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CIN : L15410MH1991PLC135359

Date: August 12, 2019

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, BandraKurla Complex,
Bandra (East), Mumbai-400 051.

Ref.: "GODREJAGRO"

Subject: Transcript of Conference call of Godrej Agrovet Limited with Investors & Analysts held on August 5, 2019.

Dear Sir,

Please find enclosed herewith transcript of Conference call of Godrej Agrovet Limited held on Monday, August 5, 2019 at 5.00 p.m. IST. with the Investors and Analysts.

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

Please take the same on your records

Thanking you,

Yours faithfully,

For Godrej Agrovet Limited
VIVEK
PRITAMLAL
RAIZADA

Digitally signed by VIVEK PRITAMLAL RAIZADA
Date: 2019.08.12 15:27:59 +05'30'

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

Encl.: As above

Godrej Agrovet Limited

Q1-FY20 Earnings Conference Call Transcript
August 05, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Godrej Agrovet 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 telephone. 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: Good evening, everyone. And thank you for joining us on Godrej Agrovet's Q1 FY20 Earnings Conference Call. We have with us Mr. Nadir Godrej – Chairman of the company, Mr. Balram S. Yadav – Managing Director, and Mr. S. Vardaraj – Chief Financial Officer of the company.

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

Nadir Godrej: Good evening, everyone. I welcome you all to the Godrej Agrovet conference call to discuss the operating and financial performance for the first quarter of the financial year 2019-2020. I shall take you through the summary of the results, followed by the key developments and operation highlights for each of our businesses. For the first quarter ended June 30th, 2019, the company reported standalone total income of Rs. 1,262 crore, which reflects a growth of 13.3%. The standalone profit before tax was Rs. 102 crore which was lower as compared to the previous year by 7%. For the first quarter ended June 30th, 2019, the company reported consolidated total income of Rs. 1,713 crore, which reflects growth of 15.1%. The consolidated profit before tax of Rs. 113 crore was 5.9% lower than the previous year. Please note that the financials for the 1QFY20 include the financial results of Godrej Tyson Foods limited and Godrej Maxximilk Private Limited which became subsidiaries with effect from March 27th, 2019.

Now, I will discuss the quarterly performance of each of our business segments. In the animal feed business volume growth was 6.5% driven by growth in layer and the fish feed segments. We have taken price increases for most of our products which resulted in year-on-year revenue growth of 20% during this quarter. Consequent to the volume growth and price increase, the segment margins improved significantly by 17.2% compared to the 1QFY19. In the coming months, we will continue to focus on maintaining our volume growth momentum, along with increasing the segment margins. In the oil palm business, the revenue was lower by 13.6% as compared to 1QFY19 due to a sharp decline in prices of the end products. While arrivals of fresh fruit bunches increased by 22% over the previous period, crude palm oil and palm kernel oil prices were lower by 21% and 31% when compared with the first quarter of fiscal year 2019. Further, the extended summer and the extreme heat adversely impacted the oil content. On account of this, the segment performance was significantly impacted and was lower by 64.5%.

In the crop protection business, the standalone segment revenues and the segment result grew by 9.4% and 6% respectively. This was despite it being a tough quarter for the domestic agro chemical companies.1QFY20 sales growth was driven by higher sales of herbicides.

In our subsidiary Astec Life Sciences, we had strong growth in revenues of 18.4%. However, operating profitability was adversely impacted during the quarter due to poor realization, resulting in a lower EBITDA margin of 9.5%. Creamline Dairy Products Limited, our dairy subsidiary posted revenues of Rs. 320 crore in the current quarter compared to Rs. 313 crore recorded in the same period last year. The EBITDA margins improved significantly by 124.3% over first quarter fiscal year 2019, primarily as there was no butter provisioning during the quarter. Going forward, our focus will be on strengthening the Jersey brand and increasing the salience of our value-added products.

In our poultry business under Godrej Tyson Food Limited, the revenues during the quarter grew by 9.8% supported by live bird prices and the increase in volume of real good chicken. However, EBITDA margins were under pressure on account of the increase in cost of live bids. GAVL's joint venture in Bangladesh, ACI Godrej, recorded a robust revenue growth of 38% over first quarter fiscal year 2019, driven by strong volume growth in the cattle, broiler and aqua feeds.

