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Date: August 20, 2021

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

Ref.: BSE Scrip Code No. “540743”

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

Ref.: “GODREJAGRO”

Subject: Transcript of Conference call with Investors & Analysts held on August 11, 2021.

Dear Sir / Madam,

Please find enclosed herewith transcript of Conference call of Godrej Agrovet Limited with the Investors and Analysts held on Wednesday, August 11, 2021.

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

Please take the same on your records

Thanking you,

Yours faithfully,

For Godrej Agrovet Limited

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





Godrej Agrovat Limited

Q1 FY22 Earnings Conference Call Transcript

August 11, 2021

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

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on Godrej Agrovat's Q1 FY22 earnings conference call. We have with us Mr. Nadir Godrej – Chairman of the Company, Mr. Balram S. Yadav – Managing Director and Mr. S. Varadaraj – Chief Financial Officer of the Company.

We will begin the call with opening remarks from the management, following which we 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 maybe forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Nadir Godrej to make the initial remarks.

Nadir Godrej: Good afternoon, everyone. I welcome you all to the Godrej Agrovat's conference call. I hope that you and your families are safe and healthy in these difficult times.

The COVID second wave has severely impacted India in the first quarter with daily cases touching a high of 4 lakh cases per day. Rural India was impacted more with nearly 50% of the cases and 50% of the deaths reported in rural India. Economic recovery which was seen in the 4th Quarter was subdued from April 2021 onwards. All macro-economic indicators, such as the PMI index, GST collections, etc., started declining from April 2021. However, the situation has started improving from the 15th of June onwards with cases decreasing and lifting of the lockdown, leading to a gradual recovery.

For the agricultural sector, the southwest monsoon started on a positive note, but then there was a large gap of 20 to 25 days of scanty and erratic rain which lowered Kharif sowing and the farmers' income. All input commodity prices were significantly higher due to an increase in demand in the domestic and international markets. On the other hand, output prices were lower in a few businesses due to subdued demand, especially from the HoReCa segment. Despite these situations, GAVL has been able to register a stable performance in the 1st Quarter of the year.

The financial highlights and key developments during the quarter are as follows:

Consolidated total income was 2003 crore for the quarter compared to 1,562 crore in the same period of the previous year. Profit before tax was 137 crore compared to 134 crore in the previous year.

Now, I will discuss the key highlights for each of our segments:

The animal feed business had a very good quarter. Volumes were up 18% driven by volume growth in cattle, broiler and layer feed. This coupled with price hikes taken led to 34% growth in segment revenues. While raw material prices were at the peak, R&D benefit realization and strategic raw material stocking contributed to segment profitability which grew by 32%. However, in the aqua feed business, shrimp feed margins declined, as the raw material price increase could not be fully passed on to the farmers.

In vegetable oil segment, the oil prices were very remunerative, and the oil extraction ratio was higher than the previous year. Crude palm oil prices increased by 76% year-on-year and the oil extraction ratio was 16.95% compared to 16% in the previous year. As a result, in Quarter 1 fiscal year 2022, segment revenues grew by 84% and segment results were four times higher than Quarter 1 fiscal year 2021. This is despite a marginal 1.6% increase in fresh fruit bunches arrival over the previous year.

The standalone crop protection business posted sales growth of 15% driven by higher sales of in-house product. Segment results grew by 6% as high raw material prices limited the growth in profits. The good and early start of southwest monsoon was followed by a long gap of 20 to 25 days of low rain which affected the sowing of major crops and thereby the demand for agrochemicals.

Moving to the performance of our subsidiaries:

In Astec Lifesciences, sales grew by 15% in Quarter 1, driven by higher sales in the domestic market as exports declined. Segment-wise, sales mainly consist of enterprise sales as the first quarter is not a strong quarter for the contract manufacturing business and a large part of orders are executed in Quarter 2 to Quarter 4 of every year. The EBITDA declined by 14% year-on-year due to high input cost inflation. Further, fixed expenses such as power cost, freight cost, and other fixed costs have increased due to the normalization of business activities and the acute global container shortage.

For our poultry subsidiary, Godrej Tyson Foods Limited, it was a very difficult quarter. End product prices declined sequentially as micro lockdowns led to lower demand from the HoReCa segment. But the raw material prices increased sharply over the last year due to higher commodity prices. As a result, while sales grew by 7.3%, the Company reported a marginal loss at the EBITDA level compared to a profit in the previous year.

