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Date: August 27, 2020

To, **BSE Limited** P. J. Towers, Dalal Street, Fort Mumbai – 400 001.	To, **National Stock Exchange of India Limited** Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai-400 051.
Ref.: BSE Scrip Code No. "540743"	**Ref.:** "GODREJAGRO"

Subject: Transcript of Conference call with Investors & Analysts held on August 3, 2020.

Dear Sir,

Please find enclosed herewith transcript of Conference call of Godrej Agrovet Limited with the Investors and Analysts held on Monday, August 3, 2020.

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

RAIZADA VIVEK PRITAMLAL

Digitally signed by RAIZADA VIVEK PRITAMLAL
Date: 2020.08.27 12:34:47 +05'30'

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

Godrej Agrovet Limited
Q1 FY21 Earnings Conference Call Transcript
August 03, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Godrej Agrovet Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Devrishi Singh from CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you, Janice. Good afternoon everyone and thank you for joining us on the Godrej Agrovet Q1 FY '21 Earnings Conference Call. From the company, we have Mr. Nadir Godrej – Chairman of the company, Mr. Balram S. Yadav – Managing Director, and Mr. S. Varadaraj – Chief Financial Officer. From Astec Lifesciences, we have Mr. Ashok Hiremath – Managing Director and Mr. Arijit Mukherjee – Chief Operating 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 the Godrej Agrovet conference call. I hope and wish you and your families are doing well and are staying safe. The extended lockdown has affected business activity for a longer-than-expected duration. This has led to a decline in demand from the institutional segment and has also lowered out-of-home consumption for food products. To manage through these times, it will require a high degree of efficiency, nimbleness and coordination among people. At Godrej Agrovet, we are swiftly adapting to these changes and are working towards serving our customers in the most efficient way.

Moving to the financial and operational performance, the key highlights and developments for the first quarter in the financial year 2020-'21 are as follows:

We had an excellent start to the year. Our consolidated profit before tax increased to 134 crore in Q1FY21, representing a healthy growth of 18.7% year-on-year. This was despite a decline of 8.8% in consolidated revenues. Our consolidated revenues were 1,562 crore compared to 1,713 crore reported in the same period of the previous year. Segment wise, while a few segments had an excellent quarter, others were impacted by the extended lockdowns disrupting demand and production. We expect the situation to improve in these segments gradually.

Now I will discuss the key financial and business highlights of each of our business segments:

In Animal Feed:

The segment results grew by 13.5% year-on-year, mainly driven by favorable commodity prices. This was despite a decline in the Animal Feed volumes and sales. The extended lockdown lowered demand for animal protein products - milk, chicken and eggs. This affected the demand for cattle, broiler and layer feed compared to the previous year. As a result, the segment volumes declined by 17.4% year-on-year, which resulted in segment revenues decline of 15.5%. However, business activities have started resuming gradually, and we expect volumes and sales to increase on a month-on-month basis going forward.

In the Vegetable Oil segment:

It was a tough quarter. Fresh fruit bunches arrived was lower than last year and even the oil content was lower in the fruit. Therefore, despite an 8.2% segment revenue growth, which was supported by increase in prices of crude palm oil and palm kernel oil segment, results declined year-on-year.

In the Crop protection standalone business:

I am happy to share that our efforts to increase collection is yielding results, and we have seen one of the highest collections of 224 crore in the current quarter. However, extended and intermittent lockdown led to production disruption of our specialty products during the quarter. As a result, standalone revenues were similar to the previous year and segment results declined by 18.9% year-on-year.

Moving to the performance of our subsidiaries:

Astec LifeSciences

Astec LifeSciences reported one of the strongest first quarter performances with revenue and EBITDA growth of 45% and 302% respectively. Higher realization along with the volume uptick in key products contributed to this growth. Geographically, exports have grown faster than domestic sales.

Godrej Tyson Foods Limited:

Our poultry business also witnessed one of the strongest quarterly performance. Sequential recovery in prices and demand of our poultry products, coupled with favorable raw material classes led to a sharp recovery. Our frozen food products under the Yummiez brand received an excellent customer response in the quarter. We have gained significant market share, both in our vegetarian and non-vegetarian product range. As a result, the subsidiary reported revenue and EBITDA growth of 21.8% and 237.4% respectively.

