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Date: February 17, 2020

To,
BSE Limited
P. J. Towers, Dalal Street, Fort
Mumbai – 400 001.

To,
National Stock Exchange of India Limited
Exchange Plaza, BandraKurla Complex,
Bandra (East), Mumbai-400 051.

Ref.: BSE Scrip Code No. "540743"

Ref.: "GODREJAGRO"

Subject: Transcript of Conference call of Godrej Agrovet Limited with Investors & Analysts held on February 6, 2020.

Dear Sir,

Please find enclosed herewith transcript of Conference call of Godrej Agrovet Limited with the Investors and Analysts held on Thursday, February 6, 2020 at 1.00 p.m. IST..

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

Please take the same on your records

Thanking you,

Yours faithfully,

For Godrej Agrovet Limited

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





Godrej Agrovat Limited

Q3 FY20 & 9 Months Results Conference Call Transcript

February 06, 2020

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 call, please signal an operator by pressing “*” then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us on Godrej Agrovat’s Q3 FY’20 & 9M FY’20 earnings conference call. We have with us Mr. Nadir Godrej – Chairman; Mr. Balram S.Yadav – Managing Director and Mr. S. Varadaraj – Chief Financial Officer of the company.

We would like to begin this 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 has been included in the ‘Earnings Presentation’ shared with you earlier.

I would now like to invite Mr. Godrej to make the initial remarks.

Nadir Godrej: Good afternoon, everyone. I welcome you all to the Godrej Agrovat Conference Call to discuss the Operating and Financial Performance for the Third Quarter and Nine Months Financial Year 2019-20.

I shall take you through the Summary of our Results, followed by the Key Development and the Operational Highlights for each of our Businesses.

For the third quarter, our consolidated total income was Rs.1,792 crore compared to Rs.1,459 crore in the corresponding quarter of the previous year, registering a growth of 22.8%. The consolidated profit before tax was Rs.68 crore compared to Rs.73 crore reported during the same period last year. Similarly, for the first nine months of the year, the consolidated total income was Rs.5,367 crore compared to Rs.4,539 crore reported for the first nine months of the previous year, registering a growth of 18.2%. Profit before tax was Rs.262 crore when compared with Rs.308 crore for the corresponding period.

Please note there is a total income and profit before taxes for nine months of the previous year exclude a non-recurring income of Rs.29.9 crore earned on sale of land which was included in other income. Please also note the financials for the third quarter fiscal year '20 and nine months fiscal year '20 include the results of Godrej Tyson Foods Limited and Godrej Maxximilk Private Limited which became



subsidiaries w.e.f. 27th March 2019. Hence, they were excluded from last year's financial.

Now, I will discuss the performance of each of our business segments:

In the Animal Feed business, volume growth was 8% in the current quarter, driven by growth in layer feed and fish feed segments. We have continuously taken price increases for most of our products which resulted in year-on-year revenue growth of 32.2%. Consequence to the volume growth and price increase, segment margins improved significantly by 47.5% compared to last year. However, the prices of key raw materials remain high on a year-on-year basis. Going forward, we will continue to focus on maintaining our volume growth momentum, along with increasing the segment margins.

In the vegetable oil business, the third quarter performance was strong and the revenues grew by 24.2%, mainly due to higher volumes and sequential improvement in output prices. This resulted in significant improvement in the quarterly segment results which grew by 36.6%. However, for the nine months, the performance is adversely impacted by lower output prices and lower oil content seen in the first half of the year which was also the peak season.

In the Crop Protection business, standalone segment revenues and segment results declined by 15.7% and 15.2% respectively. This is mainly on account of the extended monsoon which resulted in delayed sowing. We have launched multiple new products in the last nine months which will increase the product portfolio and help us enter new crops and new segments in the near-term.

In our subsidiary, Astec LifeSciences, we have moderate revenue and EBITDA growth of 4.5% and 1.9% respectively. For the quarter, however, the nine months performance was impacted due to lower realization, increase in input prices and deferral of export order.

Creamline Dairy Products Limited, our subsidiary, posted revenues of Rs.285 crore in the current quarter compared to Rs.278 crore, recorded in the same period last year. Profitability was impacted significantly during the quarter due to low output prices and high procurement cost. We continue to focus on value added products and the salience on value added products increased to 27% compared to 24% in the same period last year.

