



Godrej Agrovat Limited

Q4 FY 2021 Results Conference Call Transcript

May 10, 2021

Moderator: Ladies and gentlemen, good day, and welcome to the Godrej Agrovat 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. Devrishi Singh from CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you. Good afternoon, everyone. I welcome you all to the Godrej Agrovat's Q4 and FY21 Earnings Conference Call. From the company 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 would like to begin the call with brief opening remarks from the management, following which we will have the forum open for an interactive Q&A 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 has 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 afternoon, everyone. I welcome you all to Godrej Agrovat's Earnings Conference Call. We are currently facing very challenging times and I hope that you and your families are safe and healthy. The financial year 2021 was one of the most difficult and unprecedented year for the Indian economy. Both demand and supply were disrupted across sectors, except for the agriculture sector. This is the only sector that is expected to grow in the financial year 2021. At Godrej Agrovat, we quickly adapted to the changing situation and focused on our improving profitability. Thanks to our diversified business portfolio, we were able to significantly improve our profits, despite the volume and sales decline seen in two of our businesses- Animal Feed and dairy. These businesses were impacted by lower demand from the HoReCa segment.

The second wave of COVID-19 which hit India in March 2021, is more severe and is causing a high degree of turmoil and uncertainty. Localized lockdowns by states could again lead to economic disruptions and can delay the economic recovery expected by economists in fiscal year 2022. At Godrej Agrovat, currently all our plans are operational, while maintaining the utmost safety of our employees. We also have an active vaccination program, though availability of vaccines is indeed an issue. We are also ensuring adequate raw material stocks to avert production disruptions, which could be caused by supply chain or logistical issues. We believe that we will be able to tide through the near-term challenges smoothly.

In terms of the financial and operational performance, the key highlights and developments for the fourth quarter and the full year 2021 are as follows:

We had another quarter of excellent performance. The consolidated profit before tax in Q4FY21 increased to Rs.79 crore, representing more than 3x growth over the same period last year. This was despite a marginal 2% decline in the consolidated total income. For the fiscal year 2021 also, our profits before tax grew at a robust rate of 60%, despite an 8% decline in the total income. Please note that the above numbers are excluding the real estate income, and other non-recurring and exceptional items. We have provided these details in our earnings presentation for the quarter. Now I will discuss the key financial and business highlights for each of our segments.

In Animal Feed, our segment results grew by 71% in the quarter and 24% in fiscal year 2021, supported by favorable commodity prices and realization of R&D benefits. However, volumes and revenues were impacted by lower demand. Though institutional demand for the end protein products, i.e. milk, chicken and eggs increased sequentially, it was still much lower than the pre-COVID levels. This resulted in volumes being flat year-on-year in Q4FY21, despite a low base. For the full year, volumes declined by 13%. Lower volumes and soft commodity prices resulted in a 9% and 17% decline in segment revenues in Q4FY21 and in the FY21.

In the Vegetable Oil segment, revenues and results grew by 8% and 23%, respectively in quarter four, driven by high oil prices. However, for the full year, business was impacted by the white-fly infestation, which lowered the fresh fruit bunches arrival and the oil content in the fruit. As a result, segment results for fiscal year 2021 declined by 6% year-on-year. However, segment revenues grew by 5% in fiscal year 2021, benefiting from the increase in crude palm oil prices and crude palm kernel oil prices.

The standalone crop protection business had a very good quarter with segment revenues growing by 40% and segment profitability more than doubling. Higher sales of in-house products, which have relatively better margins, were the key growth contributors in Q4FY21. Our focus on increasing collections yielded results, and collections grew by 27% to Rs.629 crore in fiscal year 2021. However, the supply chain disruptions and low application opportunities in the first half of the year, resulted in sales and profitability for the full year being similar to the previous year.

Moving to the performance of our subsidiary –

In Astec LifeSciences Limited, the fourth quarter performance was impacted by lower export sales and a high base. For the full year, revenues grew at 6% mainly driven by the domestic market. Segment wise, growth is supported by the enterprise sales segment. Our profitability significantly increased in FY21 and profit before tax grew by 45%. Strategic raw materials stocking and overall cost control helped increase profits in the year.

For our poultry subsidiary Godrej Tyson Foods Limited, it was one of the best years. Revenues grew by 17% and the company reported an EBITDA of Rs.42 crore in fiscal year 2021 compared to an EBITDA loss of Rs.48 crore in fiscal year 2020. Higher volumes and prices along with favorable input prices led to strong performance in Q4FY21. Yummiez continued with strong growth, but live bird segment profitability was impacted by the bird-flu outbreak in January.

In our dairy subsidiary, Creamline Dairy Products Limited, sales were impacted by low out-of-home consumption and subdued demand from the HoReCa segment. However, the impact in the current quarter, was lower than the impact seen in the previous quarters. In Q4FY21, revenues were flat year-on-year and EBITDA improved marginally. For the full year, while revenues have declined by 13%,

EBITDA increased by 20% on account of low procurement prices and a focus on fixed cost control.

