Godrej Agrovet Limited
Earnings Conference Call Transcript
May 15, 2018

Moderator: Ladies and gentlemen, Good Day and welcome to the Godrej Agrovet Limited Earnings Conference Call. 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 '*' then '0' on your touchtone phone. 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 afternoon everyone and thank you for joining us on Godrej Agrovet Limited Q4 FY 2018 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 would like to begin the call with the 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 that 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: Thank you, Anoop. Good afternoon, everyone. I welcome you all to the Godrej Agrovet Conference Call to discuss the Operating and Financial Performance for Q4 and the Full Year of 2018. I shall take you through a summary of our financial results, followed by the key developments and operational highlights of each of our businesses.

In Q4 of 2018, we have seen strong revenue and profitability growth. Consolidated revenues from operations for the quarter were Rs.1,195 crore compared to Rs. 1,034 crore in the corresponding quarter of the previous year, registering a growth of 15.5%. Consolidated profits before taxes excluding non-recurring income and exceptional items was Rs.51 crore compared to Rs.43 crore reported during the same period last year, a year on year growth of 18.8%. It is pertinent to note the net profit before taxes for Q4 of the last year has been adjusted for non-recurring income of Rs.7.2 crore earned as interest on ESOP loan and has also been adjusted for exceptional income of Rs.20 crore which was a write back of provision created earlier on loan advanced to the ESOP Trust.

Moving to the full-year numbers, consolidated revenue from operations stood at Rs.5,206 crore as compared to Rs.4,926 crore in the previous year, which is a growth of 5.7%. Profit before taxes, excluding the non-recurring income and exceptional items for the year was Rs.360 crore compared to Rs.325 crore reported last year, registering a year-on-year growth of 10.8%. Please note that the financials for the current year 2017- 18 and the financials of previous financial year excludes certain one-off items as given below:

For the current year 2017-18, profit before tax excludes an exceptional income of Rs.12 crore which was on account of gains earned by subsidiary on cancellation of an agreement.

For the previous fiscal, there are three adjustments:

First, non-recurring income of Rs.22.76 crore earned from the sale of investments during the Q3 of last year. Second, non-recurring income of Rs.7.2 crore earned as interest on an ESOP loan. And lastly, exceptional income of Rs.20 crore which was a write back provision created earlier on a loan advanced to the ESOP Trust.

Further, our balance sheet remains strong with low consolidated net debt to equity of 0.22 in fiscal 2018 compared to 0.47 in fiscal 2017. Also, our return on capital employed remains at 20.2% during the current year, compared to 19.5% in the previous fiscal. I'm confident that with our clear strategic focus, presence across multiple segments which differentiates product portfolio and superior execution we will continue to deliver industry leading results in the future.

Now, I will discuss the performance of each of the business segment:

For Q4 of the FY 2018, the Animal Feed business recorded strong volume growth of 19%. For the full year 2017-2018, volume growth in the Animal Feed segment was 7.4%, which was the highest in the last 5 years. The growth has been largely supported by cattle feed and layer feed. As I mentioned in the last quarter call as well, we have been successful in arresting the de-growth in the broiler feed volume. However, given lower commodity prices during the year, revenues in the segments remained flat compared to last year.

For the oil palm and crop protection businesses, it has been a slack season, the Q4 revenues form a relatively lower share of the full-year revenue. Therefore, we should look at full year numbers in these businesses. For fiscal 2018, volume growth in crude oil palm oil and palm kernel oil production remains strong. We registered a 21% year-on-year growth in the fresh fruit bunches arrival during the current year. Also, revenue in this vertical increased by 15.6% year-on-year in fiscal 2017-18. Currently, palm oil prices are at a high level and that bodes well for the future.

Crop protection business witnessed strong growth in top-line and profitability levels during the year. In this segment, the revenue grew by 13.2% year-on-year and the segment profits grew by 21.8% during the same period. Good traction of new product launches and continued growth in herbicides and fungicides categories helped the crop protection business to post strong growth. The growth was despite the fact that revenues in the current financial year were impacted by GST, which was introduced with effect from the 1st of July 2017 and due to which revenue is now recorded net of GST.