In our dairy subsidiary, Creamline Dairy Products Limited, sales recovery seen in the beginning of April of 2021 was impacted by the decline in out-of-home consumption and the decline in demand from the HoReCa segment. Further, procurement costs increased over the previous year. As a result, while sales grew by 14% on a low base of Quarter 1 of last year, the Company reported in EBITDA loss of 3 crore. We believe that with the easing restrictions across states, volumes and sales will increase in our food businesses.

GAVL's joint venture in Bangladesh, ACI Godrej Agrovet Limited recorded strong revenue growth of 22% and PBT growth of 18% in Quarter 1 fiscal year 2022. The growth is driven by strong volume growth in cattle and poultry feed.

In these challenging times, we are ensuring business continuity along with maintaining employee safety. We are conducting a nationwide vaccination drive for Company employees and families, contractual workforce, and our trade partners. Nearly 88% of our employees have received the first dose and we will cover the entire employee base with both doses shortly.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Depesh from Equirus Securities.

Depesh: Firstly, on the animal feed segment, it will be helpful if you can please give the category-wise volume growth numbers? And also, in the last call you spoke about the price hike in the shrimp feed segment. And you also spoke that industry was further contemplating to take a price hike. So just wanted to know what stopped that and what is the outlook on this margin because the RM prices continue to rise.

Balram S. Yadav: Volume growth in Q1 over Q1 of 2021 is cattle feed about 9.5%, broiler feed about 70%, layer feed about 20% and aqua feed about 4%. Definitely price rise was required in shrimp feed particularly, where inclusion of soya meal is substantial. And soya meal prices were rising at the rate of 2%-3% every day in the month of April and May. So, if you ask me, our contribution which used to be about 14%-15% at one time in shrimp feed had dropped to 4%-5% because of delay in price increases. Two reasons, one was that the shrimp demand were very low, so the farmer and the association, etc., were requesting for delaying price increase. And the other thing is that if you are following the news articles, I think Andhra Pradesh government is implementing several price controls in several commodities linked to agriculture. And that has also led to delay in taking a price increase and that is why contribution levels in shrimp feed came down significantly. However, in last two months we have taken a price increase of almost Rs. 7,000 a tonne, but it is nowhere near whatever is required. Another good piece of information I wanted to give you was the government is likely to allow import of soya meal. So, soya meal prices which had gone to almost Rs. 100 a kg, in the last 2-3 days has come down to about Rs. 85 a kg. Let us see whether government notification comes out in the next few days and how markets react. But my sense is that even if at Rs. 85,000 or Rs. 80,000 a tonne of soya meal one more price increase will be required in shrimp feed to get to the historical contribution margins.

Depesh: Secondly, this week on the palm oil business, government announced a new initiative on the palm oil production where they plan to increase the area to 10 lakh hectares by FY26 and further by FY30. So, my question is that previously also such initiatives have been announced. So, what are your thoughts, how this time it is different, and will this actually work out?

Balram S. Yadav: I think earlier most of the initiatives were unilaterally taken by the government and which were inconsequential and insignificant. But I must congratulate the government this time, because for last about nine months, intensive consultations with the private sector players and the state governments concerned has been happening. Now, I think government realizes that there is nothing better than oil palm to produce quantity of oil palm per hectare, as compared to other oil feeds which produce between 300 to 700 kilos per hectare. It is only oil palm which can give 3.5

tonne per hectare. Now, we have been engaged and I personally have been engaged with the government for last nine months. There have been recommendations made by us where support to the industry and support to the farmer should be given. It is not that it is not given, but now it is routed to the state government. And we said that whatever support has to be given now, the DBT system is there. And those vehicles should be used to transfer funds to the farmers as well as processor and that will only give the boost to oil palm because through the state government subsidies take years to be realized. Apart from that, there will be a formula which has been recommended, which will be beneficial to us as well as the farmers and gap between the formula, price and the farmer price, will be paid by the central government. So, modalities are still to be understood, but I think that if whatever we have recommended and all our recommendations are taken on board by the government, I am very sure that we can accelerate production of palm oil in the country. Apart from that, there will be a separate section for northeastern states where the benefits will be several times more than what they will be for rest of India. So let us wait. I am also eagerly waiting for the Gazette which should be out in the next 2-3 days. And my sense is I think that the kind of consultations the government has done, lot of our issues and expectations will be taken on board.

Moderator: The next question is from the line of Abhijit Akella from IIFL Securities.