GAVL's joint venture in Bangladesh, ACI Godrej Agrovet Limited, recorded strong revenue growth of 22% and PBT growth of 44% in fiscal year 2021. The growth is driven by strong volumes across all feeds categories. Profitability also benefited from low raw material prices.

Our balance sheet is strong with a debt equity ratio of 0.38. Return ratios also improved with ROCE increasing to 14.1% in fiscal year 2021, compared to 11.7% in the previous year.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: I have two questions. Sir, if I look at the second wave of COVID, it is far more spread in rural India and even today there are 15-16 states which are under lockdown. So, what is the outlook for demand in the near-term? Which segments you think there could be demand issues if this continues? And secondly, if I look at cash flow from operations, that has declined from around Rs. 335 crore to Rs. 110 crore; and similarly, the debt has also increased. So, which segments are we facing any inventory or debtor issues? And what are we trying to improve this working capital cycle and cash flow from operations? These are the two questions.

Balram S. Yadav: Good afternoon, Prakash ji. I will answer the first question and Mr. Varadaraj will answer the second question. So, definitely the second wave is very devastating, but I must tell you that the way the economic activity came to a grinding halt in the first wave, I think that economic activities continues. However, there are more number of cases and more casualties but the business is running. So, that is one side of the narrative about COVID second wave. The second thing I must tell you that animal protein consumption has gone down significantly. It had not recovered fully post the COVID first wave as well as post the bird-flu. But again, due to localized lockdowns, out-of-home consumption has tanked, chicken prices have come down significantly about a fortnight ago, now they have started improving. And of course, milk consumption is down and milk procurement prices are also tanking ex-farm. So, my sense is that animal protein consumption will go down.

I must also tell you that, if you remember my February conference meeting, I was saying that if there is no COVID second wave, there will be a shortage of animal protein and food inflation will be driven by animal protein prices, which it did also. In March if you see, chicken prices were at the highest prices, egg prices were at the highest and milk procurement and sales prices were at the highest. So, my sense as far as animal protein industry is concerned is as follows- The production reduction is happening at a very rapid pace because the industry cannot take so many shocks. However, once this wave subsides in two, three, four weeks' time, consumption is coming back in states where the COVID impact is reducing and we can see a steady rise in chicken and egg prices. There is going to be a huge shortage of animal protein in next three to five months' time in case the COVID subside in next three, four or five weeks. So, my sense is that people who are in the game will be benefited, the profitability will go up significantly, because there are so many small companies and farmers who are exiting the business.

Prakash Kapadia: While you mentioned about the animal feed and protein segment, could you give some colour on the other segments, what is happening currently? Obviously, all of us are hoping this will be a temporary drive and things will improve in the next few weeks, which remains the core assumption. On the palm oil side, other segment side, if you could give some color.

Balram S. Yadav: So, let me start with pesticides. I think I must tell you that the season for pesticide sprays will only start in the first week, application will only start from the first and second week of June. Today is the placement time, I must also acknowledge that due to mandi's being closed at certain places placement is not easy, but we are hopeful that in a week or two, the situation will improve when the mandi's will open and placement of pesticides will start. So, we are expecting a good monsoon that means a good Kharif season. And as you know, almost 65%-70% of our crop protection business is Kharif focused. So, in case monsoon is good, we will be home as far as Kharif is concerned.

Regarding palm oil, what is happening to global prices, we have never seen such high prices ever. Today, palm oil is ex-our factory about Rs. 123 a kilo, which is 2x of what it was about 13-14 months ago. So, this is the kind of inflation which has happened. We believe that the consumption of oil, even though it has not increased substantially, the prices will remain because a lot of food and oil seed is being directed world over to biodiesel. So, my sense is that as far as edible oil is concerned, inflationary conditions will continue, even though the consumption remains at the earlier levels of FY21. And probably all the other businesses I have already talked about as far as animal protein is concerned.

S. Varadaraj: Good afternoon, Prakash ji. This is Vardaraj, and I will answer the second question on the capital employed and the cash generation. So, in fiscal year 2021, what we witnessed was that the short-term commercial paper as a borrowing route was very, very competitive, so we shifted to that mode of financing vis-à-vis supplier financing. And consequently, if you were to look at our capital employed or cash flow, on the face of the annual report or balance sheet, it looks to have sort of gone up. So, I will just share the numbers which, if you were to exclude the acceptances from this entire thing, how does it look. So, in March 2020, the reported capital employed was Rs. 2,850 crore; and if I were to add acceptances, the capital employed without considering acceptances was Rs. 3,731 crore. This, when I compare it with March 2021, this number is Rs. 3,716.8 crore. So, capital employed has more or less remained flat. If I were to really say, between March 2020 and March 2021, but for the drop in acceptances.

