



Godrej Agrovvet Limited

Q1 FY2019 Earnings Conference Call Transcript August 14, 2018

Moderator: Ladies and gentlemen good day and welcome to the Godrej Agrovvet 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 morning, everyone. And thank you for joining us on Godrej Agrovvet's Q1 FY19 Earnings Conference Call. We have with us Mr. Nadir Godrej – Chairman of the company, Mr. Balram 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 in nature, 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 Thank you, Anoop. Good morning, everyone. I welcome you all to the Godrej Agrovvet conference call to discuss the operating and financial performance for the first quarter of financial year 2018-19. I shall take you through summary of our results followed by the key developments and operational highlights for each of our businesses.

In the first quarter of 2019 our standalone total income was at Rs. 1,114 crore compared to Rs. 991 crore in the corresponding quarter of the previous year, registering a growth of 12.4%. Standalone profit before tax was Rs. 110 crore compared to Rs. 92 crore reported during the same period last year, a year-on-year growth of 19.9%.

In terms of consolidated financials, total income was at Rs. 1,488 crore compared to Rs. 1,371 crore in the corresponding quarter of the previous year, which is a growth of 8.5%. Consolidated profit before taxes including share of profit from the associate was Rs. 120 crore compared to Rs. 110 crore during the same quarter of last year, a year-on-year growth of 9.1%.

Now, I will discuss the performance of each of the business segments. The Animal Feed business recorded a strong volume growth of 19% during the quarter, supported by growth in the cattle, broiler and layer feed segment. Strong volume growth also resulted in revenue growth of 16% despite commodity prices remaining

low. However, segment results during the quarter were lower than last year. This is because the first quarter of last year included significantly higher profits earned in our aqua feed segment as input prices of fish meal were at record low levels.

In the Oil Palm business, segment revenues and profits registered a year-on-year growth of 28.5% and 67.5%, respectively, during the quarter. This was on account of a sharp increase in crude palm oil prices and better efficiencies. We also highlight that our new palm oil mill which is being set up in Andhra Pradesh is on track to be commissioned in the second quarter of the year.

In the Crop Protection business, revenues in the current quarter were impacted by GST which was introduced with effect from July 1, 2017. Therefore, the total income for the current quarter is not directly comparable with the previous year as revenues in the first quarter of last year include excise duty of Rs. 27.3 crore. Excluding the excise duty, standalone segment revenues have grown at 6.3%. Profitability also remained healthy with segment margins of 36.7%. In the coming quarters we believe that our new product launches should contribute to growth and profitability.

In our subsidiary, Astec LifeSciences, revenues were lower at Rs. 65.5 crore during the quarter compared to Rs. 75.2 crore in the first quarter of last year. Consequently, the profit was also impacted and was lower than last year. This was mainly because export revenues of around Rs. 25 crore of goods shipped before June 30th could not be recognized. This will be recorded in the second quarter of the year.

Creamline Dairy Products Limited, another subsidiary of GAVL, recorded a revenue of Rs. 313 crore compared to Rs. 309 crore in the first quarter of last year. Value-added products form around 28% of the revenue. However, profitability of the business was impacted by adverse milk prices and high provisioning cost of around Rs. 6 crore due to low butter prices during the quarter.

In our poultry joint-venture Godrej Tyson Foods Limited, revenue grew by 8.1% year-on-year, aided by improving sales in the Yummiez business and in the live bird business. Further, Godrej Agrovet has increased its stake to 49.9% in the joint-venture from 49% earlier.

GAVL's joint venture in Bangladesh, ACI Godrej, recorded revenues of Rs. 201.3 crore in the first quarter of this year compared to Rs. 217.3 crore in the first quarter of the previous year. This was due to a decline in volumes in aqua feed and the broiler feed segments.

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

Moderator

Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Ashish Thakkar from Motilal Oswal Securities. Please go ahead.

Ashish Thakkar

Sir, my question relates to the shrimp feed production, there are lot many unorganized and smaller players who are willing to cut prices and enter into the feed business. So, any comments on this, where would the market be in the coming years?

Balram Yadav

Shrimp feed, very interesting case, because after broiler feed we believe that shrimp feed is the one market which will get integrated, both backwards as well as forward. Because if you see all the big players are also in the hatchery and the processing business. Having said that, it is not always value adding to integrate, and that I think

that we are also studying. We strongly believe that some kind of consolidation will happen in next few years in this business, because largely driven not by feed prices or anything, but by volatility in shrimp prices.

Ashish Thakkar And how about new entrants who are willing to extend credit and cut the prices?

Balram Yadav So, that I think is a thing which is common to all our feed businesses all over the world, because there are no exit and entry barriers, people keep on coming and people keep on going. I think that is what I have seen in cattle feed, in broiler feed and layer feed, there are several big companies which existed 15 years ago are not there. However, in shrimp feed, the tendency of processor to become feed miller is very high and let us see if they can manage this transition.

Ashish Thakkar And what would be your take on the input prices, the fish meal and soya prices, you feel during the upcoming rabi season the price would come down?

