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**Date:** August 10, 2023

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”

Dear Sir / Madam,

**Sub.: Transcript of Conference call with Investors & Analysts held on Tuesday, August 8, 2023**

**Ref.: Regulation 30 of the Securities and Exchange Board of India (Listing obligations and disclosure Requirements) Regulations, 2015**

Please find enclosed herewith a transcript of Conference call of Godrej Agrovet Limited with the Investors and Analysts held on **Tuesday, August 8, 2023**.

The aforesaid information is also available on the website of the Company viz., [www.godrejagrovvet.com](http://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 Agrovet Limited  
Q1 FY24 Earnings Conference Call”  
August 08, 2023



**MANAGEMENT:** **MR. NADIR GODREJ – CHAIRMAN – GODREJ AGROVET LIMITED**  
**MR. BALRAM S. YADAV – MANAGING DIRECTOR – GODREJ AGROVET LIMITED**  
**MR. S. VARADARAJ – CHIEF FINANCIAL OFFICER – GODREJ AGROVET LIMITED**  
**MR. ANURAG ROY – CHIEF EXECUTIVE OFFICER OF ASTEC LIFESCIENCES**

**MODERATOR:** **MR. NILESH PATIL – ICICI SECURITIES**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Godrej Agrovat Q1 FY '24 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nilesh Patil from ICICI Securities. Thank you and over to you, sir.

**Nilesh Patil:** Thank you. Good afternoon, everyone, and thank you for joining us on Godrej Agrovat Q1 FY '24 Earnings Conference Call. From the company we have with us Mr. Nadir Godrej, Chairman of the company; Mr. Balram S. Yadav, Managing Director; Mr. S. Varadaraj, Chief Financial Officer; and Mr. Anurag Roy, Chief Executive Officer of Astec LifeSciences. We would like to begin the call with the 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 of the statements made in today's call may be forward looking 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 earnings call. I hope you're doing well. Godrej Agrovat started FY24 with a strong growth and profitability and margin expansion. Profit before tax in Q1 FY24 increased to INR 124.5 crores from INR 102.8 crores, a growth of 21% year-on-year. A growth of profitability was driven by the strong performance of the domestic crop protection, animal feed, and poultry businesses. Our in-house herbicide Hitweed delivered robust volume growth and improved realization.

In the Feed business, sustained volume growth in cattle-feed and aqua feed was accompanied by the recovery in margins across categories. Our food businesses also maintained volume growth momentum in the branded and value-added products portfolio and delivered margin expansion. However, Astec LifeSciences and the Vegetable Oil businesses were adversely impacted by the challenging market condition.

Now coming to the key financial and business highlights of each of our business segments.

The Animal Feed business continued its market share gains in the cattle-feed category and recorded overall volume growth in Q1 FY24. The cattle-feed volumes grew by 19% year-on-year. Segment margin also improved considerably in Q1 as compared to the previous year and the previous quarter on account of softening commodity prices.

In our Vegetable Oil segment, volume growth in fresh fruit bunch arrival was offset by significantly lower end product prices from the last year's high base. Crude palm oil and palm kernel oil prices declined by 42% and 50% year-on-year, respectively. During the quarter, GAVL received area allocations for the developmental promotion of oil palm cultivation from

the state governments of Odisha and Telangana. This had a combined potential of around 57,000 acres.

The Standalone Crop Protection segment delivered record topline and margin performance in Q1 FY24. This was attributed to the strong volume growth and higher realizations in the in-house herbicide's portfolio. Segment results grew by 224% year-on-year with segment margin of 32% in Q1. Robust growth in profitability was accompanied by an improvement in working capital.

Astec LifeSciences continue to face demand-supply imbalance in its enterprise product portfolio in both the domestic as well as global markets. Revenue and profitability were severely impacted due to the sluggish demand and poor realization in respect of these enterprise products. However, contract manufacturing revenues grew 3x year-on-year led by new product development and the profitability also improved.

The Dairy business turned EBITDA positive in Q1, led by buoyant margin performance across categories and sustained volume growth in value-added products. Value-added products revenue grew by 20% year-on-year, and its salience increased to 42% of total sales from 38% a year ago. Lower raw material cost aided by the mini flush witnessed in the key procurement market led to significant improvement in the margin profile.