Astec LifeSciences Limited, a subsidiary of GAVL, continued to show strong performance. In fiscal 2018, the company reported revenue growth of 18.6% which was driven by growth in export sales, which saw a revenue jump of 55.8%. The EBITDA margin was also at a healthy 20.7% for fiscal year 2018.

Creamline Dairy Products Limited, another subsidiary of GAVL, recorded a revenue growth of 14.6% during the year, aided by strong performance in value-added products. However, profitability of the business was impacted by adverse milk prices and high provisioning cost due to low butter prices during the year.

GAVL's joint venture in Bangladesh, ACI Godrej, continues to witness volume growth in all feed categories and recorded a revenue growth of 12% for the 12-month period ended March 2018.

Our poultry joint-venture Godrej Tyson Foods Limited, recorded a revenue growth of 2.5% in the current quarter as compared to the corresponding quarter of the previous year. However, the sales for the full year 2018 were marginally lower than last year due to adverse live bird prices.

With this, I conclude our business and financial performance update. We remain encouraged and confident of achieving our long-term objectives of inclusive, sustainable and profitable growth. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Hi sir, congratulations on a good set of numbers. I wanted to first ask on the Animal Feed business, so we had almost a flat volume in the first half, then about 10% in Q3 and 19% in Q4. So just wanted a bit of color on what has driven this very sharp acceleration in the fourth quarter, if you could give a bit of color on the different segments and therefore, going into FY19, what is the kind of growth we are looking at?

Balram S. Yadav: Arnab, one of the reasons why we were not growing was because we were de-growing in broiler feed. If you know ex-broiler feed, we still had respectable 10% CAGR for the last 5 years. So one thing which we corrected was broiler feed through our R&D initiatives and through a little bit of compromise on profitability, we made broiler feed very price competitive. And that definitely helped bringing growth back into broiler feed, particularly in the last quarter. In addition to this, because of our R&D initiatives and a very focused marketing strategy in five focused state, cattle feed growth has been extremely good, layer feed growth has been extremely good. My sense is that this momentum is now going to continue, and we will see a definitely mid-teen growth in the coming year.

Arnab Mitra: Okay, that is very helpful and is there any worry that typically when milk prices come down, which seemed to have happened recently that there is sometimes a negative rub off on the cattle feed? So, any worries on that count or anything that you are seeing on the ground?

Balram S. Yadav: So, the answer is yes because people try and feed the animals, a lower grade feed. So, we have seen whenever milk prices come down our Type I feed is replaced by Type II feed even though we do not lose volumes. But I think, I must also tell you that at the farmer level they are not coming down because most of the State governments have stepped in with subsidies etc.

Arnab Mitra: Right, thanks that was very helpful. And second question was on Astec, you have seen a very strong quarter. Is there any kind of a one-off or a phasing issue here? And can we extrapolate the kind of numbers we have seen, or we should look at more at the full-year number now in terms of growth or margin?

Balram S. Yadav: So Astec, now we have also understood the business because the cropping season and weather do not go by our quarter on quarter requirement. So there is always preponement and postponement of sales because the export is growing very rapidly for Astec Life Sciences. If I'm right, these exports are upwards of 40- 45% growth last year. So that I think we will always see something being preponed and something being postponed. Having said that, you must always remember that as per IndAS, we only record sales once it reaches the destination it is not that we just dispatch and record sales. So those kind of time lags on high preponement, postponement will remain there as one of the characteristics of the business. Having said that was it one-off, the answers is no. If it is a sustainable growth, the answer is a very big Yes.

Arnab Mitra: Thanks for that and just last question on the JV profit share that we have. So I have just basically seen this quarter, there is a big swing from a positive 3 crore to negative 4 crore. So which businesses have driven this kind of a negative swing in the JV businesses?

S. Varadaraj: So both, in terms of our Godrej Tyson Foods which is there, which is a JV, saw a negative swing and even our other joint venture ACI Godrej, which was there that also had a negative swing. Both of them had a negative swing.

Nadir Godrej: Balram, do you want to share anything more on ACI?