Creamline Dairy Products Limited

Our dairy subsidiary was impacted by lower demand from the HoReCa segment and lower out-of-home consumption of milk products. Both milk volumes and the value-added products sales were lower in the current quarter. As a result, the company posted lower revenues of 236 crore in the current quarter vis-à-vis 320 crore in the same quarter last year. EBITDA was also lower than last year in the current quarter. However, decline in fixed expenses partially offset the EBITDA decline.

GAVL's joint venture in Bangladesh, ACI Godrej recorded a robust revenue growth of 39.2% in Q1FY21 driven by strong volume growth in cattle, poultry and aqua feed.

I now conclude our business and financial performance updates for the quarter. With this, I close my opening remarks. We will be now happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-answer session. We take the first question from the line of Sajal Kapoor from Unseen Risk Advisors. Please go ahead.

Sajal Kapoor: So our R&D investments in Astec Lifesciences were up sharply in last fiscal. So what are the new areas we are targeting? How will the new R&D center, which is coming up in the next 2 years, will likely change our R&D intensity and profile in terms of the capabilities and the benefits? What sort of benefits do we aim to achieve over the medium-term? That's my first question.

Ashok Hiremath: Well, the new R&D center is going to be a little bit of a game changer for Astec. I will just elaborate a bit on that. Currently, Astec is in a very enviable position where the demand for new products and new projects far outstrips its ability to execute the projects in terms of its ability to develop and scale it up and bring it online for production. We have no limitation in terms of the availability of infrastructure and we are in a position to make investments. But we just don't have the bandwidth on the R&D facilities that we currently have to be able to do it. But having said that, we've still been growing at the rate that you've been seeing a compounded growth of 20% annually. But, we want to scale it up to the next level, we need to expand these capabilities. So there are 2 levels at which this R&D will benefit. One is in terms of bandwidth. The number of fume covers, which really defines the number of projects that you can handle, is going up by a factor of 5 from the current level. So our ability will be to handle multiple projects at a time, so that we can bring on many projects online in a given year. That is the one big benefit.

And the other thing is that on the qualitative front, the new capabilities that we're building in would be to bring in new chemistries that we can practice, for example, fluorine chemistry. Anybody who is following the LifeSciences industry will know that fluorine chemistry is very core to the development of new molecules. So, we will be building in a development capability of that in the R&D center. There is flow chemistry that involves the continuous flow chemistries, the ability to do things in micro reactors and so on and so forth. There will be high-pressure reactor systems, there will be hydrogenation systems, and there will be all the cutting-edge new chemistries, which are out there, we will have labs that have the ability to develop that. So, we'll have teams that will be developing these new chemistries. So essentially, in the contract-manufacturing sector, you need to be able to offer these skill sets to your customers and this is exactly what this R&D center will bring to the table for us.

Sajal Kapoor: My second question is also related. So in the last AGM, so you answered a question that was around the pharma intermediates and you mentioned that we are interested in non-GMP intermediates for obvious reasons that the compliance and the infrastructure costs are less, and there is a huge opportunity in non-GMP pharma intermediates as well. Traditionally, when we went for the IPO and even afterwards, so I am referring to 2013 annual report, we used to report a segment called Pharma Chemicals, which was about 15% to 20% of our overall sales around the IPO time. Now it seems that we have stopped doing the separate line item for Pharma Chemicals. Given what you said on the AGM, that, there is an intention to move and increase our focus on non-GMP pharma chemicals and intermediates, would you be able to share some details on it? Also, if possible, should we not have a separate presentation on Astec Lifesciences, given that we are now a 2,000 crore company, and so rather than just doing a 1 pager on as part of Godrej Agrovet, we should have a more detailed presentation on Astec Lifesciences. Thank you.