Abhijit Akella: First one, just a clarification on the animal feed segment. In case this input of soya meal is permitted by the government at significantly lower prices, so would that be a benefit for margins of the entire animal feed industry, or will we have to pass it on to the farmers and therefore it's really margin neutral? And in that context, how do you see Godrej Agrovet placed relative to the rest of the industry in terms of maybe being able to retain some of the benefits of the lower RM cost?

Balram S. Yadav: First and foremost, there will be a significant benefit only in broiler feed and shrimp feed where the quantum of use of soya meal is much higher than other feeds, point number one. Point number two, I think most of the poultry players have not been able to pass on all the cost increases. And one of the reasons why there is so much of clamor for early imports and so much pressure was built on the government because all the other players were financially stressed because there was a limit to which what can be passed on with chicken prices lower because of COVID, etc. Now, my sense is that immediately the price reductions will not happen. But eventually they will have to be done because our domestic crop also is only about five to six weeks away. So, that definitely we will have. Now, how much of it is passed on, we have seen in such situations that entire cost dropped because of soya meal, will not be passed on because the players have been very stretched as far as margins are concerned in the past. Now we are reasonably insulated because of our R&D initiatives. We have been able to use other raw materials instead of soya and protect our margins. So, let us see. But my sense is that this level of margins which we have got is sustainable. And I must also tell you that even though the market has shrunk both in layer feed, fish feed, and in broiler feed, I think this is our time to use the play we have in margins to grab more market share. And I must tell you that this 70% growth which has come in broiler feed in spite of shrinking market, is a huge jump in our market share actually.

Abhijit Akella: The second question was on the oil palm segment. In the context of sharply higher prices of CPO and related products, the margin expansion seems a little bit maybe below expectations this quarter. So, any specific reasons that you might want to point out for that? And also, just wanted to check when we could expect to see the benefits from the higher oil extraction ratio that we have been talking about, the 0.4% to 0.6% benefit on the OER.

Balram S. Yadav: So, let me answer your first question first. So, you know the formula as the price goes up, the pay out to the farmer also goes up. That is point number one. Point

number two, Andhra Pradesh government unilaterally increased the formula price thereby eating into almost 2% of our gross margin. So, I think that is the second reason why the margins are not expanded in the line of price expansion. Third thing is that don't look at absolute also, but even if per tonne contribution is also not reflecting the kind of inflation which it should have. Apart from that, the FFB arrivals have been a little subdued because of some dry period in June up to mid-July. It is still picking up because this crop is very different year on year and we are seeing depending on monsoon and depending on a lot of other reasons, the production pattern keeps on changing. So, our expectation is, season has started late, and it is going to end late and probably towards the end of the season, we will make up the FFB volumes. Lastly, you asked me about OER, definitely all the initiatives we have taken have resulted in improvement in OER and we have reported almost 0.95% in the first quarter. I think similar improvement of OER or around that will be reported in 2nd Quarter also. And not only our plant modification, R&D initiatives to improve oil extraction, efficiency improvement initiative, oil loss controlling initiative, we have also started massive grading exercise at our collection center. We are taking over most of the collection centers ourselves so that we can keep a tab on the quality of fruit. Because during these months of June and July and partly August because of monsoon and because of dry season, normally we pay for wood and water also. So, I think that things will be controlled. And these measures we will keep on strengthening because we are paying substantially higher than last year to the farmer. And we are going to expect more stricter quality performance from the farmer. And I think that state government is cooperating as far as quality improvement initiative are concerned.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: A couple of clarifications first. If I got you right, in the animal feed market you did mention that our thrust will be gaining market share. So, does that come at the cost of margin or probably one can expect the current margins to sustain and there could be an incremental volume growth?

Balram S. Yadav: Current margins likely to sustain. Even if you have a difference in this quarter, it will be in basis point only. And my sense is that this momentum of 17%-18% growth will be sustained in the current quarter also. And most likely what we are aiming for because the season will start only from October-November onward, we will push our system further to get more market share, more volume growth in Q3 and Q4 at a similar margin profile. So, according to me since the margin is good, we will go for improved market share this year.

Ankur Periwal: Secondly, on the crop protection side, last year we were focusing on higher collections, even at the cost of growth if that would be the case, but how are our thoughts this year? I did go through the commentary wherein we mentioned that there were certain delays in monsoon and hence slightly lower offtake. But structurally, what is our thought in terms of, will we go for growth here, obviously keeping balance sheet intact?