Balram Yadav So, I think there is no reason for prices to go up, that I am very sure. Even if there is a spike in next few weeks it will be a small spike just because of the off-season. And I am very sure with monsoon in soybean areas is good, prices are not likely to rise in this season also. Second thing is that the fish meal, I think the whole industry's profitability was very high last year because of very low fish meal prices, but we think that the fish meal prices will remain steady, right now they hover between Rs. 87,000 – Rs. 88,000 a ton to Rs. 90,000 a ton and I do not think there is any chance of that coming down or going up.

Ashish Thakkar Sir, next question would be on the crop protection business. So we had gone through the Astec's number and there was some export sales order deferment. But as far as Godrej's own portfolio is concerned, how should we look at the growth prospects and the other new launches that we have planned?

Balram Yadav So, I think there was no proprietary molecule which was launched, some generic extension got launched in spaces where we are not present, we just wanted to cover those crops also. But my sense is that early teen growth and in top-line and bottom-line is something which we are not worried about, in-spite of the fact that monsoon is patchy, we had good quarter and I think second quarter is also shaping up well.

Ashish Thakkar And any comments on the rising prices of the key starting material from China?

Balram Yadav So, that definitely is a concern. So, in Astec LifeSciences what we did is that we invested almost Rs. 45 crore in backward integration plant which has started production. So in future our dependence, as far as China is concerned in Astec LifeSciences will come down. And similarly, in our Agro Chemical business, we are also exploring same backward integration opportunities with Astec and we are also exploring opportunities to source those raw materials from outside. The problem is not only the price from China, but also availability.

Nadir Godrej But clearly this can be seen as an opportunity as much as a threat.

Ashish Thakkar But in the medium to near-term how long this thing could be there?

Balram Yadav So, I am saying that it is not possible for us to start producing everything we import from China, that will happen at a probably higher price because the bigger players in China have started expanding, the smaller players are the ones which are facing the heat of new environmental laws. But the supplies will ease but at a higher price, I am very sure about that.

- Ashish Thakkar** And just one last question, the price increases can be escalated, is it possible in our portfolio?
- Balram Yadav** Yes, for agro chemicals which were China dependent, the prices have gone up. But overall the industry prices remain same because for chemicals which are being synthesized in India, the prices have come down at the farmer level and the trade level also. For example, Oryzostar NRV is falling every year ever since more players, including us, have entered that market.
- Moderator** Thank you. We take the next question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.
- Kaustubh Pawaskar** Sir, my question is on Astec LifeSciences. We have seen even margins for this quarter being lower. So, what outlook you would be giving for the margins, considering the fact that you are looking good growth in the coming quarters?
- Balram Yadav** I am very sure that as we go along things will keep on improving. Because of accounting issues we could not account for some sales in the June quarter, which will be accounted this month. Normally, second, third and fourth quarter are the best quarters for Astec LifeSciences, and that is unlikely to change. Order requests are full, today we are juggling capacities right now to complete those orders. So I do not see any reason why we will not grow upwards of 15% in top-line and 15% in bottom-line.
- Kaustubh Pawaskar** And this CAPEX for debottlenecking backward integration we are doing, I think that will also help you to see better margins in the long run. So, any kind of study this particular capacity would help or Astec LifeScience to see improvement in margins by more 100 – 200 bps?
- Balram Yadav** So, this capacity was not built for margin enhancement, it was more for surety of supplies and self-reliance. I am very sure that what is happening in China will benefit in margins also, but we cannot quantify it right now.
- Kaustubh Pawaskar** And, one more on the Creamline Dairy, we have seen off late a lot of dairy companies are expecting good growth in dairy business in the coming years. But for us dairy business has been quite a volatile and we have seen some quarters of good growth, some quarters of bad growth, even in this quarter we have seen 1.5% growth in the business. So, what is your outlook on the dairy business and for next one to two years?
- Balram Yadav** Two things I want to tell you- (a) The business model we had was very buffalo milk dependent, buffalo milk is high in fat and the business model also required us to keep huge stocks of fat and SMP, so that some shortages we should not run out of buffalo milk. And I think that has hurt us a lot in last six months, quarter four of last year and quarter one of this year, because there was no shortage of buffalo milk; point two, prices of SMP and fat came down dramatically, almost there was a 35% to 40% drop in prices. And since January we have been taking mark-to-market both in terms of SMP as well as buffalo milk. If you take Q4 of last year we took a provision of Rs. 10 crore. If you take Q1 of this year we have taken a provision of upwards of Rs. 6 crore, but the story still continues. And I think the current quarter will be the last quarter when we will be able to clean up all this stock. (b) I think there is a conscious effort to change the business model, both in terms of mix of our procurement, we want to be more cow milk than buffalo milk, and I think that plan is underway, and slowly-slowly the salience of cow milk will improve. Point two, we have already put a UHT plant, we have launched thick shakes UHT Buttermilk, UHT Lassi, we are launching flavored milk, we have launched UHT Yogurt and we are going to launch high-end ice creams very soon. Now, this is the way we want to go, value addition, branding,

and where most of the Godrej skills lie. So, this is the next growth path we have taken. Of course it has hurt us a lot changing this business model, but I think this will be the last quarter for all the legacy troubles we have.