Balram S. Yadav: So one more thing that I wanted to talk about is Bangladesh, at one time, Bangladesh would buy 2 to 2.5 million tons of raw material from India for their animal feed business. The animal feed industry there is close to about 3 to 3.5 million tons. Now suddenly, global commodity prices are lower than the Indian prices and all that 3 million tons of raw material is coming from abroad, which I think has put so much of pressure on their infrastructure that it is almost collapsed. If you see we registered a growth of 40% in volumes in Bangladesh which is our best performance. But unfortunately the profitability got hit because of delays at the port, unloading delays, demurrages etc. etc. The hit was close to $ 2 million last year because of these reasons only.

Arnab Mitra: Okay that is very helpful. And one last question if I may, on the animal feed business. Is the negative pricing anniversarizing going ahead or are you seeing prices further go down as sequentially also?

Balram S. Yadav: No, I would say that we have become very price competitive. All the R&D benefits which are likely to come in the next few months will start beefing up the margins.

Arnab Mitra: No, actually my question was more on the revenue line. So the negative pricing was because of the lower commodity y-o-y, that now is anniversarizing or is the commodity still continuing to move down.

Balram S. Yadav: Okay let me tell you like this, since we will be comparing with last year, you will start seeing positive, because in 2016-17 the commodity prices were high. But in 2017-18, 2018-19 they are almost flat. So revenue growth will reflect the volume growth.

Arnab Mitra: Exactly, that’s what I was asking. Thanks so much and all the best.

Moderator: Thank you. The next question is from the line of Farzan Madon from Axis Capital. Please go ahead.

Farzan Madon: Sir. It was wonderful to hear about the volume growth in the animal feed business, just wanted an update about your R&D initiatives and cost cutting in that division, is that on track?

Balram S. Yadav: Very much on track. So, we commercialized two of our R&D initiatives, invested close to Rs. 30 crore in 2016-17 and it got commissioned sometime in mid-18 and we could see the benefits flowing in and that is one of the reasons why animal feed is becoming more and more competitive and we see some volume growth. If you are following quarter by quarter, Q1 was negative volume growth and Q4 was 18.5% growth, so you can yourself see that some magic is definitely happening.

Nadir Godrej: And Farzan, more is on the way.

Balram S. Yadav: And this year, investments have already started in expanding some more R&D initiative where the cost is close to about Rs. 100 crore which probably will start giving benefits from Q4 of this financial year onwards.

Farzan Madon: Right sir, my second question is on the crop protection business and Astec. Could you just tell us the pipeline? Are we on course to launch a couple of products every year?

Balram S. Yadav: Yes, so in this year I think we will consolidate our position with the last year launch of Bispyribac-Sodium. We are putting a lot of energy in garnering more market share because that is molecule which is becoming more and more acceptable in paddy. However, the types of combinations have come and you will see some combinations getting launched sometimes later part of the year or only next year. That's point number one. Point number two, our other molecules which are in-licensing arrangement with Japanese companies are still under registration and none of those will be launched in the current financial year, but….

Nadir Godrej: Balram these are for Godrej Agrovet right?

Balram S. Yadav: Godrej Agrovet.

Nadir Godrej: Specifically for Astec?

Balram S. Yadav: Agrovet also. So that, I think from FY 20 onwards, the pipelines will start with one or two molecules every year. Coming to Astec, definitely, we have developed some more products for the export market. I think they are going to commission another plant. One thing I want to tell about Astec is that they did something very visionary and smart thing a year and a half ago. They invested almost Rs. 45 crore in a backward integration plant so that they can produce their own intermediate rather than importing from China and you know the Chinese situation today. They are very well placed in capturing more margins and more volume this year because of that plant.

Farzan Madon: And there was some CAPEX which was going to come up in FY 19? So, is that plant up and running, or….?

Balram S. Yadav: So all our CAPEX is one quarter late. So, this plant should have been commissioned in March, but it will be commissioned in May. I think this month end it will be done or June beginning, it will be done. But work has already started on another plant and hopefully we want to commission it sometime in March- April next year.

Farzan Madon: So what I believe is that your margin growth in Astec will be significantly higher compared to your revenue growth because of the backward integration and securing the raw materials earlier which is to be obtained from China?