With this I conclude our business and financial performance update for the quarter. 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. First question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Sir, my question is on the palm oil part of the business which has seen a sharp erosion. I mean, if you can give some color with respect to how do you see this year being, whether this pain would continue or do you see that probably as the quarters go the prices would improve and possibly the margins could improve probably in the subsequent quarters?

Balram Yadav: Yes, so, there are two reasons why the performance of oil palm plantation business has suffered in spite of a very big increase in fresh fruit arrival, almost 22% improvement over last year quarter one. First and foremost is tanking of the oil prices. Now, the CPO prices are almost 15%, 16% below last year, and CPKO your prices are 30% below last year. And the government of Andhra Pradesh still have not declared the price formula, so we are paying as per the old pricing formula. So, that is point number one. Point number two is that excessive heat in June, because this is a crop which is water hungry crop and because of excessive heat the oil content in the fruits was very low. Now, we have seen that post rains in last 15, 20 days oil content is improving and because 60% of the season still remains, I am sure that most of the efficiencies will get to the last year's level, if not to the budgeted level, but price remains a very big question mark. It is not that we have gone through such a terrible time in efficiencies because of weather changes for the first time, we have gone through that earlier, but the governments were very proactive in giving some support to the industry by increasing custom duties. Now if you see the entire oil sector is suffering because of lower price CPO which is coming from Indonesia, Malaysia, and it is high time we provide some kind of a support by increasing custom duty. We are given to understand by various associations that it is around the corner, but the government is addressing a lot of other important businesses. So, my sense is within a week or two duties will definitely be increased, otherwise local production of all types of oils will suffer, the oilseed farmer will also suffer. So, right now it looks like the hit because of efficiencies can be covered up, but because of price can only be covered unless and until some duty is there, otherwise it is most likely that the shortfall will remain.

S. Padmanabhan: Sir, second is basically looking at the entire agri inputs business, both your standalone as well as Astec. As you earlier mentioned that Astec was seeing a significant decline as far as the gross margins go. So, what I would like to understand here is that, I mean from what we understand is there is some amount of pricing power that is there if the raw material prices go up, there is some element where Astec could have renegotiated. And second is, if I am correct, Astec was also investing a lot in backward integration. So, I mean, where is it that it seems to be not adding up somewhere.

Balram S Yadav : So, two things happened within Astec. One is that from the Q3 of last year a little bit of oversupply and lot of technical manufacture was absorbed throughout the world, mostly to the countries where we export our products. And if you remember, in the Q4 also we had lot of postponement of sale, which happened as far as exports are concerned. Now, this continued in the first quarter also. The second hit we got is, we have a product called Propiconazole which got banned in Europe and it was quite surprising, because it was most likely the ban was not to take effect this year, but unfortunately it happened. We were left with inventory which we had to sell at a lower price.

If you ask me about backward integration, I think we decided to do that two years ago, we commissioned the plant last year in Q2. Plant is on stream and that saved us at least in several of our products where margin erosion had happened because of increased Chinese imports, prices have all gone up because of some disturbance in production facilities in China. Now, we still are not out of it, still we are dependent on Chinese imports for several of our raw material. But going forward, business model will also incorporate investing in backward integration one after the other so that are dependent and on Chinese imports reduces because costs are going to be high, considering the new environment laws in China, etc.

Astec, if you ask me, has a lot of opportunity, in the sense that we get lot of calls, exploratory calls and business queries on lot of molecules. The only thing which now is important is that how we maintain the profitability. And second is, we also need to continue investing every year in the plant, because we still have got a lot of business coming our way. To add to this, I must tell you that our order book is full for the next eight months, the only spoil sport can be cost.

S. Padmanabhan: And with respect to the impact we have taken, the entire impact of Propiconazole or is there any further impact that would…

Balram S. Yadav: No, I think our entire impact has been taken and we realize that certain modifications in the plant had to be done to probably produce some other product, that also has been undertaken. So, that versatility we have built, but unfortunately the prices are not going up because of that last two quarters glut, and costs are going up. So, that I think will take some time to correct.

Nadir Godrej: And Astec can produce other products instead of Propiconazole. So, there doesn't look like there will be a long-term effect.