Godrej Tyson Foods Limited, our poultry business, posted revenues of Rs.158 crore in the current quarter compared to Rs.128 crore in third quarter fiscal year '19. However, the EBITDA margins were under pressure on account of increase in cost of live bird compared to the live bird prices.

GAVL's joint venture in Bangladesh, ACI Godrej recorded a robust revenue growth of 80.4% over the third quarter fiscal year '19, driven by strong volume growth in cattle, broiler and aqua feed.

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

Moderator:

Sure, thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S Padmanabhan:

Sir, my question is on the Feed business. First, while we are saying an improvement in the volumes but in terms of the EBIT per ton or even the EBIT margins on a sequential basis it has been much lower. From what we understand is there has

been some price hike for the feed players. So, I am not able to reconcile as to why there is a sharp drop on QoQ basis as far as the absolute EBIT and as far as the EBIT per ton is down.

Balram Yadav: Godrej Tyson Foods transfer is also recorded as sale which is at zero profit. And that salience in last quarter was about 35,000 tons.

S Varadaraj Apart from that, also in this quarter the salience of aqua feed which is a higher margin segment within the animal feed, is less as against the previous quarter.

S Padmanabhan:: So on an apple-to-apple basis, if I am adjusting for that Godrej Tyson sales which happens at almost zero price to this entity, then what would be the EBIT and EBIT margin?

S Varadaraj If I were to exclude the Godrej Tyson Foods margin, the margin for the current quarter will be around 4% as against around 3% last year for the same quarter.

S Padmanabhan: But it will still be lower because of the Aqua Feed, I mean, that is the...?

Nadir Godrej: On quarter-on-quarter, I think aqua feed off season is the third and the fourth quarter.

S Padmanabhan: But we have taken price hikes, right?

Balram Yadav: Yes, that I think we have been very proactive and you will see that these margins becoming better in Q4.

S Padmanabhan: And sir, with Creamline Dairy side, I think continuously we are seeing the business to be trading slightly lower than expected and really not contributing to the overall performance. What we also heard is there has been some price hikes in milk. If you can quantify, #1, why this continuously we are seeing a disappointment on this Creamline Dairy? #2, what is the quantum of price hike? And #3, what are we planning to do to improve the performance here?

Balram Yadav: Let us answer your second question first. That as a strategy, I think we have been saying that value added is the more sustainable part of the business and that is continuously growing. We will end up about 29%-30% of total salience as value added product this year which was about 22%-23% last year. So that strategy is intact and that is one thing which will definitely keep on improving our margin. Now, we come to what is happening this year. For last six months, there has been continuous increase in the procurement cost of milk, that you all know because in the shortage of milk can import of skimmed milk powder, etc., is not being allowed and there is a lot of competition for procurement of milk, not because of current consumption but because of converting into fat and SMP which will be utilized in shortages during summer. Unfortunately, just because the nature of the industry is such that there have been lag of between four to six weeks in price increases. We have increased almost Rs.8 a litre in three price increases in past six months but cost increase have been close to between Rs.10-12 a litre in different parts of the areas we operate in. So this I think is primarily because of dominance of cooperative in the sector because they take time to take decisions. Private sector is definitely very prompt. So, this is the one thing which is hurting the business significantly. And it is not that we have not been proactive, we have taken some price increases and that is why you see a little bit of de-growth in our milk business.

S Padmanabhan: We are referring to the Rs.8 hike, right, versus the Rs.12 hike?

Balram Yadav: Yes. And when I say Rs.8, the NRV is slightly lower.