Similarly, cash flow, if I were to look at the cash generated from business operations, net of dividends, was a (-Rs. 357.7 crore). But if I were to exclude the impact of change in acceptances, which is around Rs. 613 crore, a net positive cash flow generated by business operations (net of dividend payout) was around Rs. 256 crore. We have inserted a slide to this effect in our investor presentation as well which is uploaded, so both years' capital employed have remained flat, cash flow has been a positive Rs. 255 crore.

Balram S. Yadav: One more addition from point of our business. Our short-term borrowing cost is very low. The prices of raw materials are very volatile, and there is inflationary pressure. This is the time to invest money in taking raw material possessions, and we will go for maximizing profit in all our businesses.

Prakash Kapadia: And lastly, Balram, what you have seen post the IPO over the last year 3-3.5 years? Few quarters sales comes, few quarter margins come down, so when do we see sales and margin coming more on a predictable basis? Because we have all the right ingredients, some of the R&D seems to be working as of now and inflation is where

it is. So, when do we see a more consistent trajectory in terms of sales and profitability both coming for the company as a whole?

Balram S. Yadav: Prakash ji, you are absolutely right. I think in some ways a lot of correction was made in FY 19 and FY 20. And if you see, some of our cost numbers etc., we have been able to make substantial reductions in our overheads etc., so capacity utilizations were also very low. So, you would have seen whatever we had done in FY19 and FY20 yielding results, but for so much of disturbance and noise being created by COVID. My sense is that we have used last four quarters to make our businesses more efficient. Our slogan was that we will manage the business during these last four or five quarters of COVID for cash and cost. I think we have been extremely successful in doing that. It is just a matter of time that we will start showing more consistency and sustainability of our top-line and bottom-line.

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

Ankur Periwal: First question on the palm oil side. Now, as you rightly mentioned, there has been a significant portion of price inflation there, any early sense on how the crop is expected to be? As well as on the pricing front, any thoughts there?

Balram S. Yadav: Sorry, I didn't get your question, please. You are asking the crop condition?

Ankur Periwal: On the palm oil plantation side.

Balram S. Yadav: So, palm oil plantation, in last year everybody knows that Indian palm oil plantations were affected by white-fly, particularly in Andhra Pradesh. So, it was not that that we don't know how to control white-fly, there are chemical controls and biological controls. But the most important period for white-fly control is sprays from mid-March to April end, which was totally missed because of the lockdown last year. This year, we were very proactive, from 1st of March, our farmers, with the help our government and the entire industry has been doing it at a community level, both chemical sprays as well as biological treatment. And we are very, very glad to know that as compared to last year, the white-fly infestation is not even 10%. So, we believe that we will be back to more than FY 20 levels of fruit production. And the steady state of growth, which we were having about 8%-9% will be restored, not on FY 21 but on FY 20. On FY 2021 we might grow significantly, but that is on a lower base.

Ankur Periwal: Sure. And this inflation in the pricing side, will that also mean that the profitability will be significantly better?

Balram S. Yadav: Profitability will be better, but you must always remember that it is a formula. So, almost 79%-80% of the oil price goes to the farmer as the fruit price. But definitely absolute profits will be much better compared to last year.

Nadir Godrej: The execution is proportional to the price and the fixed expenses are not proportional to the price. So, we benefit significantly from higher prices.

Balram S. Yadav: One of the things which we are banking on this time is some technological improvements which we made last year, which should improve oil extraction ratio if this happens, which is the promise, we believe that margin will be better because of that also.

Ankur Periwal: Sure, sir. Second question on the crop protection side. Now, last year, I go back to your comments mentioning that we will be focused on cash collections and reducing

the receivables there in the system. What are your thoughts going ahead? Are we seeing this year as a growth or any early thoughts there?

Nadir Godrej:

I am saying that we had, because of COVID, our most important factory was Jammu factory last year, which was closed for almost a month. So, I would say that loss of sale was about Rs40- Rs. 50 crore, and that would have been seen as growth last year. So, fortunately, no disruption to-date, touchwood, has happened in any of our factories, whether it is Maharashtra, Gujarat or Jammu. So, we believe that if the monsoon is even average, we will be registering very good growth in this business. However, working on hygiene, which is inventory management, returns, as well as outstanding will be a top priority. This is a business which probably now has to focus on both growth and hygiene simultaneously, so that we don't lose money unnecessarily to bad debt.

Ankur Periwai:

Fair point. And lastly on the Animal Feed side, now given the second wave is still going on, what are your thoughts on the volume side as well as the margins. We have seen a pretty impressive improvement in this year, whether there are still some legs to grow there? And just one clarification in the capital employed in this business, there is a sharp jump if I look at the numbers, is this the inventory procurement which you are alluding to in your earlier comment?

