciences, is it for 2020?

Balram S. Yadav: Let me just tell you that what all is likely to be done in Astec Lifesciences. The two big investment will get completed probably in 12 to 15 months' time from today. One is R&D centre and one herbicide plant which will be almost 70% of the investment. Apart from that there will be some debottlenecking in the existing plants just to increase capacity plus some changes in the plant in our response to change in the product portfolio. So I think these are ongoing investment, but the big one which will be close to about 50 crore will be one herbicide plant and one R&D facility and the R&D facility will also have a pilot plant to quickly conduct scale production trial, so that go-to-market can be expedited.

Vikrant Kashyap: Is this herbicide plant is a Greenfield investment?

Balram S. Yadav: Yes, it is a Greenfield investment.

Vikrant Kashyap: And sir, you mentioned 20% export growth in FY19, so what is the total contribution from export to the revenue? And what kind of growth we can see in 2020 and going forward?

Balram S. Yadav: I will just give you the numbers. The growth in export sales was 23.6% in FY19 compared to FY18 and if I have to tell you, FY17 our exports was 130 crore, FY18 was 196 crore, FY19 is 243 crore.

Vikrant Kashyap: With this new herbicide plant coming in, what could be our total capacity?

Balram S. Yadav: Difficult to answer, I think it is a new factory.

Nadir Godrej: Completely new factory, but in the same location that will be Brownfield.

Vikrant Kashyap: Sir, what was your growth and margin guidance for FY20 and FY21 if you can?

Nadir Godrej: For Astec?

Vikrant Kashyap: For Astec.

Balram S. Yadav: For Astec, I think barring some distortion we saw particularly last quarter and in case, the correction happens in Latin America and America where this slowdown took place and lot of postponement of orders were there, we should be able to maintain 15% plus growth in topline and 20% plus growth in EBITDA.

Nadir Godrej: I would like to add that to get this kind of growth, we have to do a lot of investment in R&D. It takes several years to go from starting an R&D product to having the product in the market because approvals to themselves take about 2 years. Plus any new factory also starts giving returns after a couple of years because the returns are not very good till it is fully utilized. Though Astec is very good at quickly utilizing any new investment, but these investments are a bit of a drag on the performance, but they have also guarantee long-term steady growth.

Moderator: Thank you. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Sir, this particular exceptional item remeasurement what is 88 crore is entirely coming in from the Godrej Tyson foods?

S. Vardaraj: Godrej Tyson foods and we have Godrej Maxximilk.

Balram S. Yadav: But 85 crore come from Godrej Tyson

S. Vardaraj: 85 crore is coming from Godrej Tyson foods and the balance is coming from Godrej Maxximilk.

Utkarsh Maheshwari: Basically, this remeasurement from next quarter onwards it will be part of your basically consol accounts only. So can you make out what could be the reason for this remeasurement as such. Is it the profit which was there in or something which has come to you as a resultant of 51% holding coming your way?

S. Vardaraj: What happens is when we acquire additional stake and it results in the company where the company being acquired is becoming a subsidiary, we are required to revalue our existing state. So in case of Godrej Tyson Foods for example, we had around 49.9%, now, when we acquired this additional 1.1% to become a 51% full subsidiary, at that point of time, we had to remeasure the entire 49.9% stake in line with the current value of the business.

Utkarsh Maheshwari: So basically, it is fair to say that you must have acquired reasonable amount in high price, so that, I mean that must have been the reason why remeasure for the entire business?

S. Vardaraj: I would put the other way round, I will say that the cost of our original investment was very less because that was done quite some time back.

Nadir Godrej: So it is what the value would be today of that business, it is really required by the accounting standards. It is a nonrecurring income, so I don't think you should pay much attention this number.

Utkarsh Maheshwari: I mean what should be another value for this stake per say for us after this entire exercise, this 51% should pertain to that number?

Balram S. Yadav: 2% was 7 crore roughly, so business value were at 350 crore.

Moderator: Thank you. The next question is from the line of Prashant Biyani from PL India. Please go ahead.

Prashant Biyani: See, in herbicide segment which molecules are you trying to manufacture in Astec Lifescience?

Balram S. Yadav: Prashant, can you ask this question offline. I am not fully seized of the matter. I think there is some intermediate also there.