S. Padmanabhan: Sir, one final question, if I may. Sir, I would also like to understand what is happening on the domestic front, because the monsoon has been all around the place, especially in the south there has been fair amount of deficit. And also there has been a little bit of lag as far as the rice is concerned and some of the key crops is concerned. So, if you can give some color on the domestic market with respect to at least the inventory that is there in the market, whether we see this as a headline probably for the remaining kharif, or do we see this year as more or less a washout year and probably one should be looking for the forthcoming kharif season? I mean, what is it that one should be expecting?

Balram S Yadav: So, you are absolutely right, because a dry July is disastrous for kharif. The only positive part is that sowing was delayed as far as all crops are concerned. So, the requirement of sprays was also delayed. If you ask me, in last 15 days because of rain has the offtake of herbicides and other pesticide increased? The answer is yes, the offtake and liquidation are happening at a very rapid pace. And the beauty of this country is scale, because millions of farmers spray millions of hectares every day. So, offtake is also very quick. Is it the ideal season and we will do whatever we were expected to do? I still don't know. Because in case there is another round of rain which is predicted around 15th to 20th of August, we might still have a very good kharif season, because rains will also bring weeds and pests and insecticide sales will also go up, including the productivity. So, my sense is that it will not be as good as last year, but it still has the opportunity of reaching almost close to that. As far as we are concerned, we are banking heavily on this month of August for liquidation of several of our molecules. The first few weeks, last week of July and the first week of August have augured well. And let us see how rains happen in the middle August, which is very, very critical for liquidation of our molecules and molecules for the entire industry.

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

Ankur Periwal: So, continuing with the same discussion. Now earlier also we had mentioned the in-licensing opportunity that we are looking forward to in terms of new product launches, apart from our own sort of R&D and new products launch. Any updates on that? And what can be the timeline for the same?

Balram S Yadav: So, in this kharif season we launched this mixture of herbicide called Hitweed Maxx. Hitweed takes care of broad leaf weeds only, but Hitweed Maxx takes care of both broad leaf and grassy weeds. And it has been quite a hit in the market in spite of a very poor season initially. So, we are very encouraged. Apart from that, one in-licensing product by the name of Hanabi will be launched in tea, we have got all the permissions and regulatory permissions also. And it is a miticide which has great use in tea and which is a Nissan product which will be launched in the second half of the year. Several other products are under different stages of registration. And in case everything happens on time in next three years, four to five more products will be launched.

Ankur Periwal: Sure. And on the margins front, while in Astec you did mention the near-term challenges in terms of the pricing, on the standalone basis the branded business, we do expect to maintain the current profitability run rate?

Nadir Godrej: I am sure that we will be able to do that in B2C business. In Astec I will repeat myself, that the opportunity of increasing prices in next one quarter seem to be pretty low. We are still holding the cost, we have coverage in terms of raw material, but what will determine the profitability of this business because normally Q3 and Q4 are very good quarters for us, we make 60%, 70% of profits in these quarters. In case the costs don't go up and whatever spike in prices, we are trying to negotiate happens, then I think we will be back to our normal profit margins in Astec Life Sciences on a yearly basis, because these two quarters are very important for us.

Ankur Periwal: Secondly, on the animal feed business. Now we do see some decent sort of volume as well as a pass through of the earlier raw material hikes resulting in a higher realization as well. So, will it be fair to say that the margin what we have reported in this quarter, can that be a decent benchmark for the full year? And is there any raw material sort of lead challenges still ahead of us?

Balram S Yadav: So, this has been a very, very different year than several years in past, almost five six years. I must give you some idea on what is the kind of escalation in raw material prices we have seen, which is unprecedented. Corn over Q1 2020 price has going up by 57.6%, over Q1 2019 price of Q1 2020 higher by 57.6%. De-oiled rice bran, 55.4%; cotton seed cake up by almost 76.7%, almost doubled. Now, what it has done for animal feed business is that definitely it has affected all the feed players, it happened at the time when people were not able to take position, thereby resulting in a very, very level playing field for all players. We have always gained whenever there is a lot of volatility in raw metal prices. And I have seen that happen many times in the last almost 30 years I have been selling animal feed in GAVL, it is going to be a very good year, we can see some of the signs in quarter one and more of them in quarter two, which are weak quarters, the best is yet to come, Q3 and Q4 are big quarters for that.