Balram S. Yadav:

No, no, I will tell you. So, first and foremost, the market has shrunk, whether it is milk, whether it is chicken, whether it is eggs. So, that is why you see lower volumes, but higher profitability. The higher profitability came because of significant improvement in feed costs because of R&D benefit. And then there was a time for about two-three months when post-COVID the commodity prices came down significantly. So, my sense is, and which I think you must have seen in our Q4 numbers and the story continues that this year will be the year of increasing market share in all our Animal Feed segments. The sector has been very badly affected, a lot of players have been badly affected, and we are getting a lot of traction for our feed sales at improved margins. The margins are also function of the kind of raw material positions we have taken in last two, three months, which are paying off very well and the continuation of R&D benefits. So, I have a feeling that there will be significant improvement in our market share in all segments and in feed. And even though we did not grow in cattle and poultry last year, we still showed marginal improvements in shrimp and aqua feed. And I believe all segments will grow the way we are seeing for last few months. That's point number one.

Point number two is, I think in simple terms I will tell you, that we used to take acceptances, which is bill discounting. And that was a quasi-loan we will take which would be at a certain bill discounting price. What happened last year is that earlier the bill discounting price and short term borrowing rate, spread was less than 1%, it expanded to 2.5%. So, we immediately stopped bill discounting and started buying on cash by taking these short-term loans, because it was much cheaper and the cash discounts in markets were very good. So, this was also one of the reasons why towards the second half of last year our margin profile in Animal Feed improved. So, actually, if you really ask me, it is not increase in capital, because what we were doing, we were borrowing something short-term, and most of the money we were taking in acceptances with the supplier bill discounting. Now that supplier bill discounting is reduced, because it makes a lot of business sense. Why do supplier bill discounting at 5.5% if we can borrow 90 day money at 3.5%. But please be sure that as far as Animal Feed is concerned, this is a business which is high ROCE business, we will keep an eye on that. It has negligible bad debts, etc. But I don't think this is the year we can really maximize profits and take it to a certain level.

Ankur Periwai:

Sure, fair enough. That that answers my question. Thank you and all the best.

Balram S. Yadav: Just to add to what you said, because that question will come. My view is that you don't judge us by Q4 because that was a little, I think we got some huge benefits of RM. But a steady state EBIT margin in our poultry and cattle feed will be 6% to 7% EBIT, and in aqua feed it can be between 8% to 9% steady state, but at very high ROCE.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal Financial Services. Please go ahead.

Sumant Kumar: So, my first question for Animal Feed segment. So, can you talk about the current scenario, because we have seen the second wave of COVID and lockdown is going on, so how the demand is going to be? And previous year the demand impacted significantly, compared to that, how the demand is going currently and the outlook for that?

Balram S. Yadav: So, I would say that in April21 we were almost 90% of January20 levels as far as all animal protein production was concerned. So, we were coming back big time, even during the bird-flu also I must say that the production of poultry was not reduced significantly, even though prices had become unremunerated. But going by what is happening now and the prices have tanked, my sense is that we, over April, May, June, July, will be about 75%-80% of April month's volumes. And once the lockdowns go, the consumption starts, you will see unprecedented prices of chicken and eggs particularly, and fish will follow immediately thereafter. So, my sense is that the market has shrunk but the production has shrunk even more. And we will see. I qualify everything that in case this wave subsides in three four weeks' time, we will see unprecedented prices of animal protein. That is point number one. Point number two is, as I already told you that the industry has suffered, so big players unfortunately tend to benefit in these situations. And that is why I am saying that we will improve our market share in all segments this year.

Sumant Kumar: Overall, currently the demand is 90% of January, but Y-o-Y it should be higher, right?

Balram S. Yadav: Y-o-Y is higher.

Sumant Kumar: So, overall, we can see that FY 22 Animal Feed segment we are going to do well?

Balram S. Yadav: It is a safe assumption to make.

Sumant Kumar: Okay. And talking about overall raw material prices in Animal Feed segment is going up, corn price higher, soya bean is also higher. So, can you talk about the margin, please, in Animal Feed segment, how are we taking the price increase in the product?

Balram S. Yadav: So, there is full pass through. So, that is definitely there. But I think in the first half of the current financial year we will be benefited by a very good raw material position we have taken. But there is a full pass through, and the pricing is done on replacement prices.

Sumant Kumar: So, Y-o-Y margin pressure will not be there in the year for 2021? Compared to FY 2021, FY 2022 will have a similar kind of margin or will even have a margin pressure?

Balram S. Yadav: If you really want to compare FY 2022 margins, they will be closer to the quarter four margins of Animal Feed.

Sumant Kumar: Okay. And talking about palm oil, we have seen a significant surge in the palm oil prices, Y-o-Y 77% jump. So, can you talk about the how sustainable this price is?

And what are the key reasons for the price rise globally? And can you give the outlook of the palm oil prices globally?