- S Padmanabhan:** Sir, finally my question is on the crop protection side, that's the standalone business. We have seen across the board the number seems to be good for most of the companies but we are slightly negative surprised on seeing our numbers coming out especially post Rallis or other companies that have come out. What is it that has been different for us in this quarter because it looks like the margins are much lower and we are not able to gain growth? Well, the peers have been able to do well.
- Balram Yadav:** If you see our past record, we have been growing top line, bottom line in this business and are having a very-very high EBIT. But there is a price we paid for it in past which was I think we lost control on the hygiene and the working capital kept on rising particularly the debtors. I think we have taken a very conscious effort in these two quarters; Q3 and Q4 that we are not very focused on sales but we are very focused on recoveries and I can assure you that in last quarter in terms of working capital improvement, there is a substantial headway we have made which will be built upon in this quarter. What is happening is just because to keep pace with the sales growth, unfortunately, there were certain compromises we have made the credit extended. I think we are pulling it back. We want to maintain high hygiene, we have certain product launches planned; one has already been done in December, it is a product called Hanabi for miticide in chillies and tea which has a very good opportunity in these two crops. It is a product from Nissan. So, we are on track but I think hygiene was very important. So it is a conscious call to clean up before we embark on another high growth year.
- S Padmanabhan:** What would be the quantum of receivables that we are now giving compared to what we used to give?
- Balram Yadav:** We will give it offline but let me tell you that whatever the number is, we need about 30-35-days reduction in that number.
- Nadir Godrej:** Question is about our policy rather than the actual.
- Balram Yadav:** Yes, policy is 90-120-days but nobody pays on time. We would be at 150-days plus and we want to bring it down to sub-120-days.
- Moderator:** Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.
- Sumant Kumar:** My question is regarding palm oil. So, just like to understand the palm oil price impact on the margin. Is it going to get worse with the Malaysian palm oil import restriction?
- Balram Yadav:** Malaysian palm oil import restriction does not affect volume because we will buy from India I am talking about. So I am saying that only the source will change. I think the general impact of palm oil prices is very-very positive. We are a little unhappy that had it happened two months in advance earlier, we would have really-really benefited during the season also. But having said that the oil prices are holding and there will be some positive impact also because of refined oil import being banned from Malaysia, Indonesia. The refining will pick up in the country and so will the sources of oil in the country.
- Sumant Kumar:** Are we thinking about the forward integration for the refining?
- Balram Yadav:** No, we would not like to refine. We will continue to be sellers of crude palm oil and palm kernel oil the way we produce because refining is a totally different ballgame because we do not want to get into retail, etc. I needed to specify this because this question is asked several times to me. We look at this as a agri business. That is our core competence. So we want to grow very-very efficient plantations. We want to increase productivity for the farmer. We want to increase all extraction ratio. And that is where the focus is.

Sumant Kumar: So we are expecting price going forward is going to be firm?

Nadir Godrej: It is already very high, much higher than last year, but we can always expect the prices will fall somewhat in the season because this is also the season in Malaysia and Indonesia and production is very high from June to October.

Sumant Kumar: So price has increased post the biofuel policy and...

Nadir Godrej: Biofuel policy is what is keeping prices very high and hopefully this year in the season the trough maybe smaller because of the biofuel policy. On the other hand, we do not know what is the impact of coronavirus.

Sumant Kumar: Because the China will have a lower demand. In that case, we will have an impact on palm oil price?

Nadir Godrej: Yes, it will have a lower demand for palm oil and it will also have a lower demand for diesel.

Sumant Kumar: We will have a short-term correction in the palm oil prices?

Nadir Godrej: Certainly, there will be a short-term correction and long-term impact will depend on how long epidemic last.

Sumant Kumar: Talking about overall crop protection business, so we are focusing on lowering the credit period to the dealer. And when we see the margin has impacted, so domestic business we have a lower volume, other player is showing a very decent number, more than 10%, 15% kind of growth. Our domestic business has declined by 15%, 16% and so margin have been impacted. So in domestic business you are taking about delayed monsoon, delayed sowing which crop you are talking has a higher impact on your business?

Balram Yadav: Some of the horticultural crops.

Sumant Kumar: Ok. Can you name the...?

Balram Yadav: Grapes.

Sumant Kumar: And talking about Astec, you are talking about decline in realization and overall all the profitability of all the AI business for all the companies have risen significantly post the increase in realization. Now overall we have seen the trend across globe, we are seeing correction in the prices. So, going forward do you think the margin will be under pressure for the mid-term, for the Astec?

Balram Yadav: I do not think so. This quarter is going to be much better than last quarter I can tell you. So the other thing was there is 6.5 crore reversal in Astec because we were getting some export benefit which past year we have taken a 3% but government does now rule it should have been taken at 2%,so we have taken a hit of about Rs.6.5 crore in the first nine months numbers.

Sumant Kumar: MEIS, you have 3%, now it is 2%?