Godrej Tyson recorded excellent all-round performance in Q1 with both the topline and profitability growth across categories. The branded business delivered 16% year-on-year volume growth led by Real Good Chicken. This coupled with lower raw material costs improved profitability. The live bird business also contributed to improved profitability on account of sustained efficiency improvement.

Our joint venture in Bangladesh, ACI Godrej, recorded revenue growth of 15% year-on-year on a local currency basis in Q1 FY24. This was mainly driven by higher realization as compared to Q1 FY23.

That concludes our business and financial performance update for the quarter. With this I close my opening remarks. We will now be happy to take your questions. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Eesha Mohanty from Kotak Securities.

**Eesha Mohanty:** My first question, if you could please let me know the OER and FFB volumes for this quarter?

**Balram S. Yadav:** So OER is 18.67% and FFB processed is 1.3 lakhs. OER has dropped by 32 basis points, but FFB processed has increased by 9.1%.

**Eesha Mohanty:** This is from the aspect of the CMO business and Astec LifeSciences, would you be able to share some numbers -- expected revenue numbers for the next couple of years?

**Anurag Roy:** Typically, we do not give the number guidance, future earnings or numbers guidance. But if you look historically for the CDMO business, we have been doubling our revenue, obviously from a

smaller base, but we have been doubling our revenue year-on-year. So our revenue was close to INR 84 crores a couple of years back, last year we closed at INR 162 crores. And coming year, we would like to maintain almost similar or closer to that run rate. So that is our guidance on how it looks like.

And as you were aware that the new R&D center, which has come up, we are almost doubling down our efforts on CDMO component of the business, which lead us to believe that we would like to work on 20%, 30% growth at least year-on-year on the CDMO side of the business.

**Moderator:** We have the next question from the line of Vidit Shah from IIFL Securities.

**Vidit Shah:** My first question was on the oil palm business, you mentioned a fall in OER, could you just give some clarity on why that has happened? Is that just a normal because of the quality of the fruit or has it been impacted, and should we expect this for the rest of the year as well?

**Balram S. Yadav:** So one thing you must realize is every year Q1 and Q2, the OER pattern will change depending on the heat stress at the time and the arrival of monsoon. And you all know that the monsoon was delayed, and there was a lot of heat initially. And that was one of the reasons why the drop in OER started in June. And I must also tell you that continued in July also. But my sense is that now the rain is very good.

We will have an extended season. And towards the latter half of the year, which is September, October, November, December, we will catch up the OER as well as fresh fruit bunch arrival. And in no way our OER will be below last year on an annual basis.

**Vidit Shah:** And just on the same business, these 57,000 allocations that we've got -- would it be safe to assume that we start producing actual volumes from the after 4 to 6 years? Would that be the right estimate to take?

**Balram S. Yadav:** So for the benefit of everybody, I must say that the total areas theoretically possible for us to plant is close to about 100,000 hectares over and above the area we have in the next 5 to 6 years. The kind of infrastructure of nursery and other people we have created, we will ramp up our planting every year from 3,000, 4,000 per hectare in last year to about 10,000 to 12,000 going up to 15,000, 16,000 in 5 years' time. The first results of this addition we will start seeing from FY 28, FY 29 and full impact, you will see in FY 30 and FY 31.

**Vidit Shah:** And in terms of Astec, just some color on any expected recovery. Are you seeing things bottom out -- there is an elongated period of stress that we anticipate?

**Anurag Roy:** On the Astec, you are aware there are 2 segments of the business. One is the CDMO segment, which is excluding the long value. Most of the impact on profitability is coming from the enterprise business, as Mr. Nadir Godrej also highlighted. And it has to do with the correction in the market, which started some time wear last year. Astec along with other companies in the market are facing similar headwinds of high inventory, there's been destocking, which is happening at the customer level.

So for some of the enterprise products, we believe that the bottom has already reached. We still see some muted prices on to enterprise products. On the others, we are still seeing that the liquidation in the inventories and the market might take a few more months. And then the market from the supply demand side could balance out. So overall, I would say that things have improved from the last few quarters. It might take you a few more months to achieve normalcy we see it currently.