Kaustubh Pawaskar And, sir will the transition from buffalo to cow milk, will it hurt your performance in the coming quarters in the immediate terms?

Balram Yadav Yes, as of current quarter we still have lots of stocks and the prices are still falling. So that I think I need to point that out that there will be some pain this quarter. But having said that, I think the direction we have taken is a more sustainable robust direction where... I will tell you, a company like Godrej should not come into this business if we want to do a commodity play. But these things take time to change because we inherited the business rather than building it from scratch. So it will take us a few quarters to make it sustainable, to make it grow. But we understand what we are doing and we know this is the right direction.

Kaustubh Pawaskar And sir one last one on your CAPEX plans for FY2019 and 20, since you are doing lot of investments in backward integration and new plants, what would be your CAPEX for FY2019 and 20?

Balram Yadav So, this year we will capitalize about Rs. 300 crore, Rs. 170 crore of oil palm mill, Rs. 70 crore in a milk plant in Vishakhapatnam and Rs. 70 crore in value added vegetarian plant in Ludhiana in Godrej Tyson. Next year, again, it will be upwards of Rs. 200 crore because there are certain projects at Nasik in Maharashtra, Bundi in Rajasthan, where construction has already started, and these projects add up to more than Rs. 200 crore already. Plus, there are few things which are on the drawing board. So my sense is, FY20 we will be anything between Rs. 250 crore to Rs. 300 crore once again.

Kaustubh Pawaskar And, how would you be going with the funding of the CAPEX, it would be through debt or you expect it to be done through internal accruals?

Balram Yadav Internal accruals will throw up that kind of money, point one. Point two, our debt equity in standalone is 0.14, so I am saying that a lot of banks will be willing to give us money if we need.

Kaustubh Pawaskar And this FY20 projects, in what businesses are you looking to come out with these projects?

Balram Yadav Animal feed and agro chemicals.

Moderator Thank you. We take the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara Sir, if I see your results, volume growth in animal feed has been pretty encouraging. There has been a time in the last two, three years where the growth was a bit anemic here and that growth is coming back. So just wanted to understand two things, what is driving this kind of volume growth and are we seeing the poultry side of the business where the integration hits us, and is that basically bottomed out and is that growing? And second, how is the cattle feed side of the business picking up?

Balram Yadav So, phase one was in animal feed, you are absolutely right, till say FY17 we had a CAGR of 1% in five years and suddenly quarter-on-quarter the growth is exploding, our capacity utilization is growing. And we see that we have 19% volume growth this year also. So, what we have corrected is the pricing, our value proposition, we have tailor-made product for new segment which have emerged in broiler feed which are

these small integrators, people who buy 300 to 500 tons of feed every month without taking a credit risk in these areas. So that is done. However, because of cost reduction initiative through consultant, because of R&D initiative the margin expansion is a little lagging. It is showing up but not showing up in the way we wanted it to show up. But I am very sure in a quarter or two that also will catch up and you will see margin expansion also. Now, this kind of growth of 19% is still low because our cattle feed for the reasons known to the entire industry of low milk prices, etc, was only 7%. And if you remember, last year the cattle feed grew upwards of 20% or so. Now, if we get that growth back the best story is yet to come in the feed growth. The only thing we are working on right now is margin expansion, that will happen because of scale, R&D and probably because of some cost reduction initiative we roll out in next few quarters.

Kashyap Pujara

Sir, the space for us like animal feed is a very large space, we are barely 1% of the total market, still the largest and maybe the only national player within the organized side. And there is a huge category conversion and shift from unorganized to organized is yet to happen. So, this kind of volume growth that we are seeing, can we expect this to be kind of sustainable, I mean what is the kind of sustainable level of volume growth that one can look at? Considering that we are completely, the unorganized segment is still substantially large in this space.

Balram Yadav

Kashyap, this kind of a growth is contingent of a lot of things. And one of the things which is also very important is animal protein prices. And we strongly believe that in case animal protein prices rise from this level, category conversion in feed will have greater momentum because superior nutrition and benefits of it have been understood by the farmers and the other operators in fish, shrimp poultry definitely. So, my sense is mid-teens growth in volume is a sustainable growth with some quarter's growing very rapidly and some quarters a little subdued. But I am sure that where we are we can easily say mid-teen growth in volume is a sustainable growth.

Nadir Godrej

And as our R&D initiatives start playing out, we should be able to have even better growth potential and we should be more competitive.

Kashyap Pujara

Also, another thing here, on the margin front while you said product rationalization, R&D, all those benefits are yet to kick in. I think if the animal protein prices actually play out and they move up, that would also give a rub-off on the pricing side also which will in a way help us take margins to a bit higher point.

Balram Yadav

Absolutely. I think you have hit the nail on the head. Look, through you I want to tell all the listeners is that, we serve the most marginal and most vulnerable segment of the society. So, with animal protein prices low, with milk prices low it is not always possible to pass on cost increases immediately to the farmers. So sometime the lag is 15 days, sometimes the lag is 4 weeks, and sometimes the lag is even 2 weeks, because we got to stay in the market, if the farmer is not there we will not be there. So you will see these things playing out when you see long-term of our business. But whatever you have said is absolutely right, and if the animal protein prices rise the farmer is more than willing to pay more for good nutrition. And our price increase are also absorbed very well.