Balram Yadav: Yes. And we do not know what will be the scheme. It is for prior years also. And the scheme is effective till 31st of March and they have not announced what will be the shape and form of the new scheme.

Sumant Kumar: What is the amount reversal in this quarter?

Balram Yadav: Rs.6.5 crore.

Sumant Kumar: It is included in EBITDA, right?

Balram Yadav: Yes.

Sumant Kumar: So when we add that the margin is higher than that in that case?

Balram Yadav: Yes.

Sumant Kumar: So, coming quarter, we have a deferral export. So you have a better top line and also margin?

Balram Yadav: That is what we are expecting.

Sumant Kumar: And talking about animal feed, you said you are transferring 0% benefit to Tyson. On the quarterly trend we have seen a decent margin, say Rs.1.3-1.4 EBIT per Kg. So can we expect this trend whatever the numbers we have for Q4 onwards, 1.3-1.4 per Kg, it is going to decline from here because of Tyson and Tyson overall because of higher input prices, we have seen lower losses, so, what can we expect from here Godrej Agrovet and Animal Feed business?

Balram Yadav: Three things I wanted to tell you about this. First and foremost, let me focus on Q4. The aqua feed off season is there in Q3 and Q4 also. Aqua feed is more profitable than rest of the animal feed. Godrej Tyson's tonnages will almost remain same at par with Q4. But there will be organic increase in our margins in rest of our business.

Moderator: Thank you. The next question is from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.

Prashant Biyani: Sir, what was the SMP volume for palm oil in Q3 and last year same quarter?

S Varardraj We have 1,31,000 tons of SMP which we process, very similar to last year same quarter of 1,32,000 tons. First nine months, we processed 5,29,000 against 4,55,000 last year.

Prashant Biyani: And in Astec, last quarter also we had seen some deferral of orders. So is it some client-specific issue because globally at least the weather patterns are not creating any issue this year in any of the geographies? I understand that it is a volatile business quarter-on-quarter. But last quarter also we had some of the deferrals. So if you could just clear the picture on that front?

S Varardraj : Here, we recognize sales only after it is received at the customer destination. So that is the reason why the deferral of sale happens in Astec unless it is FOB. Towards the end of the year, we try and ensure that we plan for the dispatches well ahead of time so that this deferral generally does not spill over in financial year. That is what if you take, but on a quarter-to-quarter basis this becomes a bit of difficulty in terms of spillover of the sales to the next quarter.

Prashant Biyani: I mean, this quarter some orders deferred to Q4, that is fine but some of the orders which got deferred in Q2, would also have come in Q3, might be offsetting both these things?

Balram Yadav: Yes, there is always this kind of spillover from Q2 to Q3 also. What is the net carry forward is what gets impacted. So the quantum will not be the same. And Q3 to Q4, the spillover will be higher as compared to Q2 to Q3.

Prashant Biyani: In the standalone CP business also, Q4 also should be soft for us because of the controls whatever we are doing on the receivables front?

- Balram Yadav:** The answer is yes, but I think most of the controls have already yielded the desired results. We will not be holding back sales.
- S Varadaraj** So that is again seasonality which is there. So Q4 generally if you see from a CP perspective there will be some uptick in terms of their performance.
- Prashant Biyani:** In the Animal Feed, so the latest Kharif arrivals if we see corn and maize, soyabean prices they have been high. So could we expect some more price increase after this Kharif arrivals to happen in the animal feed or...?
- Balram Yadav:** Both corn, soya and rice bran which are the main raw materials, are softening. So corn, soya is softening because of lack of demand in poultry because poultry is in very bad shape, you would be knowing that live bird is selling at below cost of production for almost last seven, eight months and there is a huge cut back in production by all poultry players. So, because of this little bit of lack of demand, the prices have started softening. I do not see any price increases coming in next two, three months; however, they have not fallen into a level where there is a price reduction pressure as of now.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.
- Prakash Kapadia:** If I look at our nine months performance, the sales growth has been 18%. Earlier we were facing a scenario where sales growth was not coming. Now, because of certain agri inflation, sales has kicked off but EBITDA has not really grown. So on a going forward basis, how do we forecast sales and EBITDA both moving in the upward trajectory, is there some visibility confidence on a going forward basis? I am looking at a trend, not a specific number.
- Balram Yadav :** Yes, this has been an exceptional year from inflation point of view and unfortunately even though the prices have been increased, but not in the same proportion as cost, both in our animal feed business, in our chicken business and in our milk business. So we are also seeing particularly in milk business a very-very different year, we are in this business for only four years, but veterans tell us that it is an extraordinary year as far as the increase in cost is concerned. But having said that, on a steady state basis, 12% to 14% top line growth is something which we budget normally and that is what we should also take for our model.
- S Varadaraj:** This year also had the oil palm impact, wherein the crude palm oil and palm kernel prices were not good during the season, now it has started going up, during the season it was not up and the oil extraction rates are also lower because of the pseudo ripening process which happened. So in that sense this year has been an exceptional year for some of these reasons and hopefully we should get back to our normalcy.
- Nadir Godrej:** The climate change will probably continue to have impacts on the kharif situation in India. We might have a fewer good years. But it does not seem to have much impact on the rabi situation.
- Prakash Kapadia:** And we also do a lot of R&D in terms of product development and you are reducing input price. Obviously this year has been as you mentioned a very challenging year on the input side. So, when do some of these R&D initiatives fructify and show into better margins for us because we do a lot of things which others are not in a position to do?
- Balram Yadav:** In Animal Feed from Q4 onwards, you will see that and next year you will see the benefit magnifying also because two of our investments have been commissioned; one is commissioned last September-October and one is under commissioning right