Nadir Godrej: Because of President Biden's focus on fighting climate change, there has been a huge demand for biofuels. And biofuels are mostly biodiesel and bioethanol. Bioethanol is made from corn and sugarcane, so prices of corn and sugarcane and all oil seeds, because biodiesel is made from vegetable oils, have all gone up and are likely to stay high for quite some time.

Sumant Kumar: Okay. So, this price is going to sustain at this level going by whatever the biofuel demand is higher? And so this price is going to sustain for a couple of years?

Nadir Godrej: Very likely, because it's very difficult to grow more crops, because almost everything is going into biofuels. So, what do you substitute? What do you not grow? If you can get more land than the farmers with these very high prices would be enthused to produce more, but there is a limit to how much more they can produce. On the other hand, the prices would come down if biofuel mandates are reduced. But as of now, it doesn't look very likely because the whole world is focusing on fighting climate change.

Sumant Kumar: Okay. Any crop damage for the palm oil producing country?

Nadir Godrej: No. The palm oil production cannot be raised very fast because it takes five years for palm tree to grow. At best, you can use a little bit more fertilizer, etc., when prices are high. And when prices are low, they use less fertilizer, but that is a small effect. Whereas annual crops like soybeans, rapeseed, sunflower, farmers can plant more, but they would have to do that at the expense of wheat or corn, but those prices have also gone up.

Sumant Kumar: I was reading somewhere, because of lockdown there was a labour issue, and because of that we have a production impact. And that was one of the reasons for higher palm oil price.

Nadir Godrej: Yes, a little bit of problem in harvesting in Malaysia and Indonesia because of COVID. But that was a short-term phenomenon, because ultimately the fruits will be plucked. And talking about it, there is delay in harvesting.

Sumant Kumar: Talking about the crop protection segment, overall, we have seen a muted sowing in FY 2021, right, and all the crop protection companies have shown a significant growth in FY 2021. And considering we have a lower base, and the season is going to be good, so whatever the product launches we have done, can you talk about can we have a higher double-digit kind of growth in FY 2022?

Balram S. Yadav: That's what we are planning. As I already told you that it was not that we did not have orders last year, we lost almost 7%-8% of sales and sales of products which were very profitable. I can tell you that it was Hitweed-Maxx which we launched last year, we suffered because of COVID closure of our factory in Jammu, which cost us almost Rs. 40 -Rs. 50 crore in sales. And that happened early in the season itself so it was very difficult to make it up. So, today I can definitely say that we are seeing a good growth likely over FY21 numbers in this year. We are also planning launch of a licensing product, the only thing we are waiting is the clearances from CIB which can come anytime. Unfortunately, CIB Faridabad is also very badly hit by COVID, several of their officials are down. So, once they come back to the office, I think once the permission is granted, that product also will be launched by June or July.

Sumant Kumar: So, how many product launches we are planning for FY 2022?

Balram S. Yadav: Yes, okay. So, last year we launched two. Actually, last year we launched Hanabi, a miteside, this year we will launch another product which you will come to know in a month's time. And FY 2019 we launched Hitweed Maxx.

Sumant Kumar: So, the product launches will be in which segment, is it plant growth nutrient or it's a pesticide?

Balram S. Yadav: It is a herbicide given by a Japanese company.

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

Dipesh Kashyap: Sir, can you give a sense of the volume growth of individual categories in Animal Feed segments, what was the individual category growth in cattle feed and the volume growth?

Balram S. Yadav: Last year.

Dipesh Kashyap: This quarter basically.

S. Varadaraj: So, cattle grew by around 5%, broiler grew by around 8.5%, layer feed degrew 17% and the aqua feed category grew by around ..5%.

Dipesh Kashyap: Sir, the soybean prices have increased very sharply over the last quarter, and you talked about the pass through, but especially wanted to ask about the aqua feed and the shrimp feed category where it is a very organized market. Has the industry and you have been able to take the price hike here?

Balram S. Yadav: Yes. So, if you ask me, in last 15 days, almost 6%, 7% prices have been hiked. And my sense is, another 6%, 7% price hike will be taken in the coming weeks till March 31.

Dipesh Kashyap: Great, right. Sir, in the palm oil business, can you please help with FFB arrivals from the fourth quarter and what was it in the base quarter? And also, if the OER ratio you can give.

Balram S. Yadav: Fourth quarter is a non-seasonal quarter. I think it will be difficult to judge the business by those numbers. But we can definitely share. Varadaraj?

S. Varadaraj: So, fourth quarter it was around 32,000.

Balram S. Yadav: And OER was very high, right, 19% plus?

S. Varadaraj: Yes, correct.

Dipesh Kashyap: And sir, what was in the base quarter last year, what was the volume?

S. Varadaraj: It will be around 39,000. But as we have been saying, this is a non-seasonal quarter, so one should...

Dipesh Kashyap: Yes, that I understand, I just wanted to see the volume growth, that I understand. Sir, lastly in the poultry category, so can you please explain the 22% revenue growth what was the mix and why the margins went down so much in this quarter while our peer has reported a better margin? So, just want to understand what happened there.