Balram S. Yadav: I am saying that even Quarter 1 numbers were respectable, but I must tell you that the herbicides segment in the industry has been very badly affected because of this dry spell between 10th-12th of June to 7th-8th July, which was the herbicide period. Because our both Hitweed Max and Hitweed are early-stage herbicides and those sprays should have happened from 20th of June to 30th of June, where we have a big dent now. Now, if you really ask me, two of our star products, if the targets are not achieved and I can definitely tell you that even though it will be registered growth, we will not achieve our growth targets we had set for this year. I think that we will have to scramble, and plans are underway to focus on lot of other products which we have to make up for the loss margin and loss sale. So, I think we are in a little bit of a scramble right now. I will be honest with you that I think it will require some

efforts to probably focus on some other high margin products to make up the shortfall of herbicide. Having said that, definitely market hygiene has always been our focus and that will continue to be our focus. But the start is not as we expected.

Ankur Periwal: Lastly on the dairy segment. Now, if I go by history, our performance has not been as great in this segment, and it has been probably almost 5-6 years now. What are our thoughts in terms of either ramping up this business? Because in between also we had changed the product profile, the quality of the products were changed, we had introduced new products, but somehow things are not clicking here. So, any thoughts there? Where I am coming from is, there has been a pretty impressive performance in a couple of segments, but that in a way gets overshadowed by sort of sub-optimal performance by a certain other sector. And this dairy segment has been a problem area for quite a while. So, your thoughts there.

Balram S. Yadav: So, let me just tell you that over the last several years we had made lot of changes. And one of the big, I would say, structural issue with our business which was not such a big issue pre-COVID was the overdependence on institutional segment and milk and short shelf-life products. About one third of our turnover in milk, in curd and in ice-cream bulk used to come from the institutional segment which just vanished in COVID. The second thing was that over the last few years, we have been focusing on value-added products and they had almost touched 30% salience at a very-very fast rate for us. But unfortunately, particularly in second wave, which was more severe in southern India where most of our markets are, our value-added products sale, which is a very high contributor to our margin, just collapsed. So, coupled with that, definitely we had this spike of milk prices also and buffalo prices are also all time high in the history of milk industry right now also. So, all this turmoil, I am saying that all the benefits and all the changes and all the structural changes we had made there, the benefits could not be realized because of these disturbances.

Having said that, let me just tell you a few more things. One is that I think we have stabilized a lot of things right now. We have brought back focus of retail in milk. Value added products is just a matter of time as the markets open up which they have started opening up in the last few weeks the trend has been very-very encouraging. So, I would say that if you really ask me our big question and our big effort is to get scale now. If we register a 15%-20% growth for two consecutive years, I am telling you as far as other parameters of the business are concerned and efficiencies of business are concerned, we are there. Now, if you ask me strategically, definitely I would like to give myself a little bit of discount because of COVID, because several of our initiatives which should have worked have not worked. But I would say we will still wait and watch. I am very sure that quarter-on-quarter we will start showing improved performance by whatever corrections we have done. In case there is another COVID wave, or some other new mutation comes, we may come back to square one, but I think that we know what is to be improved and we will improve in future.

Moderator: The next question is from the line of Madhav Marda from Fidelity International.

Madhav Marda: I wanted to continue on Ankur's question on the dairy business. Just tried to understand from you in the past as well that dairy consumes almost 20% of the business's capital employed but it's not generating EBIT for the last 2-3 years since the IPO. The business so far as Godrej Agrovet, the ROICs are actually much higher, but it is getting masked because of the dairy capital employed that's putting on the balance sheet. So, just want you to understand that what would be immediate 3-4-year outlook on how the margins can fill up for the dairy business so I was saying that for Godrej Agrovet, for the entire business except for dairy, the ROIC profile, I think it's upwards of 20% but because of the dairy business the capital employed sitting it brings down the entire ROIC profile of the Company. So, if you could just give us some sense in terms of 3-4 years out, how you see the margin profile picking

up, obviously, in a situation where COVID doesn't impact us hopefully, that would be really helpful because that helps the entire Company's returns actually.

Balram S. Yadav: So, I fully agree with you. I am also personally disappointed at our performance in dairy business in last few years. And as I have conveyed already that we have taken a lot of steps to improve the business and we are very-very optimistic that whatever we have done is most likely start giving us results in the coming quarter. And considering that we have our shared optimism earlier also, and not delivered on that, I would abstain from giving a 3–4-year outlook, but I must tell you that all efforts are there to improve the business. And I think the proof of the pudding will be meeting and once that comes, you will all see whatever steps we have taken have yielded the desired results or not. Today if you really ask me, I think huge amount of efficiency improvements have happened. It is just a question of scale. If we get to that scale which we want to get to in Q4 of this year, I am very sure we will not disappoint you in the coming year. That is point number one.