Ashok Hiremath: Yes. I will answer the question about the pharma intermediates. Well, pharma intermediates still constitutes, maybe, in the range of 5% of our sales. It's become relatively minor at the moment simply because our agro sales have gone up significantly. And the pharma sales have become a smaller percentage, not for lack of opportunity. Again, it comes down to this bandwidth issue, which we talked about, our ability to develop so many molecules. There are many opportunities out there. We have, indeed, products in the pipeline for the Pharma segment, but we have not been able to bring them on the line because of the bandwidth constraints. So we definitely have it in our strategy plan, and we will take it up as soon as we are able to get this new R&D setup in place. But I will just add one more thing to this R&D piece that we spoke about is that the whole R&D piece is to do not only with what you develop in the lab, but how you have the scale-up team and the technology transfer team. So working on the entire chain of bandwidth capabilities, which is to develop things, to take it on pilot plant, scale it up and take it on a plant scale. So we are building that entire infrastructure over the next couple of years.

Sajal Kapoor: On the presentation or maybe a separate concall for Astec because now we are a decent-sized business, right, so about 2,000 crore-market cap. Maybe we need to add a bit more detail on the presentations, if not a separate concall. And what are your thoughts around this, please?

Ashok Hiremath: Well, we will take your views on board and we will discuss it internally. We will certainly take some action on it.

Nadir Godrej: I would like to add that this R&D center would also provide some benefits to our Crop Protection business in Godrej Agrovet.

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

Ankur Periwal: My first question is on the Animal Feed business. While as you rightly mentioned in the opening remarks, because of the shutdown, there is a volume decline year-on-year. However, on the margins front, there is a fair bit of jump. So just wanted to understand, one, is this purely because of the one-quarter raw material benefit coming in? Or there is something structural going on here? Because you did mention earlier of the R&D led initiative to improve the realization and the operating margins in the Animal Feed business.

Balram Singh Yadav: Okay. So I just need to tell you that all animal protein markets have contracted. The broiler market is at about 55%-60% of January levels. The egg market is close to about 80%. Milk is going through a very tough time with all cooperatives piling on S&P and butter because of surpluses and total collapse of demand in the HoReCa segment. Cattle feed is also under pressure because the working capital cycle of farmers and dairy is under tremendous pressure too. Having said that, this is not a year of probably a very big volume growth. We might at best get to the last year numbers, but there is a big growth of market share we are seeing in this contracted market. The second thing is that the profitability definitely came in this quarter, particularly because of raw material prices. But it was expected that some of our R&D benefits will start kicking in March and April, which have been postponed. We have been able to commission our facilities in July and some of it is getting commissioned in August. And this quarter, you will see some benefit of R&D coming through in the Animal Feed and the Godrej Tyson Foods business because they are also user of feed for their integrated operations. And in next quarter, you will see full-blown benefits coming into the Animal Feed business.

Ankur Periwal: Sure. Balram sir, just one clarification. When you said next quarter, this is Q3 onwards, or we are referring Q2 onwards?

Balram Singh Yadav: In July, the plants have commissioned. And we are reaching almost capacity now whatever was envisaged in the first week of August. So you will see these benefits in this quarter, Q2. And Q3, all the benefits will come.

Ankur Periwal: Sure. That's helpful. Sir, second question, since you touched upon the Godrej Tyson, the R&D led benefits there. Just your thoughts on the current chicken prices because we have turnaround this quarter, but just trying to get your sense over the upcoming three or more quarters.

Balram Singh Yadav: So the chicken prices will be benign. Actually, this is the shravan quarter and with all the festivals coming in the consumption goes down. But because of shortages, I don't think that the market will collapse. Prices will stay at remunerative level. However, the big story for this year will be our Yummiez sales because of in-home consumption grew very rapidly. Out-of-home consumption suffered. Yummiez sale doubled in the first quarter, and we believe that we will register a very big quantum growth in Yummiez. I am very glad to say that we have also registered big growth in our market shares. Yummiez veg market share from 6.5% has gone to close to 10% and from 22%-23% in non-veg segment it is close to 30%. These are not my numbers. There are Nielsen numbers, who track various market shares in modern retail. So, Godrej Tyson, I think, it is on a good footing. And of course, it has got benefited from lower raw material prices because cost of chicken, which was close to Rs. 80/kg, 3-4 months ago, is down to almost Rs. 69 - Rs. 70 per kg, primarily because of fall in RM prices. Corn from Rs. 24 per kg in January is about Rs. 14 – Rs. 15/kg. Soya bean, which was ex Indore about Rs. 31,000 – Rs. 32,000/MT in January is down to Rs. 28,000 – Rs. 28,500/MT, and with very good rains, we don't see any inflation in raw material prices happening in the near future.