Balram S. Yadav: Significantly is a word which is a function of several things, but directionally you are right.

Nadir Godrej: And it may take some time to develop.

Farzan Madon: Yeah, absolutely sir. And recently there was some news about Godrej acquiring 0.9% in Tyson; does that mean that Godrej now is in the driver's seat to run the joint-venture?

Balram S. Yadav: I think there has been agreement with the partner but getting to majority will take time because of several reasons I do not want to get into details here. But there is an understanding between the partners that in India, particularly, we are well positioned to run this business more aggressively and we will get into the driving seat either in this quarter, or in the next quarter when we get to majority. This partnership has been very good for the last 10 years, Tyson has great technology, knowhow and experience in this business we want them to stay as a partner and guide us and educate us on this business because value addition is going to be very key. Tyson is masters of that game in US.

Nadir Godrej: But both parties have agreed to have a faster decision-making process. It will help the business.

Farzan Madon: Right sir, so we can see basically Godrej going back into foods in some way.

Balram S. Yadav: We are already there know, with milk?

Farzan Madon: Right. Sir my just one book keeping question is that, our total hectares currently stand at around 66,000-67,000 hectares in the palm oil plantation division.

Balram S. Yadav: Yes.

Farzan Madon: And the new initiatives over there I believe is on track, which is displayed in our 19% PBT margin which is equal to the gross margin?

Balram S. Yadav: The answer is yes; 46% duty is there, on CPO which will help both the farmers and us because 80% of the cost of oil goes to the farmer. I think it is a great step by the government, has definitely helped the oilseed farmers in this country because there was lot of stress because of lower prices of the oilseeds for the first half of the year. And definitely this duty will stabilize prices in India and make this business profitable for the farmer as well as for the processors.

Nadir Godrej: Farzan, you can watch the palm oil prices make your own conclusion.

Farzan Madon: Right sir, no, I was just wondering because the gross margin typically is around 20%, but Godrej Agrovet because of the new initiatives is displaying a PBT margin of 19%, which I believe is coming from the new initiatives and other income- like your fiber to briquettes and the other R&D initiatives.

S. Varadaraj: So all those initiatives actually add on to our margins. You are right, in the sense that each of these initiatives have their contribution to our margin and that is why the gap between EBIT margin and the gross margin is not very significant.

Nadir Godrej: And our new plant is likely to be even more efficient, right?

Balram S. Yadav: Yes.

Farzan Madon: Sir just one question, if I may just squeeze in one more question. If theoretically, you can convert the fiber into ethanol so is Godrej looking at it? Can it be done? Is Godrej also looking at it, in some…?

Nadir Godrej: We were exploring it, and for the time being, it has been shelved. But as new technologies come up, we will have a re-look at it.

Farzan Madon: All right Sir. Thank you so much Sir.

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

S. Padmanabhan: Hello sir, my question is around this Creamline Dairy, here we have talked about this adverse milk prices, higher provisioning. Also that while the sales remain pretty strong on account of value-added products, the profitability seems to be impacted by some of the things that you mentioned. If you can tell us a bit more about how much has been the impact on account of this provisioning costs and how do, we see the profitability of the business as we move towards FY19 and FY20?

Balram S. Yadav: Sure, so let me just deconstruct this year numbers for you. So actually, the number, the PBT, we are conveying is close to about Rs.15 crore. Now there is a provision on mark to-market butter prices of close to Rs.12 crore that adds it up to 27. And last call I had conveyed to you that we have commissioned A.T. Kearney for a cost reduction project in this business and last year, the cost of that project was about Rs.5 crore. But the benefits will only come this year. So actually, if you see the number, it is close to about Rs. 31- 32 crore if you add these two up. My sense is that, this kind of a margin will be a steady set margin of this business which is possible, which is about 2.5 to 3% PBT on sales. Having said that, salience of value-added products is very critical to drive margin. We have made investments in UHT lines etc. and we have launched the milk shakes about a month ago. Today we launched the yoghurts, UHT milk, UHT lassi, UHT buttermilk is on the way. All this will be launched along with high end ice-creams by the month-end. So, we are well on way on this long shelf life cold chain product which has definitely higher margin so we believe that margin profile of this business will keep on improving as the salience of the value added products keep on improving.