Point number two is strategically one thing you must realize is that world works on animal protein value chains. A disintegrated industry is not something which exists in several developed countries. If you see broiler industry is almost integrated. Shrimp is also on way. So, I think similar things will start happening particularly in private sector, in the milk industry to secure supply chains, people will go back and get into feed business also. So, milk sellers, milk companies will get into feed and feed companies will get into milk. I think that you will see roll out in the next 5 to 10 years in this country, some of the signs are already seen. So, I am saying we don't have our eyes on next 3-4 years only, but we have to our eyes on next 5-10 years where we see an opportunity of building a good milk business supported by our Maxximilk where we produce cutting edge genetics and our cattle feed business, where we are number one in the country.

Madhav Marda: Understood. And, if I can just ask one more question on the dairy business, like, given that all the efficiency improvements, value-added product-mix, scale up, etc., that we have done, in your understanding in a steady state basis, what could be like the steady state margin profile, EBIT margin profile for the dairy business in your view, as these things play out? If you would just give us an understanding there that will be helpful?

Balram S. Yadav: So, let me answer your question like this. Look, the liquid milk business we are price takers. So, most of the effort in our milk business is focused on quality improvement, smarter distribution, lowering cost of logistics and procurement of high-quality milk at reasonable price. I think that is the focus which has been there and that is why we went directly to the farmers also for procurement and that thing got really, I would say discontinued because of COVID, because nobody would allow us in the village etc. at that time. I'm saying that we are price taker but come what may a 9 to 10% contribution margin in milk is something which we should get to. Right now, we would be at about 6 to 7%, but I think that is possible. After that, it is a scale game. Some year we will get 8%, some year we'll get 10%, but we need to probably grow the milk business by 10, 12, 15% at the base we have, to become even relevant. In the value-added segment, I think we are operating at close to 20% contribution margin. I am very sure that the opportunity is only 1-2% here and there and they are again on a small base if we grow 30, 40% per annum, and in two years, I think we would have utilized all our capacity. I'm very glad to say that I used to talk about, ghee generation because the kind of products we sell require lot of buffalo milk and we used to have surplus ghee generation and we used to take a lot of provisions and hits because of low prices were bulky. But I'm very glad to say that one of the initiatives, which we have undertaken a year ago, was to make sure that we develop a ghee market, and I must tell you that growth in ghee is almost 70-80% over last year in first quarter. Today we have no provisions on ghee. We are not taking any provision and actually the ghee sale has increased so much that for the first time after taking over, we are

buying buffalo ghee from outside. I'm saying that is the biggest correction in the model, which we have made. Otherwise, there was a leakage of 2%-3% of gross margin because of this provisioning we used to make on ghee. I think several improvements are in pipeline, several improvements we have made, but I think we need to get to scale now. In case we improve the business by 20% or so in a year's time, I would definitely give say then lot of these volatilities will not be seen so clearly later.

Moderator: The next question is from the line of Prakash Kapadia from Anived Portfolio Managers.

Prakash Kapadia: Thanks, my questions have been answered.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal AMC.

Sumant Kumar: My question is the crop protection margin we saw sharp correction, you mentioned in the PPT raw material prices increased sharply, so can you talk more about what are the key raw material price increased in this quarter?

Balram S. Yadav: I will have to answer this question off-line if you want specific raw material where the prices have increased. Pardon me I think there are some the technicals which we import particularly for Hitweed and Oryzostar but exact names and kind of delta which have happened I will let you know. So, I have some details here. Thank you, Chhavi. So mostly generics are pretilachlor, Pendimethalin, Emamectin Benzoate Carbendazim, Mancozeb these are some of the products which are costlier than what they were last year.

Sumant Kumar: My question is the when the price was increasing and how much we have passed on and why we are unable to pass on, because of weak demand and what?

Balram S. Yadav: In some of the products which we use in kharif, because of this lull, let me just also tell you that the dry period of 10th June to 5th-6th of July is again getting repeated in last few days again, because August rains are very-very important for Indian agriculture. I think some dry period has already set in, in several parts of the country. I really do not know how well or how badly the sector will do, but I can definitely tell you that pesticide industry will be in little bit of stress. I'm not talking about companies which have got proprietary chemicals. They may still do better, but plenty of us who have growth regulator and herbicide focused businesses, are going to find it little challenging.