**Vidit Shah:** And the newly commissioned plants that we have, the herbicide one and the MPP. They're all running as per our planned capacity? Just some clarity on that. I'm asking from the point of view of the elongated slowdown. So are we lagging behind those?

**Anurag Roy:** Yes. So on the herbicide plant, our first plant, the guidance which we gave will utilize this plant within 3 years and ramp up accordingly and with an asset turn generating 1.6 to 1.8 roughly in that range. We are very much on target or exceeding those targets on the herbicide plant.

**Moderator:** We have the next question from the line of Rikin Shah from Omkara Capital.

**Rikin Shah:** So with respect to Astec in the enterprise segment, how does our positioning seem at least for the rest of the year? And what kind of a sense are you getting on the destocking. So I would say at some parts and in some value chains, we can see sort of a bottom. So what are we feeling?

**Anurag Roy:** Yes. See, as I was mentioning in the previous question asked as well that on a few of those products, we continue to see the headwind for at least a few more months. But as you rightly mentioned, on some of the other products, we have seen the bottoming out inventories have been flushed out and we might get start into being zone of the profitability. That's one.

But what we have seen in the last few quarters, obviously, we were thinking of the downtrend, but the extent of this downtrend will be unexpected. As such we have also planned for diversifying our product portfolio with the new R&D center coming in, it has offered us enough flexibility now to experiment and put some of the new product at a much profitable.

So, obviously, we are trying our best to bring these products back in the market. But there is that much macros which are in our control. So we are heavily focusing on building sustainable margins from CDMO business and also trying to push some of the new products as soon as what to mitigate this downtrend from our existing portfolio.

**Rikin Shah:** So for Anurag, I think when you have joined, how did our CDMO portfolio look like in terms of number of products and other type of product versus now in terms of contribution to topline?

**Anurag Roy:** So in terms of the pipeline, as you see, which is also reflected in our revenue within the last 2, 2.5 years, we have been doubling our CDMO size of the business on a smaller base, obviously. So some of these products have gone from the development piloting to commercial, which has added to the revenue. But in other cases, we have also built the newer pipeline under the new R&D center now, we are in a very good situation to double down or triple down on those pipelines.

So I would say this cycle for CDMO, as you know, right from development or scale up to commercial take 3 to 4 years. So there has been a lot of activities that has been done over the last couple of years to build this pipeline. And with the new R&D center coming up, this will only expedite that entire pipeline generation process. And we expect to reap benefits as we move forward in the coming years.

**Moderator:** We have the next question from the line of Jagvir Singh from Shade Capital.

**Jagvir Singh:** So my question is related to the Vegetable Oil business. So margins are down. So when we can see the normalized margin in this business in the second half of next year, any expectation?

**Balram S. Yadav:** So margins is down primarily because of low OER. I think that recovery has already started. And as we go along the year, we strongly believe that we will have a very strong October, November also in terms of FFB arrival. Later part of the year, the margins are -- the OER is always very high. So we believe that in next few months that is from August to November, our OER will continuously improve. We will definitely hit the 18.4% what was the last year OER and probably exceed it by 5-10 basis points. So that's not a very big issue for us. The thing is the oil prices, we believe that they are going to hold.

I must also tell you that the refinery and solvent extraction plant we have set up is delivering the planned results. So, I must also tell you that when we were selling CPO, we had 2-4 big customers. But now when we are selling Olein, we have 40-50 customers. So the problem of stockpiling at our factories, FFA increasing, etc. also not there. So not only the margin will improve, but the solvent extraction plant as well as refinery will add 1.5% to 2% to the bottom line overall because of this value addition.

**Jagvir Singh:** My second question is related to the crop production business. So other than Astec LifeSciences and the crop protection business has done very well for us. So can you give some color on this, sir?

**Balram S. Yadav:** So let me tell you that last 2 years, we suffered in crop protection business for numerous reasons. And you know that we took a hit in terms of sales returns, obsolescence etc. And it took us some time to recover outstanding also because even though our profitability was less in crop protection business, but our collections were extremely good last year. I'm very glad to say that those problems are over, not only we have set the business on right track, but also build a very good checks and balances and digital infrastructure to monitor the business on a real-time basis. That's the point #1.