S. Padmanabhan: Sir, currently, what is the salience of these value-added products and as we launch some of these high-end ice cream and other things that you mentioned, how do we see the salience and the mix improving over the next couple of years?

Balram S. Yadav: So let me just tell you that I can definitely share last year number and our definition of value-added products is also buttermilk, lassi, curd, ice cream, everything comes in that. Now for FY18, that number was close to about 23%. And we believe that this will touch about 30% by all these initiatives and new product launches we have undertaken. And to tell you more I think everywhere we would require expansion of Dahi capacity, probably in the second half of the year.

S. Padmanabhan: Sir, on the animal feed business, while we have seen a good traction in terms of volumes, one thing that we are noticing is that I would believe that the raw materials would largely be corn and soya and these prices are trending upwards. So going forward, would we see some kind of input pressure on that side or do we believe that we can pass it on?

Balram S. Yadav: So one of the things which I must tell you that we have been able to re-price our animal feeds. Thanks to our R&D cost reduction initiative in this business, also we hired A.T. Kearney and benefits are coming now. So having said that, I definitely feel that now we are very competitive in all the markets. We are a very unique company, we are market leaders or biggest animal feed company in the country but in every states, we are competing with a different player. In bigger states, in different zones of those states we are competing with different players. So my sense is that now we have reached a situation that we will be able to pass through all the raw material increases which happen in future and keep our margins intact.

Nadir Godrej: I would also like to stress that corn and soya bean are not important raw materials for cattle feed.

S. Padmanabhan: Ok, sure Sir. Thank a lot and I will join back in the queue.

Moderator: Thank you. The next question is from the line of Resha Haria from Green Edge Wealth Services. Please go ahead.

Resha Haria: Thanks for the opportunity. My first question is; you have mentioned that for the animal feed business, the focus is on increasing the market share and the distribution network. So if you could just give a little bit of state-wise color wherever we are like top 1 or 2? That would be helpful.

Balram S. Yadav: So actually, if you really ask me the biggest dispersed category is cattle feed. Now, 2 years ago when we launched our cattle feed strategy, we realized that we are number 2 or number 3 in about 12 states, but nowhere we are number 1. But I'm very glad to say that this new strategy now in 2 states we have reached the number 1 position, and several other states we have improved the position by at least one notch. Now that is one thing, because 50% of our sales is now cattle feed and fastest-growing segment is also cattle feed. We will grow from strength-to-strength in this because I think, in some way we have got the distribution, product pricing, etc., right in several states in this category. Layer feed and broiler feed are pretty much large farmer quasi B2B business and I think they will continue to grow at a single-digit pace. But cattle feed, we will definitely be growing in mid-teens in time to come because there is a very large space available for growth in cattle feed.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Sir, for our palm oil business, since duty has risen by 14% in Q4 and 80% of the price hike, so assuming 14% duty increase results in 14% price hike, so 20% of that 14% that is 2.8%, shall that be the improvement in our EBITDA margin?

Nadir Godrej: That is the increase in the contribution margin. So, profit margin could increase more right?

Anand Bhavnani: Yes, profit margins should increase more.

S. Varadaraj: But one point, which I would like to make over here is when you look at an EBITDA margin, margin as a percentage will not improve. Our absolute profits will improve, isn't it? Because the sales price is also increasing, isn't it?

Nadir Godrej: No, but if the contribution margin increases and fixed costs don't change, profit margin will also go up.

Balram S. Yadav: Sir, we will be questioned again on this. So my sense is that contribution margin in absolute terms will increase but profit margin will not increase because we will capitalize Rs. 170 crore plant in the month of July. That interest and depreciation are going to hit us. That is a very big capacity 4-megawatt electricity production, etc.

S. Varadaraj: So just to answer your question, because of the higher sales price, because we have a formula which shares the sales price between the farmers and us, as a percentage our margin will be similar, but in absolute terms, it will be different.