now in Bundi. So you will see those benefits. In Astec LifeSciences also, we have debottlenecked the plants and in fish feed plants debottlenecking is there. So you will see a surge in sales there also in next year. As far as oil palm plantation is concerned, I think one experiment has been very successful and additional equipment are being added and with the season starts in July, these will be in place and I am sure that whatever improvement we have made through chemical technology and physical equipments in the plant, you will see a uptick in OER in the next season. So all these things have taken time. Definitely, we are late by one to two quarters in most of the things because all big investments that we wanted to, we are very sure that we will deliver. I am saying that on the whole I feel that starting September, October last year, lot of things have started kicking in and more of it will happen every month.

Prakash Kapadia: And lastly, monsoon has been plentiful this year. So if you could give us some sense of where are we seeing pent up demand or what do you think which segment will benefit for next year? Earlier, we had a few years where monsoon was a concern.

Balram Yadav: So crops will always have year-on-year challenges because crops do not benefit from one monsoon and if there is a drought next year that crop will benefit from that; however, the reservoir levels are very good. So we believe that even if a monsoon is an average monsoon, we are going to have a good time in Indian agriculture. But I must tell you that the big benefit of last year's monsoon will come in oil palm plantation. Some of it we saw. Last year, we did about 4,55,000 and this year first nine months we have done 5,30,000. So crops will always have the challenges. Again, we will start looking at the skies in July because sowing, etc., will need water, 45% of India is irrigated, 55% will be rain-fed. So that challenge will always remain.

Prakash Kapadia: Is it fair to say assuming milk prices come down and if we are targeting on a longer-term basis 12% to 14% growth, should that also translate into profit growth assuming the RM inflation cools off from here on?

Balram Yadav: Absolutely. We analyze the last 20-years data and we have seen that a challenging year like this is always followed by a good year. But I do not see any cost decrease in milk for next four, five months. It is only in August that we will see. Unless and until import of milk powder is allowed, then the prices will definitely soften because in another month's time the shortages will come because dry season will start. But having said that, we have seen that shortage season is always followed by a very good flush. So hopefully the milk prices will come down from August onwards.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

Ashish Thavkar: Sir, in the Aqua Feed business, was there an element of GST on the fish feed this quarter?

Balram Yadav: No-no, shrimp is the most profitable part of aqua feed and it was off-season for that, but fish feed also it is not full season because whenever temperature drops, definitely the placement comes down, it is just a seasonal issue. And having said that, let me also tell you that for all the cost inflation, because of different reasons, a big price correction has already happened in the industry in this quarter.

Ashish Thavkar: We were also looking for a foreign partner in the shrimp feed business because as you are interested to, we had a poor FCR and there were efforts from our side to correct it. So where are we on those lines?