Sumant Kumar: Can you talk about the palm oil volumes in this quarter and what is the volume growth?

Balram S. Yadav: So, the revenue growth was about 83.5% and segment growth last year we made Rs.6.5 crore. We made Rs. 32.6 crore profit. Volume of CPO sold has grown by almost 6.5%, FFB processed is only about 2% more than last year. Last year, the delay was because of COVID lockdown, but this year I think there is a little bit of shift in this season and what we are seeing is that at least 4-to-5-week delay in the season is expected in case it rains well from now on. But my sense is that, on an overall basis, I think because of price increase and because of OER improvement, we will see a significant improvement in profitability in this business. I am very sure that last year, the number for volume of FFB for CPO and, PKO all will be surpassed.

Moderator: The next question is on the line of Ritesh Gupta from Kotak Securities.

Ritesh Gupta: One on the palm oil side, what was the reason you told for the margins to be weak this quarter, because ideally palm oil prices have been pretty strong so that....

Balram S. Yadav: I would say there are two things, but entire increase in the palm oil prices have not come to us. Let me tell you that, what has happened. Palm oil prices have increased, and we pay farmer as a percentage of oil price. So last year, that is 2019-2020 because oil year is from October to September, we were paying farmers in the formula at about 16.80% or 16.85% of oil price. But this year unilaterally, both Telangana Government and Andhra Government have made it 18.62%. So, it is almost about 1.9% increase. Definitely for the quantum which we should have gained because of increased price, that quantum is very less, but one good thing is that a lot of our initiatives, including some R&D initiatives particularly because of this high price government has allowed us to implement lot of quality improvement initiatives and farms also and we are doing lot of grading. So, today if you ask me, earlier we used to reject about 0.5 to 1% of the approved, but now that rejection rate has come to 4 or 5%, and that is showing in higher OER of almost 1% in the first quarter and similar improvement we will see in the second and the third quarter also. I am extremely confident and I need to tell you that higher OER is direct injection into our PBT, direct injection into our PBT because we pay the farmers on weight of FFB not on oil recovery.

Ritesh Gupta: On the crop protection side, now that you have reached a certain size and scale in the business, and you have grown faster than industry as such over the last two years period, what is the unique thing that you are doing on the crop protection business because honestly in this industry it is easy to get up to a 1000 crore or a 800 crore top-line base and then I have seen in companies start getting to get big? So, in terms next three to five years what is unique that you are doing in terms of let's say in licensing part of it or something else or maybe in terms of distribution etc. How are you looking at it over next 3-5 years?

Balram S. Yadav: Let me tell you that, one of the great things we were doing in this particular business was very good execution because our big strength was sales and distribution. We were getting about 7-8% organic growth from existing molecules, and we were able to launch one or two new molecules every two years, which will give us another 4-5%, 6% increase. So, we maintained 13% to 15% growth in this business for several years, post 2007-2008. The other reason was that our EBIT margins were always very high because our new products would be either coming from our table or which we in-licensing products where our gross margins will be significantly higher than the existing products we had. I think this was the combination of these three things, giving us very good results, but for 2019-2020, 2020-2021. And I think, 2019-20 is one time when we took a breather and probably said a lot of things right in this business, of course that continued. But unfortunately, because of COVID again, be it collection, be it inventory management, be it sales or production of certain products.

In last one year, we have seen some disruption and mind you, the opportunity for us is very small, certain chemicals, like I'm telling if we don't sell Hitweed from 20th of June to 10th of July in 20 days, we have to dispose of 200 crore worth of herbicides. So, I am saying, if we miss that opportunity, it is very difficult to recover and very difficult to come back. But I think it is a combination of events which have been hurting us and definitely we are committed. We will just come back to the earlier level very quickly. Now, just to give you another flavor, I think, 6 products are in pipeline already in next three to five years and are at different stages of registration, these are all products which are coming from our own system, 4 are herbicides, one is a fungicide, and one is a growth regulator and bio-fertilizer. Most of them have got usage in paddy and cotton. The in-licensing products, which are already signed up and are in process of registration, there are five of them, two insecticides, one herbicide and two

fungicides. I'm sure that in case we roll out these 10 products in next three to five years, we will get back to the growth rates, which we have done earlier in profitability, as well as top-line.