Point number two is that because of timely statements of in-house products like Hitweed Maxx have done really well. The cash flow is good, the profitability is good because almost half the Hitweed and Hitweed Maxx business is to partners where there is no returns or the margins have also improved. We strongly believe that we will be able to liquidate more than 90% of the stocks which we have put in the market in all products. And the best of this division is yet to come because last year, you know the success story of last year. We plan to double that volume this year. So I think that we will also have a good second half.

However, we must always remember that we may have very high profitability this year because of very benign monsoon conditions. But we are very sure that with the improvement in portfolio another in-licensing product will be launched in December. And there is a product pipeline ready for next 3 years also, both in-house and in-licensing. We believe that we will be able to maintain 15% to 18% PBT on sales.

**Jagvir Singh:** Sir, is there any cyclical in this business like in mostly in the crop protection business, first half is better in some companies and in your companies second half is better?

**Balram S. Yadav:** Yes. So for us, no, first half used to be almost of 3/4 of the business at one time. But 2 more new molecules, I think the first half will be about 60% and the second half will be 40%. And because we have seen this can work all 12 months. So I think the effort is to make it 50-50 next year.

**Jagvir Singh:** And sir, in a Astec LifeSciences CDMO business. So you told in some other parts answering the question of other person, a 22%, 25% growth with the R&D setup and all of these things in the next couple of years?

**Balram S. Yadav:** So I think one of the key requirements for a successful CDMO portfolio is R&D, and I can definitely say that within 6 months of submissions R&D center, we are hand full with several projects. On a small base, initially, we may double it once or twice. But on a steady state basis, we are looking at, when steady state is FY 25 onwards. We are looking at the 20% to 25% increase in CDMO business because that will be our focus.

And not only the focus on sales, but also focus on investments. Because whatever comes out of our R&D center in terms of co-creation or working with some partners, it would require us to put production infrastructure also in time to come. So we have a very aggressive plan. And I'm very sure that they are likely to make CDMO a significant part of Astec business in time to come.

**Jagvir Singh:** We have time let say in the next couple of -- in the next couple of -- next 3-4 years. So in the Astec LifeSciences, CDMO business will be bigger than the enterprise business?

**Balram S. Yadav:** So that is our plan and hope, but I cannot say what will happen in future, like we could not predict for the last 3-4 quarters, what has happened in the pesticides market across the world. So I think that said that on a long-term basis, the answer is a very big yes.

**Jagvir Singh:** And the last question related to the Dairy business. Other companies have come out with very good numbers in the Dairy business because of lastly, a lot of issues in the Dairy business but this time, company seeing good future. So in the second half or some at some point in time, can we see the 3%, 4%, 5% EBITDA margin in the Dairy business? Is it possible, sir?

**Balram S. Yadav:** So let me just tell you that a lot of corrections has been made in Dairy business also. I think the focus is on improving efficiency because of reworking of the supply chain as well as making the supply chain dense and going for scale. That is point number one.

Point number two is improvement in salience or value-added prices. And I'm very glad to say that the losses came down in the first quarter as compared to last quarter. I strongly feel that we



will turn into black in this quarter without any help from external environment, which we believe will push us into profitability the Dairy milk prices are coming down. Having said that the whole year will be focused on looking in sight to breakeven in this business and whatever support comes from outside in terms of improved margin will make us profitable.

**Moderator:** We have the next question from the line of Kruti Karani from Axis Capital.

**Kruti Karani:** So just a couple of questions. On the animal feed business, would like to know the outlook on the volume and the margins. Plus on the palm oil trend, you said that FFB volumes would improve H2 onwards. So how should we look at the growth in FFB over the next few years?

**Balram S. Yadav:** Yes. So the animal feed, the margins have improved significantly over last year. The volatility in raw material prices were there, and we are already at 4.2% EBIT margin. My sense is that the monsoon has been very good, the showing has been excellent, and we believe that the normal situation will be very benign. To top it all, the banning of export of rice also means that the rice selling will happen for a longer period of time. So we believe our main raw material in fish-feed and cattle-feed which is the De-oiled Rice bran is not likely to inflate the way it used to inflate in the normal year.

So with this, I'm very sure that as we go along, the margins in animal feed will continuously increase. And my expectation is that we should see margins going back to FY 22 levels this year in the animal feed business. Apart from registering a volume growth of 8% to 10%, which is considered a very good volume growth in this industry.