Ankur Periwal: Okay. That is helpful. On the Palm Oil business, Mr. Godrej did mention a slightly lower yield this time while the peak season is starting now. So your comments there for the full year perspective?

Balram Singh Yadav: Yes. So my sense is that the way it has rained in the palm belt, it is a year similar to a year when we have timely rains, particularly June and to July and if the rains are good, we see an extension of the season into October-November also. So even though the volumes are less now, my sense is that we will catch up in the latter part of the season. So arrivals are as per our expectations now, and second half of July is start of the season, and the pickup is as expected. OER, which is low initially in the season because of heat etc. is also rapidly improving. So one of the things which I need to tell you is that in these numbers, of course, low OER and low arrival is also there. However, the big factor is that the for the oil year, which was November '19 to October '20, the Andhra Pradesh government has still not announced the formula. And based on the expectations, we are carrying some provision because we believe that formula may or may not be revised upwards. So it is from prudence point of view, we are carrying a little bit of provision in the accounts, should the formula undergo some change.

Ankur Periwal: Sure. So till that time, we don't have clarity on the formula, the same older formula remains?

Balram Singh Yadav: No. We are doing as per the new expected formula. We have some expectations because this is a very involved process. State government, farmers and processors sit together and evolve a consensus on that. But unfortunately, the government has still not declared because all parties concerned have certain issues with the formula. So my sense is that the formula should be announced any time in August. And we are going with what is the new expectation. So we are carrying some provisions because of that.

Moderator: Thank you. We take the next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: First, just on the Oil Palm business itself, is it possible to quantify the provision amount we've taken? And is there likelihood of a reversal of this provision going forward?

Balram Singh Yadav: So this is a very unique year where the formula has not been declared. Normally, by February- March, the formula is already in place. So quantum is, we are providing is about 0.6% or 0.7% of oil cost. So initially, the provisions were not very high. But, as we go along, if the formula is not declared, the provisions will be substantial. And my sense is that it is any time now that formula should come. I think several issues have been resolved.

Abhijit Akella: Okay. And on a full year basis, though, can we expect the Oil Palm segment's margins to improve versus last year when we had the pricing issues?

Balram Singh Yadav: The price is very high right now. Price of CPO is Rs. 70,000, which is one good thing. The second good thing is that CPKO, which, for the last 6 to 8 quarters, have been not at the same old level, CPKO used to 1.5 to 1.6x CPO prices, and it was a big variable for our profitability. That actually tanked for about last 2 years. That is also showing some life and it is touching Rs. 80,000 a tonne. OER is also improving. So even though we provide as per the new formula expectation, I'm very sure that the profitability will keep on improving as we go along the season.

Abhijit Akella: Okay. That's great to hear, sir. On the Animal Feed business, 6.4% margins this quarter, despite the pressure on volume growth, can we expect that this benign input cost environment will lead to continued margin improvement for the remaining 3 quarters?

Balram Singh Yadav: So look, I will tell you that raw material, ultimately if it moves sideways, it does not help anybody in a business that is commoditized. So I don't think that this raw material benefit will continue for a long time. Probably, I think there is no asymmetry of information. However, what will drive our margins post, say, September will, all the benefits of R&D, when they start kicking in.

Abhijit Akella: Right. And on the Crop Protection business, if you could just talk about your outlook for the rest of the year now. We have had an early monsoon, but Godrej Agrovet seems to have gone a little bit slow compared to the rest of the industry in terms of pushing sales in this quarter.