Now, let me tell you the flip side of that. The flip side of that is that our Godrej Tyson Foods business, which is a fraction of the animal feed business in terms of turnover, has suffered because of this increase in the raw metal prices which has increased the feed cost. Now, if pass through in animal protein businesses, be it milk or be it chicken is with a time lag. So, by the time we have passed through the cost, I think it has taken some time, so there is a little bit of hit of profitability there. But there again, as I said that Q3 and Q4 are going to be the important quarters and let us see how much we can catch up there.

Ankur Periwal: Okay. And in the earlier quarters, we did mention some pricing rejig on the broiler front…

Balram S Yadav: Yes, so we did that. Now you have to read our numbers carefully, if you see our absolute EBIT per ton in animal feed has gone up. But as a percentage of sale it has come down, primarily because of inflation in RM prices and realization. So, you must always look at our tonnage and contribution per tonnage, because sometimes we may not do well also and because of inflation turnover might rise. So, I think good way to look at animal feed is profit per ton and contribution per ton.

Ankur Periwal: Sure. So, my question was actually more referring to the broiler volume growth, we did mention layers at which we are driving.

Balram Yadav: So, broiler volume growth, broiler is very tactical for us, because it has become a B2B business and I have said that in all con-calls. But the focus is fish where we have grown more than 60%, layer feed where we have grown more than 35%, cattle feed growth has been sluggish because of low milk prices early in the season, but milk prices have risen and we are seeing a little more traction in cattle feed sales also. So, these three segments are promising good growth this year. Broiler feed, we may end up with a slight growth or almost flat, and shrimp is one area where we are still struggling. There is de-growth over last year, but it constitutes a very small proportion of our total sales and profits. But having said that, I think plans are underway, initiatives have been taken, corrections have been done to bring shrimp also on track.

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

Aniruddha Joshi: Sir, in case of dairy what was the price hike taken? I guess most of the competitors have raised prices were 5% to 6%. Also, AP government has announced subsidy, so do you see any impact as the subsidy is only for cooperatives?

Balram Yadav: So, normally in Q1, say, up to July, normally the industry takes two to three price increases. Unfortunately, this time only one price increase has been taken, because the cooperatives just refused to increase the prices at consumer level because of a very important democratic event in May. Now, having said that, of course, like they cannot bleed endlessly, so everybody is thinking of a price increase now. In certain states sizing new price increases have been announced very recently. But in Q1 the price increase was 4% or 5%, Rs. 2 to Rs. 3 per litre, which is not enough to cover the increased procurement cost, and that is hurting us. But I am sure that industry will make corrections.

Aniruddha Joshi: Okay. So, was there any volume decline in Q1?

Balram Yadav: In Q1 our milk sales are flat, our value-added sales rose by almost 21%. Our salience of value-added sales has come to something like 33% which is the highest ever. So, it grew by 5% from 28 to 33. The challenges this quarter particularly, because the procurement prices have gone up in June and July. But the consumer prices have not gone up till even yesterday. There is a lot of talk about it so let us see what happens.

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

Sumit Kumar: Sir, my question is regarding palm oil business. So, apart from the lower realization what are the other key reason for decline in EBIT margin?

Nadir Godrej: I told you, a big reason is efficiency came down, and efficiency is described only in one term, which is the oil extraction ratio. Normally, we have an oil extraction of about 17% in this season, because it is a very hot season, even though the annual average is close to 18% but unfortunately it dipped to below 15%. Now, since we pay on tonnage to the farmers, any reduction in oil content is a direct hit to our P&L. Now, this is because of weather conditions, very little can be done, all the country suffered this in June and part of July. However, post monsoon there is some improvement, but seeing this is a biological product, it will still take time and we are sure that from on an annual basis efficiency will come close to last year. The big variance might come in case the prices don't go up. And that is the challenge this year in this business.

Sumit Kumar: So, the Q2 is going to be a big quarter, and the rain started in the South India, like AP and Telangana, it got delayed this time. So, there might be a more impact in Q2 compared to Q2 FY19, efficiency wise?

Balram Yadav: Absolutely. Q2 FY19 efficiency wise we may come at par, but price wise we are way below.

Sumit Kumar: That is okay, the price we all know. But efficiency wise also when you see the rainfall in June month in AP and Telangana was higher, when compare this year and the previous year.