Kashyap Pujara

And sir lastly on the Creamline front, while I understand your strategy and the way you are going about it, but on the back end side when it comes to milk procurement there is still an upside to basically sell our cattle feed to the farmers, the dairy farmers. So any of those volume initiatives reflected in the current volumes of animal feed, or that is still an upside yet to materialize?

Balram Yadav

So, the answer is, have we started on that journey- Yes. But at a very small level. Let me tell you that most of the milk we were buying, almost 97% - 98% when we

acquired this company was through agents and from smaller companies who were procuring it for us and giving to us. And we realized that there are milk collectors and they do not want to create an integrated play. The second one was that we understood from other players that if we want consistent quality, if we want consistent supply we need to go direct and procure from the farmer. Now that we have started doing only about a year ago, today 10% of our milk or 11% - 12% of our milk is procured directly where we have rolled out cattle feed sales also and cattle feed sales is growing in CDPL. But the only thing is that this is a long haul. Our expectation is that as exists, from 45,000 liters – 50,000 liters per day today, we will get to about 1 lakh liters per day direct procurement. But this journey we have started, and I am sure that in three to five years 100% of our total milk and increase quantities of milk will be procured directly, and we will tie up nutrition, procurement, etc. very well.

Kashyap Pujara

I just have one more question- that is on Godrej Tyson which seems to be like an underappreciated growth opportunity. I think if one looks at the market of live birds that is a humongous large market in India and more than 90% of the population of the market would be on that side. And we have an opportunity there to basically create a modern retail and a branded offering. Now, what is holding us back here, because optically this looks like a size which can really, really be large, and this can actually be quite margin accretive if we were to actually scale up the B2C side of that business. So how do we see that opportunity five year out?

Balram Yadav

The broiler market is about Rs. 60,000 crore, about Rs. 55,000 crore – Rs. 56,000 crore out of that is live bird market, most of the players play in live bird. Now, till about a few months we were playing only in the process segment because Tyson did not want to play commodity, which is the main market more than 90%. But I think the strategy has changed, and the starting point of getting into live bird is grow our breeding business and breeding capacity. We are already on way to creating more breeder farms and also creating more hatchery capacity. But this is a time-consuming thing, the results will only be seen sometimes towards August, September of 2019. But the escalation in live bird business will happen.

Moderator

Thank you. We take the next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia

Sir, on the animal feed business because of low milk prices do we see any short-term headwinds in the cattle feed segment?

Balram Yadav

Absolutely. Because what happens is that when milk prices are low the farmer tries to reduce his milk production and the easiest way is to reduce nutrition. Now, he does not reduce from only the quantity, but he also reduces the quality and it just goes into maintenance ration. So that definitely played out in last five months and that is why we have the lowest cattle feed growth in last five, six quarters in this quarter, which is only 7% earlier it was always about 15%. But having said that, in last one-month lot of correction has been there in milk prices, most of the governments have started giving some subsidy. For example, in Maharashtra the milk price has been fixed at Rs. 25, which is even higher than what it was last year and very remunerative, and most of the other states, prices are between Rs. 22 and Rs. 25. And we feel that if not in this quarter the next quarter onwards the growth will be back in cattle feed segment.

Shashank Kanodia

Sir, on the flip side of it, most of the dairy players have kind of witnessed expansion in gross margin because of low milk prices. But the same case is absent in our case, in the Creamline segment, so what would explain that?

Balram Yadav

There is expansion of margin if you remove the provisions we are taking. Now, as compared to last year first quarter was good, but as most of it was wiped out because

of provisions we took on skimmed milk powder and fat, you will see the same story in this quarter, but this will be the last quarter for that. We will also demonstrate growth of margins and expansion in margins in this business from next quarter onwards.

Shashank Kanodia And sir you mentioned that right now we are procuring just 10% directly from farmers and we plan to scale it to 100% next three to five years, so what kind of margin improvement can be seen in our books because of this aspect alone?

Balram Yadav So, the only thing is that yes our aspiration is that. One of the things which even though it looks difficult to procure 100% of milk from the farmers, but from supply quantity, quality point of view this is the right direction. And if you take the very good and consistently growing players, both in terms of top-line and bottom-line, in the milk industry in the private sector, majority of that milk is direct procurement. So this is a right direction to take, this is one of the important rights to play in this industry and we will take that path.

Shashank Kanodia Sir, coming to the oil plantation business, I think we might have benefitted from increase in duty by the government, right?

Balram Yadav Absolutely.

Shashank Kanodia Sir, is this kind of a margin sustainable thing going forward as well?

Balram Yadav Look, if you understood the business model, we pay as a percentage of oil price. So oil prices go up we pay more, oil price goes down we pay less. But definitely PBT because fixed cost is constant so there is a change in PBT, high oil price means higher PBT also, lower oil price means low PBT. So we will always be in that ball park. But I don't think that duties are coming down any time soon in this segment.