- Moderator:** The next question is from the line of Nitin Awasthi from Incred Research.
- Nitin Awasthi:** A couple of questions, firstly on this investment of the Company, Company called KSE and why I ask this is if I look at the other shareholders of PSC could be the promoters of Godrej Agrovet would be the largest shareholders in that Company, along with Godrej Agrovet. If you could just explain, is this an acquisition candidate that the Company is looking at because of similar lines of business or what is it?
- Balram S. Yadav:** Let me just tell you something about KSE then Mr. Varadaraj will talk about the financial questions you have asked. KSE is a Company, which is into cattle feed and some solvent extraction business in Irinjalakuda in Kerala. They are the dominant player for cattle feed in Kerala and they do a lot of copra extraction also. Company is very closely held, and the float is very low, but if you really ask me, definitely it is a very-very good Company to acquire. But we don't see any opportunity like that in near future. At one time when we saw the opportunity we went for acquisition of some shares.
- S. Varadaraj** Since we have the same business, we tend to sort of make a financial investment, we have made an investment of around Rs. 26 crore in this Company.
- Nitin Awasthi:** Second question would be on the import allowed of Soya Meal by the government, now with the landed cost of imports even the taxes and the Cess has to be paid on the imported AM Soya meal would come close to Rs. 60, so wouldn't that mean in some segments you're actually hitting the margin and take a price cut, helping the segment grow. Is that too far-fetched?
- Balram S. Yadav:** Look, I'll tell you that, there will be 2 phases of import. One phase of import will be from Nepal and Bangladesh and that will not come at the number you are mentioning. because we already have, we have gone in for contracts with Nepal and Bangladesh and landed soya, which is domestic today that about 90,000. This will come between 70 to 75,000 in different factories. We have contracted some quantity in the hope that the notification of the government of India will come in next few days. The second thing is that the big soya meal import from South Africa and America can only hit in six weeks' time in case the containers are available. That can definitely come between, after paying the duty, etc., between Rs. 50 and 55. That math we are still doing because number is fluctuating. That definitely will be a very big blessing in disguise. That will also stabilize the new soya meal prices. Now, in case the soya meal price in October, when our domestic production starts and import start hitting Indian ports, at Rs. 55 we can pass the benefits significantly and retain a decent margin for us also and you will see a big spike in our contribution margin if that happens.
- Moderator:** The next question is from the line of Utsav Mehta from Edelweiss AMC.
- Utsav Mehta:** My first question is on the acceptances. Last quarter, we've seen a sharp drop in acceptances because of the differential interest rates. Could you provide some update as to when that will normalize?
- S. Varadaraj** The acceptances, as you rightly said, we reduced the acceptances the supplier financing piece because of the differential in interest rate even now the gap between cost of acceptances and cost of borrowings is close to 2.5–3%. With those kinds of a differential, it's still not, appropriate for us to, resort to supply financing as a tool. Hence, we are continuing to focus more on borrowing on the books of the Company.

As and when this gap reduces in future that's when we will re-look at it, but that at the time being definitely we don't have any strong intent to do that.

Utsav Mehta: My second question is, hopping back again on dairy and even the poultry business. So, after many years last year, we'll probably seen a positive EBIT in both these businesses to the tune of like Rs. 11 crore and Rs. 25 crore. I know it's not been a very good start of the year, but do you believe that you can at least, reach back to that absolute number, at least for this year in, FY22 or do you think that's probably going to be unlikely given how we've started?

Balram S. Yadav: The answer is that, in chicken business I think the industry, we've been badly hit, and chicken population is even lower than last year, this year. As and when India starts opening up big time, because there's Shraavan. So, Shraavan is a subdued month, particularly in Western Central and parts of North India. So, my sense is that in a month's time, we will start seeing shortages and chicken and eggs and the prices will become remunerative. So, I am very-very optimistic. I think we still have to see what will happen. I'm very optimistic that, we will probably improve our numbers significantly, in the chicken business. I must also tell you that, July was just the opposite of June, because July the shortages had set in and suddenly we had seen prices giving us about 20% PBT on sale, I'm saying this is a cyclical business, seasonal business and I'm very sure that there is no way the country can come back to the same production level as pre-COVID the consumption will go up in case there is no third wave and the industry will benefit. Now coming back to the dairy business, yes, I think we have in our current best estimate for the year, factored in improved volumes in milk at a reasonably good percentage per quarter. The reason is that once things open up, definitely some of our institutional sales, which we have lost is going to come back. My sense is that that will definitely come back and that has started happening week-on-week. In last few weeks, we have seen that. Second thing is that we need to get to the volumes, which we have talked about in the value-added business which we will. So, my sense is that what the profit numbers will look like, whether we will reach last year or cross it, the big question will be how much milk prices and milk cost will drop in the flush, in case it drops, like normally the drop is between 15 to 20% a year. Every year, we have seen that off-season and in-season price drops to this level. In case it drops to this level definitely we will get to those numbers, but there is very little we can do on price. We have pushed the volumes also in our current best estimates and we are getting that volume in last almost 8-9 weeks we have been on track. The only thing is that if the cost of milk comes down, we can definitely, get back to those levels.