Balram Yadav: Yes. So, normally, unlike crops a plantation crop takes time to improve, because it is a full-grown tree. So, in case a crop shows greenery within three days of rain, the plantation crops respond in three to five weeks, depending on the age of the crop and other conditions also. So, that I think we are seeing from say last week of July, actually last 10 days of July; slowly, slowly, slowly oil extraction ratio is improving. And that pace is only going to increase as this progress.

Balram Yadav: I must also tell you, this caveat I want to give that we may not be able to recover the losses due to low prices, that may be lost forever.

Sumit Kumar: That is okay. So, overall the July month the rainfall was lesser, in the last week of July you can see the some improvement in that area. So, overall for the three week you have a lower rainfall, so that might have an impact compared to previous year?

Balram Yadav: Yes.

S Varadaraj: So, it was also because of the excessive heat conditions. So, in an excessive heat condition, the fruits seemed to have ripened while they have not actually ripened. And the oil formation within the fruit does not really happen to that extent, oil synthesis within the fruit. And that's what has sort of resulted in a lower oil content during this time period. And as Mr. Yadav rightly mentioned, this is a biological asset, right, it's not mechanical. It takes time for it to sort of come back to the normalcy.

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

Madhav Marda: Sir, just one question on the dairy business. I was just reading an article recently about what are the global dairy giants finally exiting India, given its such a challenging environment. And your commentary too has been that milk procurement prices have been going up but end prices are not going up because of the cooperative structure. Don't you think this business consumes a lot of capital employed but doesn't drop a lot of profit, any thought on restructuring, anything of that sort?

Balram Yadav: So, one of the things is that it does not require too much of capital. Because whatever CAPEX we have done is to majorly improve the infrastructure we inherited. Only half of CAPEX has gone for capacity expansion, that is for the Vishakhapatnam plant and for the UHT lines and the flavored milk line. Now, you are absolutely right, because procurement is a competition with cooperatives. And wherever there is private money competing with public money, everybody knows who will win. The only thing in this business is, as the salience of value-added product goes up, and the brands become important, definitely the margins will become more sustainable and that is the effort.

The one reason why the big giants don't find it interesting is that value addition opportunity is very limited, people have to really work to develop that opportunity in India, requires a lot of patience, etc. And the margins will always be under pressure, because the brand premiums will take time to come. The second thing is that this procurement prices have no relation to the output prices because of interventions by government. So, I think this is a very, very big, unattractive thing about this industry. Now, output prices are low, but we cannot drop the procurement prices because the government gives subsidy through their cooperatives and the farmer, why should farmer bring their milk to us if they get Rs. 2 subsidies from the government.

Madhav Marda: Exactly sir, that's what I am saying that the problem… I think if my calculation is right, it takes about 20%, 25% of the capital employed for the company, if I read it right, and contributes less than 5% of the EBIT. So, it's just dragging down the ROCE, right? And I don't see this cooperative structure or anything like that changing in India in the coming years. Just wonder, could be a challenging sort of... We've been trying, sales growth hasn't been that great, margins have been under some pressure continuously.

Balram Yadav: Yes. So, I think these businesses will require patience. And I think the easiest way is to get rid of a business, but that may be throwing the baby with the water. I am saying that we have worked very hard in creating brand, we have created infrastructure, we have created sales and distribution of long shelf life products. And this is the time we should see some result of all the effort we have made in past two, three years. I would say that this is a wrong time to think of portfolio strategy. But we are also in the business of buying and selling businesses, that is also our business. So, it is not that we will rule out this possibility in time to come. But today is not the time to evaluate that.

Madhav Marda: Okay. And just last question on the EBIT margin for dairy, any internal targets that we have by say FY21 where this could structurally reach, any thought around that?

Balram Yadav: It's a forward-looking statement. But major improvement is expected in case the salience of value-added product increases.

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

Prakash Kapadia: Sir, has the Rs. 80 crore CAPEX in Astec Life Science done?

Balram Yadav: Prakashji, we will just tell you actually.

Prakash Kapadia: Because I think we were looking at Rs. 80 crore for FY20 in Astec.

Balram Yadav: Last year we did Rs. 40 crore and this year we have planned for Rs. 45 crore. We have almost finalized purchase of land near Bombay for R&D center, that is also included in this. But R&D center may cost a little more than what we have expected. So, this year we might go to about Rs. 55 crore to Rs. 60 crore investment in Astec.