Nadir Godrej And bigger newer plant also reduce the fixed cost per ton once the capacity utilization is high.

Shashank Kanodia Sir, given the age of plantation what is sustainable growth in revenues for this segment over next two to three years?

Balram Yadav Now, I am saying that we have close to about 64,700 or something. And it is divided equally between above eight years, four to eight years and zero to four years. So, my sense is that 12% to 15% top-line and bottom-line growth is a sustainable growth in the segment.

Nadir Godrej Yes, volumes are fairly predictable in the business because we know what trees have been planted.

Shashank Kanodia Sir, lastly, any plans for merging Astec LifeSciences with the parent company, Godrej Agrovet?

Balram Yadav No plans, we have not thought on this right now. Of course, Astec has huge growth plans, I think that is what we are more busy with.

Moderator Thank you. We take the next question from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari Sir, you mentioned about impact of write down in Creamline Dairy, could you quantify that impact?

- Balram Yadav** Yes, so our PBT was above Rs. 7 crore in the first quarter but we took a provision of about Rs. 6 crore. So, Rs. 6 crore provision we have made last quarter.
- Utkarsh Maheshwari** This is for Q1, and probably some inventory is still there so can we expect some more write off in coming quarters?
- Balram Yadav** Sure. Look there are two components to this debacle, one is that we are selling butter very aggressively at low prices and losing money. The second is that we are taking provisions on inventory. So this quarter, is the quarter before Diwali where most of it should get consumed, otherwise there is a problem.
- Nadir Godrej** But the impact would also depend on how the butter price moves from now to the end of the quarter.
- Utkarsh Maheshwari** But if the butter prices stay at the current levels will we be incurring any kind of pain in further write downs or it may be like similar numbers or lower number?
- Balram Yadav** Lots of it. Butter prices have bottomed out. So one thing is that in the milk industry our Ashad is a month where nobody buys anything. Now that Ashad is over and Shravan has started. And big festival seasons will come in all states, starting with Ganpati, Navratri..
- Utkarsh Maheshwari** Consumption should happen
- Balram Yadav** Yes. The only problem is that this country is carrying huge stocks, so the point is that people should eat more and people should eat therefore regularly. That is the problem, the problem is not the consumption, consumption will happen but talks are also high and people need the protein.
- Utkarsh Maheshwari** So, what could, so Q2 may be the last quarter where we have the high stock getting depleted?
- Balram Yadav** Inshah-Allah
- Utkarsh Maheshwari** Sir, last time you did gave out the cattle feed category wise, I mean basically animal feed you gave the growth rates, could you share the same number again, cattle feed, broiler and layer segment growth rates?
- Balram Yadav** So, cattle feed 7%, broiler feed 39%, layer feed 41%.
- Utkarsh Maheshwari** And what was the shrimp part, shrimp is also covered in the layer part or any extra...
- Balram Yadav** In both fish and shrimp there is a de-growth of about 6% - 7%. The big de-growth is in fish, just because the season is a little postponed. So I think fish I am very sure we will make up, but shrimp I think we will have a flat growth this year.
- Moderator** Thank you. We take the next question from the line of Chetan Thakkar from ASK Investments. Please go ahead.
- Chetan Thakkar** Sir, just wanted to know what is the current daily procurement on Creamline today?
- Balram Yadav** 6.5 lakh liters.
- Chetan Thakkar** And out of which today we are procuring 45,000 liters directly?

- Balram Yadav** 45000 was just a few weeks ago I just told you that number just to give you flavor, but we are increasing 4% - 5% every month, so maybe we would have gone to 55,000 liters – 60,000 liters. But off line we will be more than glad to share that number also.
- Nadir Godrej** It is about 10%.
- Balram Yadav** 10% - 11%. We are working month-on-month, bringing more villagers into the fold.
- Chetan Thakkar** Because the reason to ask this was as you rightly said successful dairy players it is more about the supply chain and direct procurement. So, that is where we are headed.
- Balram Yadav** Absolutely. So please have patience, we will correct everything.
- Moderator** Thank you. We take the next question from the line of Resha Haria from GreenEdge Wealth Services. Please go ahead.
- Resha Haria** Thanks for the opportunity. Most of the questions have been answered, just two questions. So, one is that is there an opportunity for cattle feed in the calf starter space? And if yes, then what is the penetration currently? If you could give some qualitative remarks on that.
- Balram Yadav** So, we sell calf starter, but of the total cattle feed sales how much is calf starter, can we revert to you later?
- Resha Haria** Sure. If you could just give an idea about where is market for this? And if yes, how big is it?
- Balram Yadav** So, let me just give you an answer on our understanding of calf starter. There was nothing called as calf starter five years ago. But this concept was introduced simultaneously by co-operatives as well as by certain cattle feed companies. Basically calf starter is a high protein diet which has got some powdered milk, etc, to give a good start to calves, because once the milk prices started going up five, six years ago then only people started realizing that if calf grows well it will become a much better cow. And I think that is the time the calf starter came into the stream as a segment. Now that segment is growing rapidly, but it is a segment which is growing in only high yielding cow segment. So that is why I am very sure that every month something like 3%, 4% - 5%, or 2% - 3% of our sale is calf starter. But it is a segment which is growing and it grows very rapidly when the milk prices are very high.
- Nadir Godrej** And potentially a high margin business and high value to the farmer, because as Balram said when the calf is good it will produce much more milk in the future.
- Resha Haria** Secondly, which would be the states, some ballpark idea, which would be the states which would have a chunk of cattle population which are cross breed ones? Because I believe those will be our target market.
- Balram Yadav** So, five states with highest cattle population, Tamil Nadu, Kerala, Karnataka, Maharashtra, Gujarat.
- Nadir Godrej** And in the long-term we have breeding initiatives which may make a significant different to all of them.
- Resha Haria** And lastly, is there any sort of premiumization in the cattle feed segment? And if yes, then how much would it be contributing to our cattle feed revenues?