Nadir Godrej: But as our new plant will come that cost will not affect us. But in the beginning capacity utilization might be low. But it is also more efficient plant.

Balram S. Yadav: Yes, so this is what I must say that I need to inform the investors also, that we are going to take refurbishing of an old plant once this new plant comes up. So there will be certain costs which will be there, but the benefit will be next year.

Anand Bhavnani: Sir, secondly, in addition to import duties, we are hearing that GST too has curtailed imports because of IDST which needs to be paid upfront. Thereby it has improved the positioning on Indian crushers and refiners. Can you help us understand how it has been helping us. Sir, GST since now it has been in place for a while, if you can help me how it has helped our oil business?

S. Varadaraj: So India is a large importer of crude palm oil. So frankly speaking, whatever is the domestic production in any which way, I think it is in great demand. So I don't think from a demand perspective, the situation has changed any which way either pre-GST or post-GST. And in terms of pricing, it is a commodity price which is the same for imports as well as the local.

Nadir Godrej: The import duty has raised the price of palm oil in India, if there is no change in the international prices.

Anand Bhavnani: Okay, but competitive positioning remains the same?

Nadir Godrej: Yes, we import about 10 million tons of palm oil and the entire production of India is 300,000 tons.

Anand Bhavnani: And sir how much would be our inventory gain in the palm oil segment due to this duty that came in?

S. Varadaraj: No, we don't carry a lot of inventory in our palm oil business.

Balram S. Yadav: It is produced and within 3 days we dispose it off otherwise there is a discount because the free fatty acids increase, FFA if it increases then there is a discount. So it is a very, you can say fresh business. So we just process and within 3 days it is off-loaded to the customers for refining.

Anand Bhavnani: Sir last one question, in our Astec joint-venture with Innovator can you help us understand that over the next 4-5 years how many new technicals under 93, are we planning to bring in?

Balram S. Yadav: To maintain the same growth trajectory of past 2-3 years, there is enough things in the pipeline, and enough relationships also, that is point number one. But let me tell you point number two, that we would like to do a strategy deep dive in this particular area of business in next few quarters, because with molecules going off patent and China being less attractive source of chemicals, we will explore if there is a possibility of investing and growing this business exponentially.

Moderator: Thank you. The next question is from the line of Rishabh Buthra from Sharekhan Limited. Please go ahead.

Rishabh Buthra: Just if you could highlight the total CAPEXs in each segment and the revenue potential?

Balram S. Yadav: 170 crore of plants will be capitalized in July, oil palm plantation. It will be a continuous sterilization process, 60 tons per hour capacity, the most modern technology implemented in Thailand, Malaysia, Indonesia about 2 years ago. This will definitely improve oil extraction ratio and bring down cost of production and we will produce 4 megawatt electricity. About Rs. 72 crore CAPEX will be capitalized in Godrej Tyson Foods Limited by October, which will be a vegetarian value-added food-processing plant, where we will produce vegetarian Yummiez products. Apart from that, there will be several almost Rs. 150 crore worth of project which will be under implementation this year, but considering the pace at which the licenses come, etc., I would not know how many of them will be capitalized in the current year. But we have plans for about Rs. 150 crore of fresh investments starting in this year, some of which have already started also.

Rishabh Buthra: And sir, revenue potential put together all this, if once they are commissioned?

Balram S. Yadav: This 60 tons per hour at today's prices will be close to about Rs. 200 crore revenue, Yummiez plant I think can do maximum 2x of its investments, but these are high margin products which is okay. Astec plant will do 1.3x to 1.5x asset turnover but margins are good, so it is okay. Animal Feed plants to 7x to 8x their investments, asset turns are very high, but margins are also low.

Rishabh Bhuthra: And sir, just observed on the results, there has been a sharp contraction in Crop Protection margins vis-à-vis last year.

S. Varadaraj: This is an off season, so we would recommend that we look at the overall full-year number. If you look at the quarter numbers, it is very small.

Rishabh Buthra: But last year also the period remains the same, last year it would also be off-season only. Then how come the margins were high.