Prakash Kapadia: And this R&D center should come up by when?

Balram Yadav: I think we have made sure that we get into a chemical zone etc. so that we don't have too much of regulatory issues. I think within 12 months this should be operational. And we are also in a hurry because there are a lot of projects which are not getting started because a lack of bandwidth, both in terms of infrastructure and people in Astec Life Sciences.

Prakash Kapadia: Okay. And sir if I look at our sales growth, they have been decent which you were hinting at last quarter. But if I look at EBITDA it has grown 6% and PAT has actually degrown, obviously, there were some inputs given by you because of higher feed costs or lower profitability in the chemical segment. So, as we track the remainder of

FY20, what will bring us to higher profitability, I mean, where can profitability grow at 15%, 18%, what are the variables we should track and the risk of any to that profitability, if you could give us some sense on three, four of our key businesses, that will be very helpful.

Balram Yadav: So, animal feed business, going by my experience and the way this last four months have gone and what is likely to happen in RM situation, I would say that I don't see any tension there. And in the milk business also, I was very worried about two weeks ago when people were refusing to take price increases, but now some better sense is prevailing. Rains have been very good in several parts of Andhra Pradesh, Telangana, Maharashtra, it is just a matter of time that the fodder availability will improve, the milk production will improve, and the procurement price will fall. Prakashji, one thing which I have seen in this industry, for 10 years I was on board of Creamline Dairy, then we became the majority owner, that prices are never brought down. So, the only good thing in case price goes up and procurement price comes down, we will be definitely doing very well in second half. Last year, we made a profit of close to Rs. 23 crore, Rs. 24 crore, and almost 90% of that was made in the second half. So, we are still there. Godrej Tyson, depending on what happens to raw material prices, the profitability will be determined by that. But that is not a significant part of our portfolio. Agro chemical, the pickup has been very, very smart. And next 15, 20 days, actually the month of August will determine where we reach. Today it looks like that we will be able to show good growth in the agro chemical segment also.

My only worry is every year Q4 is a very, very important quarter for Astec Life Sciences, we should not have postponement of sales in quarter for Astec Life Sciences, because our profitability is quite skewed towards that. In oil palm, efficiencies definitely will come around, only 40% of season is over, 60% is still remaining. Definitely we believe it has not happened for the first time that because of excess heat or OER has come down. But in most of the time it was hidden because the price of oil will take care of that, this is the only time when price of oil has not commensurately increased. So, a little bit of nudge from the government in terms of taxation. And we are also hearing that China may be short of oil, because of their spat with US. If little bit of demand generation happens in palm oil globally, the prices might go up significantly in 15, 20 days. So, you can talk to me in the first week of September, and I can give you a very clear picture of what is likely to happen.

Prakash Kapadia: Sure, I will do that. That is helpful. And lastly, any thoughts of any inorganic opportunity which we are scouting, looking for? Because in tougher times you would get what you want to cherry pick and get things which are in your value added zone or comfort zone and get it at a price which you would wish to. So, any thoughts on that?

Balram Yadav: Absolutely, in spite of these challenges, debt equity is 0.15. So, on a standalone basis equity is closed to Rs. 1,500 crore and debt is about Rs. 240 crore, Rs. 250 crore. So, we have the required wherewithal to go for it, and there are opportunities which we are evaluating. But in M&A, particularly in Indian companies it is not done till it is done. So, I spent quite some time on inorganic opportunities, there are some on the table, but nothing which I can talk about in a confident manner right now.

Moderator: Thank you. The next question is on the line of Arun Kumar from Atom capital. Please go ahead.

Arun Kumar: So, I've got a couple of questions, first is, what is the maintenance CAPEX for this year and also the next year, please, because there is some capital work in progress especially as debt. So, just trying to get an understanding of the ongoing maintenance CAPEX this year and next.

Balram Yadav: So, in all our businesses the CAPEX for next three years is not for organic production. So, I would say 70%, 80% of CAPEX is for new products, is for new genre of chemicals, and it is also for some R&D initiatives, both in Astec Life Sciences and the animal feed business. And all these initiatives are going to result in margin expansion by adding to value addition or reducing costs in commodity businesses. Total CAPEX we have budgeted for next three years, including FY20 as year one is close to about Rs. 700 crore. We believe that we will end up definitely spending almost 70%, 80% of that, because most of the projects will add significantly to margin expansion.