- Balram Yadav** So, in last few years when milk prices were good, almost 80% of our cattle feed which is half our animal feed sales was type one feed, which is the high end, high quality, high price feed. And definitely this was a premium on that because the margins were definitely higher than even poultry also in that segment. But for these last five, six months where the salience had dropped a little, but seeing the long-term future of milk industry I am very sure that high end nutrition will be the way to go.
- Nadir Godrej** And has potential to go much higher and you have not seen anything yet.
- Moderator** Thank you. We take the next question from the line of Sumit Rohra from Smart Finance Capital. Please go ahead.
- Sumit Rohra** Balram, very heartening to see 19% volume growth in the animal feed business. So, I know you have spoken a bit about it, but the matter of fact is that we have a huge market ahead of us for growth, so what do you think this 19% growth could go to probably going ahead in the next couple of years? And you were also mentioning about that you guys are working on improving the margins, so if I am correct in Q1 of FY18 our margin was about 6.3% which is now at about 5%. So where do you think this margin could go to over the longer term. It is also very heartening to see that our oil palm plantation business has seen a very good growth in revenue plus margins, so if you could share a bit of your thoughts on the oil palm. But also the Godrej Tyson, I think it is a huge opportunity because Godrej and Tyson both are fantastic companies. So, just your views on the long-term potential outlook for that? And if I heard correctly, on the Creamline dairy you also said that you guys are getting into a more consumer centric product. So, is that going to be pan-India, and how long do you think it would take to ramp up on the Creamline side?
- Balram Yadav** Point number one, definitely we will get to that 6.1% this year also. But our big problem in past, let me tell you a little strategy also here. Our big problem is that we have 2.3 million tons production capacity and we are producing about 1.4 million considering what we give to Godrej Tyson business also. So, I would rather keep the margin at the 6%-6.5% level and try to retain a 20% - 25% growth in volumes consistently so that we get to say 1.5 million – 1.6 million very quickly. Because this is a scale business, we get advantages in procurement, advantages in processing, etc. And I think that is one of the key strategies here. And the most important segment is definitely the poultry and cattle segment which are huge and can give us this kind of growth consistently for several quarters.
- Point number two you asked me about oil palm, definitely the prices are not going to fall because to support the local production government will maintain the duty structure. So, I feel that these kind of margins are sustainable for next few quarters. Having said that, I need to tell you that this is the last quarter for season and Q3 will be subdued and Q4 is very dry for oil palm and the action starts in Q1 next year.
- The third question you asked was about Godrej Tyson. So, Godrej Tyson the focus is on Yummiez business, we want to grow that business 20% - 25% CAGR which we will definitely be able to grow once this Ludhiana plant is commissioned in next two months time, because we are very constrained of capacity for production of value added vegetarian products. Once that happens I do not see any reason why 20% - 25% CAGR in this business is not possible for next few years. And margins will also expand because today we are outsourcing this product, so you can understand that that margin will also come to us.
- Lastly, in Godrej Tyson business the focus will also be in live bird business. Our cost position is good because in these businesses cost leadership define returns and we are very sure that we will be able to smartly build this business with lot of technology thrown in so that we have good predictive models about prices and costs, etc. And

we will also make sure that we do a good job in hedging for raw material so that we keep our cost line constant.