Prashant Biyani: And till now, we are only manufacturing Triazoles in Astec, going forward do you have any plans apart from this herbicide to lose our dependency on Triazole?

Balram S. Yadav: Lot of work is happening, you will not see these new molecules in the next one year, but definitely we want to reduce our dependence on fungicides in Astec Lifesciences.

Prashant Biyani: So when can the new segment contribute, say around (+15) or 20% of revenue in Astec?

Balram S. Yadav: We will revert, I think we will have you talk to the CEO of Astec Lifesciences. It is chemistry and I am not very good at all, so better he explains to you.

Prashant Biyani: And just one bookkeeping question, have you seen any change in yield for the palm oil segment?

S. Vardaraj: Yield for the palm oil segment in terms of the fresh fruit bunches per hectare that is what you are referring to?

Prashant Biyani: Yes.

S. Vardaraj: Fresh fruit bunches as such from the areas the yields have been alright, just that as Mr. Yadav mentioned earlier, there was a flight of fresh fruit bunches from our area to the neighbouring Telangana, but for that yes, I mean in line with our expectation.

Prashant Biyani: But removing that one-off event, in what range would be the yield per hector on an annual basis?

Balram S. Yadav: I think productivity improvement if you take the overall, I would say that in last 5 years, we have seen an average of mature plantation go from 18 to 20 tonnes per hector for fruit bunches. The older plantations are now going beyond 20 also.

Nadir Godrej: But the newer ones will do even better.

Balram S. Yadav: Actually, it is function of management. Our top 10% is about 25 which are managed well. But farmers normally don't put lot of efforts throughout the year.

Nadir Godrej: We also trying to do intervention and improve the oil content. So we will constantly work on technology and hand holding the farmers to get better yield and better oil.

Moderator: Thank you. We move to the last question from the line of Mahesh Kumar, an individual investor. Please go ahead.

Mahesh Kumar: First of all I would like to ask the question that I did not understand the logic between withdrawing the merger with Astec now and then relooking at it a few quarters later? This sudden change is surprising by the Godrej and it has impacted Astec shareholders. So I wanted to understand in detail, what is the logic behind withdrawing the offer now and then relooking at it a few quarters later?

Balram S. Yadav: We had decided a few quarters ago about this merger, but when we spoke to several stakeholders, both in Agrovet and in Astec Lifesciences, we concluded that it will be better if we delay it by a few quarters. Now why do I say that is because Astec Lifesciences is pursuing several opportunities, that is point number one. Point number two, it has some challenges in export where we feel that Astec should stay standalone for some more time to pursue this opportunity. Just to elaborate further, what I am talking about is with the change in name, the change in registration, etc., would have become a little complex things to handle, so we thought that let us continue like this for some more time and then we will revisit that a few quarters later.

Mahesh Kumar: So it is just about the handling of business that has led to the change in stand?

Balram S. Yadav: Let me just also add one thing. One thing which we are very sure is that investment is critical for growth of Astec Lifesciences. There is lot of opportunity, but investment is mandatory in this business every year. This is a seasonal and cyclical business. We get asset turns of 1 to 1.25, even though profitability is high, so I am saying for a company like Astec to keep on putting 60, 70, 80 crore every year may be feasible for some more time, but the ticket size considering the agrochemical opportunity which is there, the ticket size will become bigger and bigger. If you see three years ago, we used to invest Rs. 10, Rs. 20 crore a year, now we have gone to Rs. 60, Rs. 70 crore a year, so eventually it will be best served once it becomes part of Godrej Agrovet where we can make big bets in Astec Lifesciences.

Mahesh Kumar: So what would be your outlook on Astec and regarding the overall merger ratio which was announced, I hope that the Astec shareholders are not impacted due to this change?

Balram S. Yadav: So we have been fair and reasonable. The ratio was decided on lot of data which was generated. We took the help of bankers and followed the process to ensure that fairness and transparency is maintained. And I think whenever it comes in future, we will follow the same process. I have been in the company for last 30 years, we have never short-changed anybody and we will maintain our good reputation in this area.

Mahesh Kumar: So that is what is the reputation of the Godrej Group and I hope this remains the same.

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

Nadir Godrej: Thank you. I hope we have been able to answer your question satisfactorily. If you have any further questions 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 sir. Ladies and gentlemen, on behalf of Godrej Agrovet Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.