Balram S. Yadav: So, which numbers are we talking about here?

Dipesh Kashyap: Poultry.

Balram S. Yadav: Godrej Tyson?

Dipesh Kashyap: Yes, Godrej Tyson, right.

Balram S. Yadav: Godrej Tyson, we had a revenue growth of about 22%. Actually, January-February were bird-flu months, so even though we were very profitable in March, I think some of the profits went to balancing the losses made in January-February. Am I right, Varadaraj?

S. Varadaraj: Yes, sir.

Dipesh Kashyap: Okay. And what was the mixture of the growth in this entire category, like live poultry, did the Yummiez grow more or your live poultry grew more?

Balram S. Yadav: It is a steady growth. You want to know; I can tell you that Yummiez grew quite well in the fourth quarter. The numbers, Vardaraj tell them, please.

S. Varadaraj: Yummiez top line grew last year by 53% and contribution which is margin after variables grew by 78%. So, Yummiez is steady, I think it is like any FMCG product with about 40% contribution margin. This year again we are expecting mid-teen to high-teen growth in this segment. The big dent was in the live bird which is a commodity.

Dipesh Kashyap: Right. And what is the expected CAPEX plan for FY 22? I think in Astec you have already told Rs. 180 crore, so how much are you looking at in other segments?

Balram S. Yadav: So, I think Astec is about Rs.180 crore and another big investment is about Rs.80 crore -Rs.90 crore for a fish feed plant and in Barabanki UP, which is under construction, but because of COVID I think it is delayed by a month right now. So, this plant will be commissioned sometime in February, March next year. So, these are the two big investment. So, total CAPEX planned is close to about Rs. 300 crore.

Nadir Godrej: And anything in Bangladesh, Balram?

Balram S. Yadav: No sir, Bangladesh we still have that mill which we have leased at a very small expense of about \$0.5 million, we can double the capacity.

Dipesh Kashyap: Okay. Anything for the advantage of taking the PLI scheme advantage, are you seeing or review there we are doing?

Balram S. Yadav: So, we are studying that for our CPB and our Astec Life Sciences business. But I think offline, we will be able to tell you more.

Moderator: Thank you. We move to the next question from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: So, the first question is on the oil extraction ratio, you were mentioning we have some technology that can improve the yield. So, in that context if you can talk a bit more about it, how much improvement do you expect and what is this technology?

Balram S. Yadav: So, oil extraction ratio, we pay the farmers based on weight. So, we pay close to about 15% of oil price as the fruit price and by weight. And farmer is not responsible for oil extraction ratio, which ranges from 17% to 19.5% during the year, depending on the season. Because in hot season oil extraction ratio comes down, and once the weather becomes cooler and when we move towards October-November, the oil content in the fruit continuously goes up because you have benefit of water also with monsoon. So, the kind of technologies we have which is plant as well as some additives, and this is some continuous sterilization technologies, which improve the oil extraction ratio by between 0.4% to 0.6%. So, this 0.4% to 0.6% is a direct injection into PBT.

Pulkit Singhal: And this will be visible, I mean, is it already visible in your 4Q results or it is expected to be seen this year?

Balram S. Yadav: It is a technology we were working for last two years, first in FY 2019 we set up a pilot plant of 1 tonne per hour to test out all these technologies because one of the big problems in agriculture is what works in Malaysia may not work here or may not work in Costarika. So, importing technologies have a risk attached to it. So, we set up a pilot plant. And then throughout FY 2019, and middle of FY 2020 it was tested by our foreign partners as well as us. And once we were sure, then some additional equipment had to be added, which cost about \$1 million in the plant, so almost \$2.5 million to \$3 million worth of equipment was called for. And it was set up in the first half of FY 2021 in one plant and we could see the benefit. And in second half of FY 2021 in both the plant. So, we are sure that we will be able to reap a lot of benefits from these expansions. Because 0.5% oil on something like 5.5 lakh fruits is a lot of money.

Pulkit Singhal: And the kind of price increase we have seen like 70%-80%, how much of this has to be passed on to the farmer, I mean, what kind of pricing methodology is there?

Balram S. Yadav: So, 80% roughly. I will give you a thumb rule. 80% of oil price is the fruit cost. After that, we have our variable costs and fixed costs, as Mr. Godrej said that fixed cost or variable costs keep on changing, what we pay to the farmer keeps on changing. But fixed cost is fixed so the higher the price, the improvement in margin is higher.

Pulkit Singhal: And the variable cost is linked directly to the international prices?

Balram S. Yadav: No, international prices you should not take, because we have about 37.5% duty plus freight, etc. Prices in Indian rupees would be something like Rs. 78,000, Rs. 80,000, but our local price here is Rs. 123,000 a tonne.