Balram S. Yadav: Look I am telling you that we are in a business of animal kingdom and the plant kingdom. The problem is they don't go by our calendar. So plenty of times there will be shifting on volumes which keep on happening. So no two quarters are comparable any year and this is my 28th year in this company. So I'm saying that you will have to give us 2-3% leeway and look at the year-to-date numbers or annual numbers when you compare things.

Rishabh Buthra: And sir, any proposal to increase stake in Astec, since it has been growing at a very…?

S. Varadaraj: We keep on buying shares from the market whenever we get some, but we are more than glad to increase the stake.

Rishabh Buthra: And lastly, sir, how quickly can we reach the dairy products margin at 4- 4.5%?

Balram S. Yadav: Yes, I think this is the big agenda this year. We brought in A.T. Kearney to look at efficiency, productivity improvement and plain vanilla cost reduction. There are a lot of things on the anvil, which have to be improved. Having said that let me also point out that to get the compliances in terms of food safety and human safety, to a level where a group like Godrej would be comfortable, we have already spent close to Rs. 60-70 crore in last 2 years. Now that cost is hitting, but the benefit is not hitting. So I'm saying that it will take time, but we are well on way. We know what is to be done, but it is not going to be very quick, it is not going to happen in the next 2 to 3 quarters it will take time to get to about 5% PBT on sales.

Rishabh Buthra: Okay and sir, this consultant was hired for dairy business or across the company's….?

Balram S. Yadav: Animal Feed and dairy business. And now they are doing some work in our Godrej Tyson business also.

Moderator: Thank you. The next question is from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: I have a question on Animal Feed, apologies this has been asked before but just trying to understand the margin profile in this particular category, I mean when I look at it from a year-on-year basis, and you did mention it when you were there on road shows during IPO that the mix profile of this business has completely changed from poultry to where it was especially on the broiler side and that has come down. But when I look at it from even this last year what I did notice there were quite a few regional players in feeds which is cattle feeds and few in the shrimp side have actually shown a very high improvement in margin profiles of their businesses. So I am just trying to understand where this disconnect is while we say that large part of our revenue today is coming from cattle feeds but it is not reflecting in the margins as such?

Balram S. Yadav: So, I think in individual margin profile probably you don't know of cattle feeds, but I need to say cattle feed is the most profitable product in our portfolio right now. So, in case you want off-line we will tell you in different segments, what is the EBITDA margin or what is the gross margin in different feeds. But I must tell you that cattle, fish and layer feed are the top 3 in growth and profitability.

Hemant Patel: Ok, so on an aggregate basis, when I look at it on an EBIT margin as a percentage of sales which has peaked sometimes at 8%, today it is 6.1% is what I have calculated. How should we actually look at this on going ahead, I did hear the mention of the cost rationalization exercise that you're running through R&D initiative. Could you give some direction as to how we should be looking at it?

Balram S. Yadav: So let me just give you some background that we were not growing in cattle feed as I earlier said that ex-broiler feed we were growing at 10% CAGR but broiler feed we were de-growing by 16-17% and just because the market got integrated and there was no space for feed millers. Now what we did in the last 2.5-3 years is that we try to squeeze cost out of the system, as well as focus big time on R&D initiative so that we can deliver the same value at lower cost. Because we realized just because we are Godrej and we have such a great sales force plus technical service force, etc., we are being priced out by lot of local competitors because price and credit in agri sector plays a very important role. So the margin drop you see is a conscious initiative to reprice our products in different markets. So, let me tell you now we use very sophisticated tools in pricing because we don't consider state as one unit now because in one state itself we are competing with six other competitors in six zones. So, a pricing model has been worked out, a lot of cost reduction initiatives and R&D initiatives have been taken. So you will see a steady rise in margins from this year onwards along with a very very healthy volume growth, that is what our expectation and that is what we have worked on for last about 30 months.

Moderator: Thank you. The next question is from the line of Jigar Shroff from Financial Research Technologies. Please go ahead.

Jigar Shroff: I just wanted to understand sir; our stake in Astec Life Sciences at the moment is 57%, correct?

Balram S. Yadav: 57.4%.

Jigar Shroff: And in Creamline Dairy, sir?