Arun Kumar: Understood sir. So, that is the growth CAPEX, I am just asking without any growth what you need to spend just to keep the existing facilities maintained and up and running, the usual the usual wear and tear?

Balram Yadav: The usual wear and tear is not in CAPEX, the usual wear and tear we take in the variable cost, and that goes through P&L. But CAPEX is whenever we add a new machine or a new plant, that I think comes to less than Rs. 15 crore, Rs. 20 crore a year.

Arun Kumar: So, if I take your operating cash flow year-on-year, is that fair to assume that pretty much all of it is sort of free cash, which means that you can either spend everything on growth CAPEX or you can give everything away to shareholders as dividends or buyback.

Balram Yadav: Absolutely.

Arun Kumar: Right. So, if I look at your figure from the year that has gone by, I think it's close to about Rs. 400 crore in cash from operations. Is that pretty much the figure for the free cash then?

Balram Yadav: Absolutely.

Arun Kumar: Okay, great. That's good to know. And any color you could throw on the ad expenses for your branded business, maybe on a consolidated basis or if you can break it by...

Balram Yadav: Yes, so in food businesses I can tell you that our advertising, publicity budgets are close to about Rs. 25 crore.

Arun Kumar: And that's the annualized?

Balram Yadav: Annualized, yes.

Arun Kumar: Okay. And lastly sir, question is regarding the research expenditure. So, is all part of the R&D is capitalized or do you book that as expenses and the P&L? The annual report is giving a figure of only Rs. 13 crore, but in the previous calls, I was reading the transcript, you suggested a figure which was way above this Rs. 13 crore which the annual report is showing.

Balram Yadav: 13% goes through the P&L. Apart from that we are investing in equipment, more facilities, just the one which is likely to come up in near Bombay for agro chemicals, which might cost Rs. 30 crore, Rs. 40 crore. So, this is all capitalized.

Arun Kumar: So, this disfigure of Rs. 13 crore which is there in the annual report, which is on a recurring basis, what is that?

S Varadaraj: So, the revenue expenses which we incur in terms of the costs which are directly attributable to the R&D work which is happening, it would include travel costs, include payment made to various institutions for doing some work on our behalf, those kind of costs.

Arun Kumar: Okay. And how much is going to the P&L, I missed that number.

Balram Yadav: Rs. 13 crore. I will just clarify one point here. In say animal feed business, crop protection business, there is a very close association with the technical teams of these two businesses. Now, these technical teams are quite big in both animal feed and crop production business, but the cost is borne by the businesses. So, they are the interface between R&D improvements and field teams, etc. But we take them in the business.

Moderator: Thank you. Next question is from the line of Nishant Sharma from HDFC Securities. Please go ahead.

Nishant Sharma: Sir, last quarter you had given the guidance on Astec Life Science for revenue growth of 15% EBITDA margin and expectations of 20% EBITDA growth. So, while we have met revenue guidance by growing at our 18% in this quarter, but EBITDA seems to be fallen short of expectations. Are you still holding on to earlier guidance or 15% and 20% growth on Astec Life Science?

Balram Yadav: So, top line, yes. Bottom line, depends in case the cost line for our products hold. So, right now if you ask me, I am very skeptical about a 20% EBITDA growth. It's not that it is not possible, but will require a lot of things to go right.

Nishant Sharma: Any timeline by which you would be certainly clear? I mean, maybe next coming quarter?

Balram Yadav: Yes, next quarter, I think this is a quarter when we have to correct a lot of things in terms of backlog in sales. If that happens, I am saying that we might be in a better position next quarter to comment.

Nishant Sharma: Okay, second question is more of a P&L basic. We have seen sharp increase in the other expenses by around 30% of YonY growth. Is there any one-off items or anything that I am missing out on that?

S Varadaraj: Yes. So, one is in the last year numbers, Godrej Tyson Food expenses were not included, because we were not doing a line-by-line consolidation of Godrej Tyson Foods and Godrej Maxximilk. So, that's point number one. Point number two is, other expenses also would include the variable expenses which are there, like the sales variable overheads, the production variable overheads, etc. Now all the processing charges, the power and fuel costs, these are all grouped as part of the other expenses, and which will sort of go in line with the kind of volume increases which we are having.