Nadir Godrej: Yes. It's based on the local price and it's adjusted every month.

Balram S. Yadav: And the second question was on the Animal Feed business. You mentioned about supply-driven market share gains. I understand that when the going is tough, this tends to happen for the larger players. But as we are also expecting the industry to bounce back with pricing going up, why didn't all these players come back in?

Balram S. Yadav: So, definitely players come back in, there is no doubt about it that they will come, because one of the big ingredients of our selling is also credit which these people, the local feed millers can give better than us, because they have more ability to collect that. The issue is that there are two things happening, one is market contraction; second is that the raw metal prices are very high. Now if you ask me, normally soymeal is bought in 40 tonne trucks because of freight benefits etc. Now, last year at this time a 40 tonner was costing about Rs.12 lakhs-Rs.13 lakh, today it is costing Rs. 26 lakhs-Rs. 27 lakh. So, if you see, working capital involvement is

also very high. Plus with so much of volatility in the output market, the traders are also not willing to give credit to several people. So, it's a mix of things which are happening, and we believe that it will help us get some more market share. Of course, poultry market shares are volatile because of several reasons, but cattle, fish, shrimp, etc. are very stable gains whenever we have made.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, continuing on the Animal Feed business only. Sir, despite lower revenue this year, we have seen the margin expansion of volume from 4% to 6%. And if we see that the benefit of the market share gain, we are going to see the next year and the top-line is also going to see the volume growth because of the operating leverage. What can be the margin expansion further from here? Can you just give some light on that?

Balram S. Yadav: So, I think you will see some very good numbers what you saw in the last quarter, maybe one or two more quarter. But I think it was a classical commodity dependent business. But what we are very sure is that EBIT margin of cattle and poultry to be anything between 6% to 7%, closer to 7%; and in aqua feed from 8% to 9% is something which is sustainable. And we are also looking at substantial improvement in volumes. So what is our problem, in FY 2018 and FY 2019, Mr. Prakash had asked me, was that we had set up a lot of capacity for Animal Feed. So, today, we have 2.16 million tonnes of capacity and we are producing about 1.3-1.4 million tonnes. We also want to expand the volume by 2 lakh tonnes-3 lakh tonnes in next two years. We would have done that last year, unfortunately the market contracted. If that happens, we will get into a virtuous cycle where scale will start giving us major advantage. So, we are banking very heavily on this year to return a lot of things. But margin profile, between 6% to 7% EBIT margin in cattle and poultry, 8% to 9% in aqua, in good times 9% in average is 8%. But ROCE will be close to 75% to 90%.

Rohan Gupta: Right. Sir, second question you mentioned that this high agri commodity prices globally, and where you mentioned that due to the rising biofuels and the government globally everywhere is just focused more on the clean and green energy. So, do you see that this agri commodity price rally which has been this year, almost across the commodities of 30% to 60%, 70% increase? The prices are not going to correct any soon and probably that world will adjust here or maybe even higher from current level that is going to change the agri input industry dynamics completely for the next three to four years, sir?

Balram S. Yadav: It is difficult to predict. As Mr. Godrej said, that depends on biodiesel mandates. At some point in time, the food prices or the food inflation which accompanies high commodity prices will start hitting, and probably there will be a clamor to reduce biodiesel mandates. If that happens, definitely we can see some reduction in commodity prices. But I don't see that happening in next six to nine months. And six to nine months is a very long time in commodity markets, so predicting about next three, four years is very difficult.

Rohan Gupta: Sir, yours is a unique company which is having presence in both agri input and agri output also, like poultry farm and all where you are leaving even the raw materials. So, where do you see that this rising input prices led inflation? Do you see that there is a enough opportunity for you to pass on the rising cost in your end product, like in an animal food and chicken and all those categories? Or there has to be some pressure has to be on the margins in the near term, sir?

Balram S. Yadav: I got it. So, let me just tell you that in all Animal Feed there is a pass through, albeit with a time lag. And there our positions help us tide over those time lag, because

raw material prices will rise now and then we will announce the price increase and the industry will also announce the price increase, and it will take 7 to 10 days for it to come into effect. That's point number one. Point number two, in real good chicken particularly, we have quarterly contracts with all these big QSRs and everybody, because food service is a very big part of our business. So, we will have to wait for three months to renegotiate prices. So, that is one of the problems. Second thing in dairy, the big problem which happened with us was, and you must be knowing that, from January to April there was a secular increase in ex farm prices. And just because some of the states were going through elections, the consumer prices were only increased in the first week of April and that too Rs. 1 or Rs. 2 or Rs. 3 in different states. Now, that has hurt us very badly in milk. But suddenly the demand has dropped because of lockdowns, today the milk prices have come down for Rs. 4,- Rs. 5 a liter in Maharashtra and about Rs. 2-Rs. 3 a liter in rest of the other states, and still there is a surplus of milk. So, this is commodity, this is how things can change. This is the time when we were expecting huge milk shortages had there been no COVID, and now there is a surplus. So, things are very dynamic and volatile. I think, sitting in my seat is not very easy.