Balram S. Yadav: 52%.

Jigar Shroff: And then in Godrej Tyson and Agrovet Bangladesh?

Balram S. Yadav: 49.9% in Godrej Tyson, 50% in ACI Godrej.

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

Dipesh Kashyap: Sir just wanted to understand if you can give the split of the volume growth in the cattle feed, broiler feed, and layer feed categories, please?

S. Varadaraj: So in cattle feed in Q4 we had around mid-teen growth, in broiler feed, obviously as we mentioned that the de-growth has been arrested and we have started growing so broiler feed has grown by around 30% or so. And similarly, layer feed has also grown by around 33% in Q4 and shrimp was off-season. So overall growth is 19% in volume in quarter four.

Dipesh Kashyap: So my question on the palm oil business sir, I read your DRHP like you had a 35% market share in the palm oil business and the number 2 player is facing problem, so what can be the reason for the decline in our year-on-year revenues in this quarter and what is the outlook for the FY 19 please?

S Varadaraj: So this quarter is an off-season for the Oil Palm plantation business so and our most important quarters are around the monsoon time so that is where the fresh arrivals are very high. So one shouldn't really look at quarterly numbers of Q4 especially for the Oil Palm plantation business because that is not representative.

Nadir Godrej: And also, we have a big market share of Indian production, we must remember this, there are around 10 million tons of import.

Dipesh Kashyap: Lastly, if you can remind us please like what is the percentage of palm oil trees falling into the 0 to 3 years categories, 3 to 8 years and beyond 8 years please?

S Varadaraj: It is equally shared, 1/3rd, 1/3rd and 1/3rd is what the spilt is between the age profiles of our plantation.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Thanks for the opportunity. Sir, for Astec, can help us with volumes in Q4 FY 18 vis-à-vis Q4 FY 17? And full year FY 18 and full year FY 17.

S. Varadaraj: So Astec, overall the growth has been in Q4 has been around 42% that is slightly driven by our exports, which are there. While for the full year again, it is exports which has sort of driven the growth for Astec.

Nadir Godrej: Volume or value?

Balram S. Yadav: Both in terms of volume and value.

Anand Bhavnani: Sir, what would be the absolute tonnage, if you can give me the number?

S Varadaraj: That we can give you off-line.

Anand Bhavnani: Sure sir. And sir apart from Bispyribac-Sodium, what would be other top 3 or 4 products for Astec?

S. Varadaraj: Bispyribac-Sodium is an Agrovet product, Astec is more into fungicides the Azole category. In fungicides, the product called Loxys, which we have started selling that comes from Astec.

Anand Bhavnani: And in terms of registration for markets abroad, is there any particular number that we are targeting in geographies that you are targeting for exports?

Balram S. Yadav: I think somebody from Astec would be better to give you the correct answer. I don't want to hazard a guess. But if you write to us, we will reply to you.

Moderator: Thank you. The next question is from the line of Resha Haria from Green Edge Wealth Services. Please go ahead.

Resha Haria: Could you explain the subsidy mechanism in the cattle feed business? So typically how often in the past state governments have intervened?

Balram S. Yadav: No, there is no subsidy on cattle feed, only in milk. There are price supports in milk and this is also a recent phenomena. It was introduced by the Karnataka Government 2 years ago and all other states have learned this bad habit from them, and this has become a very important election tool and now we know it does not work.

Resha Haria: And is there any element of import of Animal Feed in India or that is really not the case?

Balram S. Yadav: Little bit of shrimp feed is imported.

Resha Haria: And any impact of GST on the Animal Feed business?

Balram S. Yadav: It is out of GST, the only thing here is costs have gone up a little because we cannot claim it back because the output is without GST. So on a turnover of about Rs. 2500 crore this year our GST hit was close to about Rs. 20 crore on inputs.

Moderator: Thank you. Ladies and gentlemen that was the last question I now hand the conference over to the management for closing their comments, please go ahead.

Nadir Godrej: Thank you. I hope we have been able to answer your questions satisfactorily. If you have any further questions or would like to know more about our 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. Ladies and gentlemen, on behalf of Godrej Agrovet Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.