Nishant Sharma: And if I can squeeze in one more question. Interest and depreciation also seems to be rising. So, is there anything that is new come up on stream and as a result these numbers have improved or is it something else?

Balram Yadav: Sure. So, interest has not risen as part of interest and depreciation. We have to look at interest has not risen really, it's almost there at the similar level as last year, depreciation has grown primarily because of lot of CAPEX which we had already capitalized in the previous year, previous year we had taken only a part of the depreciation charge, this year you will have full year depreciation charge. And also because of the assets which are getting capitalized in the current year.

Moderator: Thank you. The next question is from the line of Devendra Wadhwa from Green Portfolio Private Limited. Please go ahead.

Devendra Wadhwa: Sir, can you show me what is the share of **00:48.35** revenue?

Nadir Godrej: Cannot hear you properly.

Devendra Wadhwa: Yes. Can you please share the share of Triazole in the total revenue from Astec Life Sciences?

Balram Yadav: or you are talking about all Triazole Chemistry?

Devendra Wadhwa: All Triazole.

Balram Yadav: Almost 80% or so.

Devendra Wadhwa: And sir my next question is, sir we are having short-term borrowings to commercial paper of Rs. 100 crore, do you have sufficient amount to pay it off?

S Varadaraj: Yes. So, we have sufficient number of lines which are available to us to sort of service this commercial paper amount. As we mentioned earlier, our debt-to-equity ratio is very, very less, it is hardly 0.14:1. So, in terms of the leverage which is available, it's sufficient for us to sort of service any such repayment requirement.

Devendra Wadhwa: But sir as you have seen that debt-to-equity ratio is almost highest among your industry.

S Varadaraj: It is not 1, I said 0.14 is the debt-to-equity ratio.

Devendra Wadhwa: Okay. And sir, have you

Nadir Godrej: Sorry, can you please repeat?

Devendra Wadhwa: Sir, have you paid these short-term borrowings, because its duration was only of three months?

S Varadaraj: Yes, we keep on regularly paying it. In our history we have neither delayed nor defaulted on any debts. All the payments have been made in time and properly. So, in fact, we are one of the most sort of prime customers for most of the banks. We enjoy very good rating and we also enjoy very good borrowing cost. So, generally our borrowing cost, even if it is a commercial paper or other borrowings, it is in the range of 6% to 6.5%.

Devendra Wadhwa: Okay. My last question was, just a captive question. Did any land issue of Godrej is related with Astec Life Sciences?

Balram Yadav: No. I don't think we have any land issue with Astec.

Moderator: Thank you. The next question is from the line of Preet Nagarsheth from Wealth FinVisor. Please go ahead.

Preet Nagarsheth: Yes. I want to understand how do you see the prices of maize? And what's your sense on it? Because you did you mentioned that the prices have gone up significantly. So, where do you see the kharif crops are currently?

Balram Yadav: So, area under corn is definitely at par with last year, the productivity is likely to be good because of very good rains in most of the corn area. The only issue we see is that a little bit of attack of army worm, it is a worm which attacks and there is a significant loss to the crop. However, farmers are taking corrective action. And a little bit of import of corn has also started, government is allowing import of corn at 15% duty. Even after 15% duty, the corn landing at about 12%, 13% at lower costs than the current market price. So, my sense is that the way I am seeing the crop there should be ease in prices towards October onwards when the crop comes. But will we see the prices which we used to see earlier of Rs. 14, Rs. 15 ex-mandis, I don't think so. I think from Rs. 23, Rs. 24 right now it might drop to Rs. 17, Rs. 18 for a short time and go back again.

Preet Nagarsheth: Got it. And how much percentage of the poultry feed is corn?

Balram Yadav: 40% of poultry feed is corn in terms of cost, in terms of volume about 55%. And the other culprit this year has been rice bran, which increased almost 67%, which is more than 50% of the cattle feed raw material.

Preet Nagarsheth: Okay. So, any decline in prices will be beneficial for the company?

Balram Yadav: Yes.

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

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 the company, we would be happy to be of assistance. Thank you once again for taking the time to join us on this call.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Godrej Agrovet Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.