Nadir Godrej:

But I should mention that because of our R&D initiatives, we need less raw materials to make the same quality feed.

Balram S. Yadav:

That's true. I think we are concentrating the feed a lot. So, quantity for very high-end feeds is very less to be fed to the animals.

Rohan Gupta:

I understood. And just one last question from my side if I am allowed to ask. Sir, on our Lifesciences and Agro Chemical business, I mean, Crop Protection business. If you can share your vision probably for the Lifescience business, we are seeing that globally many of the industry players are seeing significant growth in inquiries. Large number of opportunities are coming to Indian manufacturers with the China plus one model going globally and people are trying to reduce their dependency from China. In this sense, sir if you can just little bit elaborate here that how you see your business in next three years? And what kind of CAPEX we are in a position to put up in the next two to three years? And have you also seen increased inquiries from global players in this segment? Because we have very solid R&D driven business model in Astec LifeSciences and crop protection.

Balram S. Yadav:

Astec LifeSciences, as I told you that we are getting a lot of inquiries. I think, like all other agrochemical companies, we are also in the game. We commissioned a herbicide plant recently, cost us more than Rs. 115 crore, and that will be almost one-third capacity utilized in the current year. And it will make the herbicide intermediate for one Korean and two Japanese giants, I would say. So, that said, another Rs. 180 crore CAPEX is planned. I think most of the work has already started. The R&D center in Rabale is under construction, in a year's time that will be up and running. But we are not waiting for that, we have hired a big R&D center which was available in Dombivali. Our R&D strength from about 35 people has already reached about 70 people in Astec LifeSciences and will cross 100 people by December as we are preparing for our own R&D center. So, we believe that we will continue and another Rs. 120 crore CAPEX which has to be made in FY 2023 and FY 2024 is on the anvil and is being studied by experts.

Regarding CPB, I just want to tell you that growth will be largely driven by new products. There are at least six products, four in-licensed and two of our own which are under different stages of registration. And one or two products, I don't have the details, but offline we can give per annum will be launched in FY 2022, FY 2023, FY 2024, and FY 2025. So, that will result in almost 7%, 8% of growth and about 8%, 9% to 10% growth will come organically. So, we are expecting 14%, 15%, 16% growth in our CPB business, half of it is driven by new launches. And as far as we

have maintained good margins in our CPB business, so we believe that we will be able to maintain EBIT margins of anything above 25.5%-26% for time to come.

Rohan Gupta: Sir, and one clarification. In our AstecLife Sciences business, if you can give that what was kind of volume growth? I think that there was some price led element negative was there, so what was the volume growth for the full year?

Balram S. Yadav: Revenue growth was about 6% whereas volume growth was more than 11%- 12%, because some of the prices had come down. But more details can be given offline.

Moderator: Thank you. We take the last question from the line of Abhijeet Akela from IIFL Securities. Please go ahead.

Abhijeet Akela: Sir, just one clarification, on the Animal Feed side and on the poultry and dairy side, any volume outlook you could give us for the next one to two quarters? I know it's difficult given the volatile environment, but can we still expect to see volume growth in the next few months?

Balram S. Yadav: Depends on how COVID shapes up. And I am a born optimist, so I believe that by end of May things will start opening, because world has to go on and I am saying that things will start opening slowly. And if not, Q1 definitely, Q2 will definitely be much, much better than Q1. So, my view is that animal protein prices, particularly chicken and eggs will be very good. You will see volume growth in Yummiez, volume growth in our live bird sales with the improved margins also. Our worry continues to be liquid milk, we will grow very well in our value added products. Unfortunately, it is a small part of our business. We would like the growth to be very, very good which is likely to come. Our milk, traditionally we had a problem which we got exposed was to during COVID, was almost 40% of our liquid milk sales came from institutional segment. And that institutional segment for last five quarters is in bad shape. In southern India, more than anything else, the tea shops, the coffee shops and the marriages and parties etc., consume lot of milk products because of both curd and milk. I think because of that the institutional segment is very badly hit. It takes a lot of time to build a retail milk sale which we are trying in South. Over the last few quarters things have improved Q-on-Q but not still at a level where it can cover all the damage the loss of institutional sale has done. So, definitely this will be felt. But I am very sure that margin improvements will happen in poultry business, as well as milk business because milk prices ex-farm have also started crashing because of surpluses.

Moderator: Thank you. I would now like to hand the conference back to the management for closing comments.

Nadir Godrej: Thank you. I hope we have been able to answer all your questions. If you have any further questions or would like to know more about the company, we would be happy to be of assistance. Stay safe and stay healthy. Thank you once again for taking the time to join us on this call.

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