Balram Yadav: We tried very aggressively and seriously, but unfortunately nothing could fructify. So what we decided six, seven months ago is that we need to take the responsibility and improve the business. We have two global consultants who are great authorities

in aqua feed working for us; one, on the plant and processes, the other on sales, marketing, training, etc. I am very glad to say that the decline we were having for last four years has been reversed in shrimp feed this year. In first nine months in fish feed we have grown 40% in volumes. So I think that we are getting grip apart from that, in this quarter we are replacing lot of equipment on the advice of these consultants in our shrimp feed plant. So hopefully, we will start producing the quality which we need to grow in this business plus I think these consultants are adding tremendous value. So we have decided to put all that on hold and we will do whatever is possible within our resources to improve the business and the results in past six months have been very encouraging.

Ashish Thavkar: Sir, to that extent, we would have definitely seen improvement in market share in India, right?

Balram Yadav: Yes, but I am saying that my thing would be that it would be improving in decimal right now from some 2.1% we are talking about something like 2.6%, 2.7%. But I think that we started these improvements towards the latter half of the season. I think best way to judge us particularly in shrimp feed and all, our efforts would be next season, starting in next six weeks or so.

Ashish Thavkar: Given that 80% of the market is organized, you are targeting your market share gains from the organized players or more from the unorganized ones?

Balram Yadav: I think we are looking at an absolute increase in sales wherever it comes from because that 2.7%, 2.8% market share I think talking about, so we have a target of market share. When it come from, we are not very sure but I think we will take small steps and short steps to make sure that not only we grow the business but we also grow this business hygienically. Traditionally, outstanding also has been one of our problems which is under correction right now.

Ashish Thavkar: One question on the agriculture side of our business. So there are some companies for the first time who are willing to challenge the IP patents from the foreign companies. So there is basically one molecule by the name Coragen where one of the companies have challenged the patent. So like we have never thought of challenging such patents. Is there something on our cards we believe we can do a very good R&D on the litigation side also and we can have some patent challenges there?

Balram Yadav: Actually, we have not studied it, it but I will definitely ask my team to get in touch with you offline and update in case we have some discussions like that.

Ashish Thavkar: Last thing on the China coronavirus since we have a sizeable effect in business as well. So our dependence from China and how do you see the situation panning out if this issue continues for more than three months or so?

Balram Yadav: First thing is that in last two years we have commissioned two plants for backward integration and that was not thinking about coronavirus but the prices and costs were going up from China. We started getting into backward integration and one more backward integration plant will be commissioned in July which will be for backward integration and producing certain herbicides also in Astec LifeSciences. So, we are definitely worried because we still are dependent on China for import of certain products but we are happy also that our dependence is not as it was a few quarters ago. So, yes, we are worried but till now the supplies have not been affected, but I do not know what is going to happen in future.

Nadir Godrej: We can continue to source our own raw materials over time. Also, if there are supply problems from China... China is also sometimes a competitor for us. So net-net, I think we should be better off rather than worse off.

- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.
- Madhav Marda:** Just wanted to get an update on the change in regulation for palm oil which had happened on the import side. How does that impact our profitability margins on the oil palm business in the coming year?
- Balram Yadav:** That does not affect us because SAPTA remain the same.
- Nadir Godrej:** Yes, slightly lower import duty theoretically means a lower price but because Indonesia went to B30, palm oil prices have shot up a lot. So palm oil prices currently are about Rs.72 a Kg and last year they were more like Rs.55 a Kg or so. So, what matters to us is the palm oil price and although the duty slightly lowers the palm oil price, actual original prices are much higher this year. So we are not likely to feel any effect for this. And this policy of using B30 is likely to continue for a long time because Malaysia and Indonesia will try and keep the price of palm oil as high as they can and they can substitute a lot of diesel with palm oil. So they should be able to do it for quite some time. That being said, the present prices are very high and we could see some lowering of prices from these levels.
- Madhav Marda:** Our palm oil business margins usually been between 15% to 20%, that has been the range. Any outlook for the next year because the first half was weaker with the lower palm oil prices?
- Nadir Godrej:** Actually, the pricing formula gives us 21% to 22% contribution margin and that is 22% of the price. So the profit margin depends entirely on the price because the fixed expenses are not related to the price, but the contribution margin is related to the price.
- Madhav Marda:** So any increase in the prices is basically direct a full through for us?
- Nadir Godrej:** Absolutely.
- Madhav Marda:** Another question on the Crop Protection business. If I look at the history and compare it to the peers, we have always had much higher margins because the product portfolio was much more premium but as we are scaling the business and introducing more products, how do we see the margins trending for the next two to three years because as you become a larger player in the agrochemicals business in India, the domestic part?
- S Varadaraj:** So, as we progress going forward, the margin as a percentage might be slightly lower than what margins which we used to enjoy earlier. But hopefully the growth in revenue we should sort of more than make good the drop in margins.
- Madhav Marda:** On the dairy business, this is the query I have asked in the previous concalls as well, it is about 25% to 30% of our capital employed but profitability has been a bit of a challenge so far. How do we see this going forward because it is a drag on a return on invested capital, right, for the business?
- Balram Yadav:** Yes, it is. So, we have several plans in place and you would have seen the benefits of that, had this big inflation and cost not happened. And one of our big strategy continues to do well which is building brand and increasing the salience of value added products in the total sales. And from 23% last year, FY'20 we will get to something like 30% and I have another big jump next year. So we are also concerned. Having said that, let me also tell you that this value added strategy had a lot of investments built in. We had to set up a UHT plant, where to set up flavored milk plants. And all these investments take between two to four years to break even.