- Sumit Rohra** Sure. On the Creamline.
- Balram Yadav** Creamline, look, I will tell you, no business in this country will be sustainable without substantial part of it being in liquid milk. But definitely last year 22% of our milk was converted into value added product and this year we want upwards of 28% to be converted into value added products. That is the way to go. Having said that, we will keep on expanding our liquid milk also, because scale is also very critical in this business.
- Moderator** Thank you. We take the next question from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar** Thanks for the opportunity. I just missed, you said last year around 22% of milk was value added, this year you are targeting something around 40%?
- Balram Yadav** No, I said 28%.
- Shailesh Kumar** Sir, as far as procurement is concerned, which are the states through which we procure and which are the states where our products are sold in Creamline Dairy?
- Balram Yadav** So, I think when I said states I think it was a little arrogant, because we are operating in pockets of states also. So if you ask me, there is a procurement around Chennai, around Tirunelveli, around Bangalore, around Hyderabad, around Vijaywada, around Nagpur.
- Shailesh Kumar** And the products sold?
- Balram Yadav** Same, I would say these are very local, we do not want to go pan-India, even though we have shelf stable products, because we want to consolidate our position, learn this business, perfect the model and then think about expansion in other areas.
- Shailesh Kumar** And sir what are the key products in our value added portfolio?
- Balram Yadav** So, if you see value added portfolio, our big products are fresh curd, fresh buttermilk, fresh lassi, and fresh paneer. But we have invested in a UHT plant also and a very sophisticated flavored milk plant and a very sophisticated ice cream factory also which started production in last three months. So we have already launched thick shakes, we have already launched UHT think shakes, UHT buttermilk, UHT lassi, UHT yogurt, we are going to launch ice creams very soon which are the high end ice creams. And we are going to launch in another four weeks' time flavored milks also.
- Shailesh Kumar** And as of now what is our cow / buffalo mix and procurement?
- Balram Yadav** When we started the year we were at about 52% - 53% cow and about 47% - 48% buffalo. But now we have brought it down to almost 70% cow and 30% buffalo.
- Shailesh Kumar** OK. And if I may request, any sense of the full year gross margin for the dairy segment?
- Balram Yadav** So, I would not like to comment because of several problems, one, I do not know whether butter prices will rise tomorrow or not rise tomorrow, so I do not know what is the kind of hit I am going to take in this because of the excess stock of butter and

SMP I have. Point number two, I still do not know what will be the trajectory of this value added products growth because they have been launched a few weeks ago. Initially in these businesses and everything looks very good because your daily sales is increasing every day. But what is more important now is tertiary sales, liquidation at the retail level, etc. So, I think we will be in better position in the next concall.

Moderator Thank you. We take the next question from the line of Shweta Narayan from Sarthi Capital. Please go ahead.

Shweta Narayan Sir, I would like to know we are talking about four main segments of your business. It seems if one is firing, one is subdued. So, as a shareholder when do you think all cylinders can fire together and then we get an aggregate growth in volumes as well as the PAT levels?

Balram Yadav So, you are talking about utopian situation? I have spent 29 years in this industry and I am also waiting for all cylinders to fire at the same time. You must always remember that Godrej Agroveter is controlled by 3Gs, God, Government and team Godrej, and I control only 33% of that. As I said if you look at Godrej Agroveter as insurance because we have five segments and I have never seen five segments fail in the same year. So one or the other segment will outperform and keep the company in good shape. So this is the way to look at Godrej Agroveter, slow and steady.

Shweta Narayan Sir, another question. I have been watching GCPL for about like 10 years now, so I have seen a lot of inorganic growth which has come in that company, we have acquisition in Africa, Indonesia for hair color and all. So, here in our agro chemical segment are we looking at some inorganic growth whereby you look at acquisition of smaller players, and especially by 2020 when we see lot of molecules going off patent in the agro space and taking that opportunity and going global or tapping other markets?

Balram Yadav So, as far as animal feed, oil palm plantation, agro chemical, we have the will and thank god we have the money also, but unfortunately no target. So, more than glad to look at that, we are very encouraged by the way we have integrated Astec LifeSciences and Creamline Dairy. So I think we are getting the formula right because I think integration of the company is most important as far as acquisition is concerned. So I think we have got some experience in that. So we are more than glad to look at inorganic growth, I think we are evaluating several targets but nothing which can be talked about right now.

Shweta Narayan Sir the last question is, you said pricing is a little difficult to command in the animal feed business because you are selling to the lowest layer of farmers. So, is it like in other segment like Creamline dairy business is somewhere where you can command better pricing to counter what you are not able to do in the animal feed space?

Balram Yadav Animal feed, we get the price we want but with a time lag. Now the issue is that the punishment is very severe in bad time, for example, if we take a price increase when the milk prices are Rs. 17 – Rs. 18, which they were about six to eight weeks ago in Maharashtra, the punishment is very severe, because suddenly you will see 10%,15%, 20% drop in sales. Now, the opportunity will come because I have seen in this animal protein industry this is cyclical as well as seasonal. And that is the time we raise the prices. And then we do not drop even though raw material prices come down because animal protein prices are good. As far as creamline prices are concerned, value added prices are controlled by us, but liquid milk is definitely determined by the cooperatives.

Shweta Narayan Sir, then last two, three con-calls back we were asking you about the shrimp feed and that part of the business you said is not so strong and you are trying to gain

control. Even from your current I can see better controls on the poultry side, so are you still trying to strengthen the shrimp feed which you adverted was not very strong almost two, three quarters back.