Utsav Mehta: Understood. Just to summarize from what you're saying, you're basically from all the segments, you're just circumspect on the dairy business and the crop protection businesses and in other segments you believe that segment of profits can easily grow.

Balram S Yadav: Yes. Dairy business, crop protection business I can definitely tell you that we still have, 4-5 months to go and we still have products which we can sell in and up the game for ourselves. I am very sure that even if we miss, we will definitely grow last year in CP business that goes without saying. But point is that, will we grow 10% or will we grow 20% that is still matter of conjecture. I would say that growth will be there, we will do. It will be a profitable growth we will be able to put up a much better show in spite of erratic monsoon, but definitely last year numbers will be crossed.

Utsav Mehta: So, growth in all businesses except dairy.

Balram S Yadav: I will keep my fingers crossed for milk.

Moderator: We take the last question from the line of Senthil from ithought Financials.

Senthil: I have a couple of questions. First question is on the top-line. Over the last five years you have acquired Astec and also you have increased stake in dairy and Tyson Foods Dairy. So, the growth was around 11% on the top-line. So, in the earlier call you mentioned that a lot of activities or initiatives are taken on the dairy business. So, considering this in next five years what could be the medium-term growth guidance that the Company is eyeing?

Balram S Yadav: Let me tell you that while whatever I will say will not make sense in 2-3 quarters also because, let me just give you an example. Let me tell you that the volume increase in feed was 18.33%, the value increase was 34%. So, what kind of inflation, if you tell me will prevail in next five years, I will tell you what will be the forecast for the Company, similarly, I'll tell you one plant number, in palm the revenue is increased by 83.5%. The oil sold over last year increased by about 6-7%. My sense is that lots of things are dependent on the commodity inflation, but that is why during budgeting, actually the top-line is just a derived number. Most of it is focused on volume. We always talk in volume term.

Second thing is that the targets of contributions and profit on all our businesses, barring one or two are fixed on rupees per kilo, rupees per ton, etc. or rupees per liter. My thinking is that top-line, definitely we will surprise you somewhere on the positive side, we may surprise you on the negative side, but what we are more focused is the steady growth impact, not even PBT, year-on-year. That is what we will drive.

Senthil: A second question is on the capital allocation side, any new project. What is the internal target that the Company eyes, can we have range also?

Balram S Yadav: So, let me just tell you that, fish feed is growing in the country and fish production will continue to grow. We are already committed to fish feed plant in Barabanki in UP and the cost is close to Rs. 88 crore which will be commissioned by February, March next year. We are already in the completing stages of this herbicide plant, in Astec Life Sciences. We have already made plans for further investments in Astec Life Sciences plus that R&D we have been talking about and doing nothing for about two quarters, all permissions are in place and most likely in the beginning of next month, we will start that project also and try to complete that in 12 months' time. However, having said that, Astec also hired a laboratory, so their R&D initiatives are not affected. It will be just moving from a lease building to our own building in a year or a year and two months' time. I think those investments will continue all this will add up to Rs. 250 crore or so in next, say three or four quarters.

Utsav Mehta: Any IRR range that you would be looking into these products like projects?

Balram S Yadav: We have a capital investment committee, which looks at these businesses. All of them are like, I am saying that you can always come and meet me because our businesses are such that we can make very good IRR at 1.5x asset turns in Astec Life Sciences and make a very bad IRR in four asset turns in our feed business. So, point is that definitely we take all these things into consideration. But a standard IRR is something which we cannot work out. The other reason is that all businesses also borrow at different interest rates. If you ask me in animal feed business, anybody ready to give us money at 3.5%. Isn't it? In case you want some more insights, more than glad to engage with you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Nadir Godrej: Thank you. I hope we have been able to answer all your questions. If you have any further questions or would like to know more about the Company, we'll be happy to

be of assistance. Stay safe and stay healthy. Thank you once again for taking the time to join us on this call. Bye.

Moderator:

Thank you. On behalf of Godrej Agrovet Limited, this concludes this conference. Thank you all for joining. You may now disconnect your lines.