- I think as the time goes by you will see margin expansion as the capacities get build up.
- Madhav Marda:** What would be sustainable margins in the Dairy business for us once it stabilizes in the next two to three years, any view on that?
- Balram Yadav:** Whatever I tell you will be difficult to believe because today we are in a very difficult situation considering milk prices keep going up but if we see cream line dairy's past, so I think in last 25-years has had 5-6% PAT also.
- Nadir Godrej:** And we expect slightly better margins as the salience of value added products rises and as all our new investments come to near full capacity utilization.
- Moderator:** Thank you. The next question is from the line of Rakhi Prasad from Alder Capital. Please go ahead.
- Rakhi Prasad:** This is regarding Tyson. We have shown some reasonable growth. What is our pricing power that we see in this business, give us some idea of how the cost has played out over the last quarter?
- Balram Yadav:** Frankly speaking, in the chicken business, we do not have much pricing power because the market is still linked to commodity. 95%- 96% of Rs.70,000 crore market is still wet market, the live bird market. Yummiez, we have still power because the brand is taking shape. And it is the margins are low because we commissioned Rs.70 crore investment last year which is coming to about 50% capacity now. So I think that is where we can definitely command some premium but not in the chicken business.
- Rakhi Prasad:** What would be our stable margins going forward, what shall we expect in the Tyson?
- Balram Yadav:** Live bird business is very-very seasonal and cyclical and I have never seen so many continuous months when the chicken prices are below cost of production, and again it is a commodity. So it is just a matter of time because there are very-very big cuts taken by all players in terms of production of chicken and come summer again shortages will come like every year as the chicken prices will shoot up. So, I am very confident that if we do not take a yearly cut or a quarterly cut in these businesses, we definitely can see a steady margin of 4%-5% PBT on sales with all its ups and downs.
- Moderator:** Thank you. The next question is from the line of Kishore Chidambaram from Cholamandalam MS. Please go ahead.
- K Chidambaram:** I just want to know what is the palm oil acreage for Q3 FY'20 and what it was in the corresponding quarter last year?
- Balram Yadav:** We were close to about 60,000-63,000 hectares in the start of the year and we have added about 2,600 in first nine months and this is the time when acreages are added in parts of Andhra Pradesh and Tamil Nadu, so we will end up adding at about 3,500-3,700 hectares in this current year.
- K Chidambaram:** What was it in the corresponding period last year, ballpark?
- Balram Yadav:** On 31st of March '19, about 62,000 hectares.
- Moderator:** Thank you. The next question is from the line of (Bharat Gupta) from Edelweiss Securities. Please go ahead.

Nihal Jham: This is Nihal Jham here from Edelweiss. My first question was on the crop protection business. You mentioned that there have been certain delay in payments which you are trying to correct. I just wanted to understand that are you facing this issue in any specific region or geography or is this a pan India phenomenon that is coming through?

Balram Yadav: This is a big problem for our East and South business.

Nihal Jham: But I think as earlier participants have also mentioned that there is a possibility of the current season being good and possibly the farmer payments could also come through. So could this have naturally not cleared out in the current rabi season itself or is it a specific issue with the distributors that you are dealing with?