- Balram Yadav** Yes, so shrimp feed is one of the important agendas, because not only we are doing badly but there is no sign of improvement in past few quarters which we are seeing. Now, we have studied this, we have taken outside help also. And this is a segment we cannot ignore because this industry will grow, this segment will grow. And we will rollout a strategy very soon to figure out our play in this industry, because we have become a marginal player. And I have no doubts unless and until we acknowledge that we will not improve and do something about it we are committed to doing that. As far as Godrej Tyson is concerned, definitely we have rolled out a strategy for a solid growth, particularly in live bird and Yummiez, in next few quarters you will see that rolled out even more aggressively.
- Moderator** Thank you. We take the next question from the line of Dipesh Kashyap from Equirus Securities. Please go ahead.
- Dipesh Kashyap** Sir, can you give some color on the main raw materials that you use for the animal feed segment and what proportion please?
- Balram Yadav** So, out of about 1.4 million tons of feed we produce, about 0.5 million tons is corn, about 0.3 million tons is rice bran, about 0.25 million tons will be soya extraction. These are the three important raw materials. The fourth raw material will be close to about 100,000 tons of molasses.
- Dipesh Kashyap** And sir corn prices have actually gone down, so I was like kind of surprised by seeing your margins going down. So is there any specific reason why the margins have reduced in this quarter?
- Balram Yadav** So, as a mixture of raw materials the prices have not gone down, there have been steady increases in the other raw materials like cotton seed extraction, etc, even soya extraction also has climbed up. But the only problem is that there is a time lag in passing that price increase to the farmers.
- Dipesh Kashyap** And sir what is your total capacity in the cattle feed, broiler feed and aqua feed category and what is your current utilization levels there?
- Balram Yadav** So, you can say 2.3 million tons is our theoretical capacity of all feeds. And we will utilize about 1.4 million tons this year. The capacities should always be calculated from the point of view of peak season, which is October, November, December quarter, in that quarter we will definitely be utilizing... overall capacity utilization maybe something like 60%, but in those quarters utilization will be about 70%.
- Dipesh Kashyap** Understood. And sir is your capacity fungible, for example, like can you produce cattle feed or aqua feed on the same milk, is that understanding right?
- Balram Yadav** No, now we have separated it totally, the reason was that these are very sensitive, most sensitive is the shrimp feed and then the fish feed, then poultry feed and cattle feed. And the raw materials are also not same, like Molasses is not used in any other feed except cattle feed. Now we have separated the plants totally. Having said that, if you are asking me can we convert a poultry plant into a cattle plant if need be? The answer is, that is only about few crore rupees and two, three months away.
- Nadir Godrej** But aqua feed is very different kind of production.

- Dipesh Kashyap** And what is your capacity in aqua feed, if I may ask?
- Balram Yadav** So, we have 90,000 tons of fish feed capacity and 60,000 tons of shrimp feed capacity. Our utilization in shrimp feed is 50% and in fish feed it will be 55% - 60%.
- Moderator** Thank you. We would be taking the last question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta** So, just wanted to check on the agro chemicals business that we have, the first quarter has been relatively weaker, I mean there is a decent enough growth in the domestic agro chemical business but clearly I think a lot of peers have reported more like 20% - 25% and again this quarter would have been impacted by GST issues in the base. So, just wanted to take your commentary on what the market is looking like, any specific product that is doing well for you or any other challenges that you are looking at in the domestic business and on the export side also if you can shed some light because revival in the demand that you are seeing.
- Balram Yadav** So, Astec LifeSciences, I think we are not worried at all because the order pipeline is full, we are just juggling capacities to probably cater to that and we are just margin plants for another capacity expansion, we may need it by October or November next year. So, Astec LifeSciences is no issues.
- Nadir Godrej** Our new product pipeline is also good.
- Balram Yadav** New product pipeline is also good, we know what we will do in 2020 and 2021 also. As far as our agro chemicals are concerned, yes definitely because of some shortage in some imported raw materials in one or two products we could not supply little bit, so we were stocked out in those products. But we are trying to cover from our PGRs and everything so that profitability does not suffer and will not suffer when the year rolls out. Definitely top-line growth will be in early teens rather than late-teens which we expected. But in case there is a revival of monsoon now, I think we have some products which go very well in Rabi, so there is a big chance to catch up there also.
- Ritesh Gupta** But anything because I think first quarter is more of a placement season, any thoughts on how the season is progressing in the second quarter?
- Balram Yadav** Yes. So, apart from one or two products no challenge at all, the challenge is in Oryzostar- the rice herbicide and there liquidation is a little slow but has picked up in past few days, we will see what happens there.
- Ritesh Gupta** And just on the products that Astec makes, do you face any resistance issues globally which might kind of impact us probably in the longer run or you think that probably in the products growing well?
- Balram Yadav** Yes, so I am saying that triazole will continue to grow, if not alone, in combination, because that is the future for fungicide. So we are not too worried on that and more and more people are more and more volumes actually.
- Ritesh Gupta** And what kind of CAPEX you are doing for this capacity expansion in Astec?
- Balram Yadav** We just commissioned one backward integration facility which costs Rs. 45 crore – Rs. 47 crore and this one I think is still in the drawing stage, in configuration stage. But I have a feeling that none of the capacities are costing less than Rs. 50 crore – Rs. 60 crore right now. So I think that will be the kind of CAPEX which will be there.

Moderator Thank you. Ladies & gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

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 your time to join us on this call.

Moderator Thank you very much. Ladies & gentlemen, on behalf of Godrej Agrovat Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.

- ENDS -

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