And the next question was on OPP. OPP, I'm very sure that -- because I think these feed businesses are dependent on temperature, are dependent on monsoon and the tree has its own behaviour year-on-year. So we cannot answer quarter-by-quarter, but I can say on an annual basis, FFB arrival will be up by 8% to 10%. Our OER will definitely match the last year's numbers. And the profitability improvement will come from solvent exaction plant and refineries. And my sense is that the price outlook will revolve around current prices which are prevailing.

**Moderator:** We have the next question from the line of Sumant Kumar from Motilal Oswal.

**Sumant Kumar:** So can you talk about the crop protection standalone business, 34% growth. And what you were talking about strong volume growth and higher realization of in-house herbicide portfolio? Apart from that, any other factor or base effect, why we are showing a 34% kind of growth? We have not seen this kind of growth in any agrochemical company was reported in this quarter. So is it placement or we are going to maintain this momentum in Q2 FY '24 also?

**Balram S. Yadav:** So definitely every quarter this year will be better than last year and much, much better than year before last. So I can tell you a lot of sorting of the problems we had have happened. I must also tell you that we have 3 more products because Gracia also, I consider it as a new product for us. We launched Maxxcott, which is a product which we launched in early in the season. And Maxxcott is a very great hedge because if it does not rain, Maxxcott will be very useful. If it

rains, Hitweed and Hitweed Maxx will be very useful in Kharif from now onwards. So there is a hedge we have created in Kharif.

And we are going to launch another insecticide in December, which will become significantly important products for next year. So I think it is the pipeline of new products, which have helped us do that. Apart from that, a lot of monitoring, which we are doing of stocks at the secondary level and at tertiary level, we don't track sales now, we track liquidation, and we are using several digital tools to monitor that.

So my sense is that, as I already said that I think this year is an exceptional year, but a 15% to 20% growth in top line, driven largely by new product introduction and a similar growth in bottom line on the base of FY 24 should not be a problem in the future.

**Sumant Kumar:** And this margin expansion is on because of the new product, high-margin business?

**Balram S. Yadav:** Yes. Margin expansion, sorry, I should have told you that our big margin erosion, which was used to happen because of pesticide portfolio, which was a traded portfolio. So that portfolio we have curtailed significantly because that is one which brought us down significantly last year because of obsolescence also.

So a lot of housekeeping has been done in terms of SKUs and number of products. I will also say that we are setting up our own formulation unit in Jammu, which will be up and running by January and February. So we will focus on pesticides but we will be very careful not to sell pesticide on low margin or negative margin.

The second thing is that we used to have a lot of problem of outstanding because of the Plant growth regulator segment. With the products like Hitweed, Hitweed Maxx, Gracia is coming, I think in that product line also our recovery has been very good. So the focus is margin expansion because of improved hygiene and also keep on bringing down working capital in this business as we go along.

**Sumant Kumar:** Sir, Why I am asking, this is EBIT right and the 32% kind of numbers is significantly higher, I've not seen any

**Balram S. Yadav:** Annual, don't look at the quarter, sometimes it rains, sometimes it does not rain. So don't look at the quarter, but the 18% to 20% EBIT is something which we are very sure of.

**Moderator:** We have the next question from the line of Siddharth Gadekar from Equirus.

**Siddharth Gadekar:** So first on the Astec capex. Last time we had highlighted we had done roughly around INR150 crores in the herbicide plant in terms of the capex. What is the capex for the Phase 2 plant and when will that be -- when will that start come online?

**Anurag Roy:** The herbicides Phase I, more or less similar capex numbers, slightly on the lower side around INR 120 - 130 crores is what we are estimating. And we expect that to be commercialized by end of this year.