Balram Yadav: We were on the treadmill, that we were continuously selling and collecting less. So we just have corrected that and I think we are focusing on collection more than sales and we are very-very happy that a lot of money was recovered in last quarter, January was also very good in recovery and I think we will start the next year in a very good position as far as outstanding and inventories are concerned.

Nihal Jham: If I summarize right, what you are saying is more an issue with our channels rather than there being a stress at the farmer level and that is what we are trying to correct?

Balram Yadav: I think food inflation has definitely helped cash flows in rural India. So that is one of the reasons why our collections have been good. But I think big reason is a very-very concentrated and a focused effort in doing this.

Nihal Jham: Second question was on the Dairy side. Ideally as I understand that the winter months are the flush season. So have we not seen already a price correction happening in the recent months which should have or should help our business in the coming quarter also because the prediction that milk prices will fall in August is a little long way off, so just wanted to understand those dynamics?

Balram Yadav: There is a time lag and all companies are suffering. So the time lag of four to six weeks in price increases vis-à-vis cost increase and that is why margins are under pressure. You will see a pattern which also strengthens our strategies and higher the value addition, lower will be the impact of these. There will be impact but the impact will be lower. The businesses will be more sustainable to cost pressure if the value added salience is high. So definitely, I think we are in for some very tough time unless and until government allows imports of skim milk powder.

Nihal Jham: But in the current winter months, there has been no correction on the milk prices?

Balram Yadav: No correction.

S Varadaraj: We are all expecting that during the flush period the prices will sort of soften but instead of softening it just started going up. So most of the private dairy players were impacted adversely because of this reason.

Nihal Jham: What is our average procurement price like currently?

Balram Yadav: Let me just tell you that April was Rs.211 per KG total solids and February is Rs.242, this is cow milk.

Nihal Jham: Last question from my side on Astec. What is the trend on input prices currently – is it that we are seeing a reduction there happening or those still remain elevated?

S Varadaraj: They have been stable. In fact, in Astec, what we have been trying to do is they have been sort of doing backward integration and hence our dependence on the import is reducing year-after-year. And the input cost are sort of stable as of now.

Nihal Jham: Just for my understanding, this trend of stable prices has just recently begun or they have been stable for the last five, six months for us?

S Varadaraj: Last four, five months they have been stable.

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

Preet Nagarsheth: My question is can you share some outlook on maize in terms of at what prices are you procuring and how do you see it impacted, because of the rabi crop?

Balram Yadav: Corn prices delivered in certain parts of the country in September-October last year had crossed Rs.25 a Kg. During season they came down which was almost 60% higher than a year before last. And then they softened up to Rs.18, Rs.19 a Kg. And just because of slightly lower demand, they are holding at that level even though season is past. Having said that, I do not see any great inflation from now on because in another eight weeks' time the rabi crop mainly from Eastern India, Bihar will start coming in. So I do not see any big inflation happening in corn. One of the key reasons is that the poultry demand is softening. Because of the low prices of both egg and chicken, the placements have come down significantly.

Preet Nagarsheth: So you basically see that with rabi crop coming in a few weeks, corn prices could potentially soften further?

Balram Yadav: Yes and the rabi crop will be very big because at the time of sowing the corn prices were very high, farmers were very motivated to go for corn.

Preet Nagarsheth: We are seeing 10% additional sowing in rabi related to last year if we take the corn prices are high?

Balram Yadav: Yes.

Moderator: Thank you. We will take the last question from the line of Jit Shah from Axis Capital. Please go ahead.

Jit Shah: You mentioned the palm oil prices to be Rs.72 per Kg, right. So going ahead, over a medium term, what do you think the prices will hold at after the B30 and B60 declarations?

Nadir Godrej: It is very difficult to predict commodity prices. The bullish factor as I said is the B30. The bearish factor is Coronavirus. And other bearish factor is that in the season prices usually fall because both Malaysia and Indonesia had their peak season at that time and India's peak season more or less coincide with that. So, we can always expect prices to be lower in our peak season. But that being said, we are starting from a very high price. So if you ask me to guess an average price for next year, I would say something like 66, 68.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management team for 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 the time to join us on this call.

Moderator:

Thank you very much. On behalf of Godrej Agrovvet Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.