- Siddharth Gadekar:** So secondly in terms of the capex, how should we look at capex for FY '24 and FY '25 for Astec?
- Balram S. Yadav:** There'll be 2 more capex. I think one is already on the drawing table, which is we have some more ability to expand in Mahad. So we will set up another facility in Mahad, which will be very similar in size in capex as the one which we have already established. But the big capex will come -- which will drive our CDMO, that will take a long time. I think we are still working out what kind of multipurpose plant we have. But I think that should be finalized in 3 to 4 months' time.
- Siddharth Gadekar:** And sir, in terms of our enterprise business, when we are talking about diversification into other products, are we looking at adding a newer trials also which are launched or which are likely to be launched in the portfolio, maybe over the next 3 to 5 years? Or how should we the enterprise business going ahead?
- Anurag Roy:** While our focus primarily on the CDMO business, on the enterprise business, since we have a very strong triazole platform, technology platform, and we are also investing heavily on some of the other adjacent platform with the new R&D center. We'll be strategically looking at molecules within that segment as well to work on and launch in the coming years. While the focus is more on building the pipeline on CDMO, we'll also take strategic bets within the enterprise segment.
- Moderator:** We have the next question from the line of Manish Manchanda an investor.
- Manish Manchanda:** I have a couple of questions. My first question is how much area is maturing oil palm plantation, which is remitting revenue right now, sir?
- Balram S. Yadav:** So right now, I have a breakup of about 45,000 hectares of which about 60% is mature.
- Manish Manchanda:** Sir secondly, right now, as you are saying we are looking so much land allotted in our name. So is there any arrangement within farmers and our company that the area which is allotted to us, so the farmers won't be able to sell the fruits to any other company or some type of that arrangement is there for us?
- Balram S. Yadav:** That is the law. That we cannot take from farmer who does not belong to our area and our farmers cannot go to the other areas. Having said that 1% or 2% leakage is definitely happen every year, but we have a very good support from the government in trying to prevent that.
- Manish Manchanda:** And sir, what is our revenue split for our company and to the amount which comes to us and goes to farmer? Is that 82%, 20%, am I correct?
- Balram S. Yadav:** Yes. Roughly, it is right, about 80% of the oil price goes to the farmer and about 20% remains with us. Yes.
- Manish Manchanda:** And sir, on your observation, so don't you think that there is a fundamental contraction is all the businesses together because when we have a good time to one business, it acts as a bad time for other -- like right now, the inflation is in how that is impacting oil palm business?

- Balram S. Yadav:** Yes. So I'm saying that definitely, this hedge is good. But my sense is that valuation in oil palm is more important. We have taken that correction because we are also very scared of these low oil prices and higher oil prices, which is very difficult to explain, considering I'll give you an example of the kind of inflation we are talking about. We will not see in any other industry. Q1 last year, the CPO price was like 139,000 and this year, it is 81,295, which is a 41% drop. Palm kernel oil last year was INR2,06,000. And INR102,000 in Q1, which is a 50% drop. So that is why we have talked about wealth from waste, that is why we have gone in for refining, that is why solvent extraction. So we convert everything and anything which comes out of the plantation into a revenue and profit.
- Manish Manchanda:** Sir, is there any demerger on the cost for the business because the conglomerate thing is only severely impacting the valuation of our company? Is it slightly impacting as you know, is the management conscious about the factor?
- Balram S. Yadav:** So management is definitely conscious, but something which we can tell you right now or we are working on I think. We are conscious of the fact that the value capture for valuation has not fully built into. The work we are doing is not being reflected in the valuation, let me put it this way. I think that yes, we need to communicate better, we need to do performance in all businesses and individually also. So I think we are moving in that direction there.
- Manish Manchanda:** Last question is from Dairy business. How much is our procuring costs in respect to the other companies? Is it 2% to 3% higher, am I correct?
- Balram S. Yadav:** What is that cost?
- Manish Manchanda:** Milk procuring cost, sir?
- Balram S. Yadav:** Procuring cost is -- so let me break it into three components. One is that the procurement of milk. That is 1. Second thing is logistics is a very big cost when it comes to our factory. Third is that our processing cost on outward logistics costs. So I think we have done work on all these three, both in terms of efficiency because of structural issues that is giving up certain collection centres because they were unviable or too far and make our procurement very dense. Apart from that, there are some scale advantages are also coming. So my sense is that on a gross margin basis, I think Q2 is very critical for us. I think a lot of things which we have done have to have the full impact in Q2. My sense is that on the gross margin basis, we will come at par with our peers in Q2 where we were 3% to 5% apart about a year ago. So I think that we will do. And the rest of the gross margin growth will be driven by less by cost reduction in future, but more by improved salience of value-added products.
- Manish Manchanda:** How much is it -- how much percentage do we procure directly from the farmers, sir?
- Balram S. Yadav:** So today, out of about 7 lakh liters we procure, about 27% is direct farmer and it is increasing at the rate of about 20% to 25% per annum. That's the new model.
- Moderator:** We have the next question from the line of Rajakumar Vaidyanathan, an investor.

**Rajakumar Vaidyanathan:** Sir, I have two questions. The first one is on the animal feed segment. So I understand that you have an optimistic outlook on the bottom line when this division go forward. So among the three levers that we have; that price, volume and raw materials. I just wonder what levers are currently working in our favour? And what is working the other way?

**Balram S. Yadav:** The prices -- as for the competition, so that lever never was in a business like this. We are almost at par with competitors and our problem in this business is in every state and every pocket which deal with different competitors. And so that makes the competitive intensity very high. I think 2 things which are working for us is the R&D benefits in terms of cost reductions, they continue to come in. And if you want to see the example of that, you must see our Bangladesh profitability because we commissioned one R&D project there about 6 months ago. And the profitability of that business has definitely improved.

And the second thing is that our raw material calls, which we have taken, I think they are holding us in very good step. But my sense is from H2 onwards, the benign environment of raw materials will drive the profitability of business.

**Rajakumar Vaidyanathan:** Sir, the second question is with regards to the holding, we have some investments in a company called KSE Limited. I just want to know what is the strategy intent because we have not seen any significant increase in the shareholder in the last 2 quarters?

**Balram S. Yadav:** So KSE has been a very interesting company for us. And it is very well established in Kerala and southern part of Tamil Nadu and southern Karnataka, in a very small area. They have significant volumes. So with the intent of probably at some point in time, having a good stake there, we had started buying shares.

But you all know that it is very closely held and the availability of shares in the market is very low, etc. And we also had a closer look at that company, so we are not very keen to increase our share now. So if you see whatever period was about a few quarters ago and nothing has happened after that.

**Nadir Godrej:** But our holding has appreciated.

**Rajakumar Vaidyanathan:** So we do not intend to up our stake because I thought you will use the downturn in the industry to look some inorganic growth?

**Nadir Godrej:** At the right price we will increase that.

**Rajakumar Vaidyanathan:** So because I went through a report of KSE, they are telling that the share price is depressed. So that is the reason I'm asking.

**Balram S. Yadav:** As Mr. Godrej said, at the right price we're interested.

**Moderator:** We have the next question from the line of Aditya from Securities Investment Management.

**Aditya Singh:** I had a question on your Dairy business. So if you specify which are the major performance areas for us? And what kind of decrease in procurement prices we saw on a Q-o-Q basis?

- Balram S. Yadav:** So procurement areas are that wherever we have the plants we are procuring from within 100, 150 kilometres of that area. The only exception being that just to have a benefit of Maharashtra prices also we have developed Solapur District or southern Maharashtra 1 or 2 cases for procurement of milk, so that we have done. And in terms of prices, I think because we have procurement, which is quite spread out. So every place has got a different price. So I think in case you want that information offline for Q1, we can give that.
- Aditya Singh:** And have the prices seen decrease further in Q2 or the price remain same?
- Balram S. Yadav:** My sense is that I think the several shortages which were happening in this industry in the last 2 years because of disruption of cattle breeding, etc. during COVID time. So I think that is all over. We see more and more animals in the market, and that is also reflected in the very good growth in cattle fee we have had. So there is one indicator.
- The second thing is that there is no disease challenge also like the diseases which were there of lumpy skin disease, etc. in the past. So I believe that it will be a good year from milk availability point of view. Whenever there has been a good year, there has been a flush and the prices have come down. How much is something we still cannot put our finger on.
- Aditya Singh:** So the margin which we're made of 1% in Q1. This should improve sequentially as we go into Q2 and if flush is normal. Would that be a correct understanding?
- Balram S. Yadav:** 100%, we are hoping to be PBT positive in this quarter.
- Moderator:** Ladies and gentlemen, that is our last question. I would now like to hand the conference over to the management for closing comments. Please go ahead.
- Nadir Godrej:** Thank you. I hope we have been able to answer all your questions. If you have any further questions or like to know more about the company, we would be happy to be of assistance. Take care and stay healthy. Thank you once again for taking the time to join us on this call.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.