Balram Singh Yadav: Yes. I am saying that in case you were present in our earlier concalls, we had taken a very conscious decision last year because we were having a lot of outstanding working capital and was continuously growing. We had a working capital of close to almost 250 to 260 days. And we said that we will go thin on inventory and we will recover lots of money. And unfortunately, we were well ahead of what we had planned to do in Q4 of last year, but unfortunately, COVID struck. Now if you really ask me, profitability is low only because of one reason. We lost almost 20-25 days of production in our Jammu factory, where we make all our products, which are high-margin products like Hitweed Maxx, growth regulators and Hitweed etc. Then during May also, we lost about 15 days of production because of some COVID scare. And that time, the protocols set by the government were not very clear. So unfortunately, even though there were no COVID cases in the factory, but on suspicion, they closed our factory. So we lost Hitweed Maxx production just before the start of season. And

I must tell you on the lighter side that this is was the first time I was expecting monsoon to be delayed because we could catch up in our production. But unfortunately, that is on time. Everything happened on time. So we lost some of the Hitweed Maxx sale, which is a very profitable product for us. Of course, we are catching up now with some other products, but the focus continues to be in recovery, the focus continues to be lean on inventory. And I'm sure that once the season is over and when we meet in 3 months' time, we will show you good results in our hygiene improvements, while maintaining profitability at decent level.

Nadir Godrej: Balram, will there be any Hitweed sales in July?

Balram Singh Yadav: Yes, sir, Hitweed Maxx precedes Hitweed, sir. So Hitweed Maxx, up to 15th of July, whatever we could sell, we have sold, which is almost 90%-95% of the stocks in the market. Now Hitweed liquidation is going on and 90% season is over, a little bit remaining in the southern part of India, particularly Tamil Nadu, I think that season will also get over by 10-12th of August, but liquidation has been very good.

Nadir Godrej: So some of the losses in the first quarter will be made up in the second quarter.

Balram Singh Yadav: And I think that we will make up with product mix also, sir.

Abhijit Akella: Okay. Great. And sir, last question from my side is on your outlook for the dairy and the poultry businesses, the Tyson business, I mean. In terms of margins, how do you see both of these businesses trending?

Balram Singh Yadav: Well, I think most of our effort in Tyson business is on Yummiez because in case it becomes a reasonably big brand, it is scalable, sustainable and profitable also. Then we have set up our Ludhiana unit. A year ago, we commissioned that unit. So I'm saying that results of that are now to be seen, held by, of course huge improvement in in-house consumption because of COVID. We are doing a lot of intelligent marketing through digital platforms etc. and the home delivery platforms are delivering our products. So we believe that Yummiez will be the driver of future growth and profitability of this segment. As far as RGC and the live bird business is concerned, that definitely will benefit from lower raw material prices and higher output prices.

But if you really ask me, in RGC the big thing which has happened is our associations with direct home delivery platforms. These platforms have become some of our big customers. So I think the way we see the future, we believe some of the things, which are happening in COVID are not easily reversible. And one of the things is delivery of these products direct-to-home, and we will be a big supplier to these platforms in both the cities we operate.

Nadir Godrej: I would like to add that while we have benefited from lockdowns in this business, we've also had a huge amount of sampling, which will help us after lockdowns go away.

Abhijit Akella: I did have a question on the dairy margins also, sir. But just before you address that, is it possible to just give us a split of the Tyson revenues between Yummiez, RGC and the Live Bird business?

Balram Singh Yadav: We'll note this down. Chhavi, please note this down and we can send it offline.

Abhijit Akella: Perfect. And just on the dairy business, so the last thing.

Balram Singh Yadav: So the dairy business let me just tell you the sequence of things. Several of my friends would be very interested because a year ago, we said that our big problem is that we keep on generating butter where we have to take a hit because we buy butter expensive and sell it cheap. Unfortunately, whatever efforts for correction of our business model from the input side that is bringing down Buffalo milk and increasing cow milk, and from the output side, getting into products which could require a lot of butter (like Mithai, Mysore Pak, Doodh Peda as well as branded ghee), all that effort took a very big hit in last 3-4 months. We had no surplus milk in January, but we started generating huge surpluses from March, which we had to convert into butter. So current profitability also carries about 7 - 7.5 crore of provisions for butter. Should the prices of butter increase, this will be reversed.

Several product launches have been extremely successful. We have been able to launch Mysore Pak, which is very successful. In Mithai also we are seeing that people are shifting towards packed products. So Doodh Peda, which used to be a tonne a day at one time, is now close to about two tonne a day for last almost 2-3 months, continuously. And we are expanding that capacity. Mysore Pak, we launched about a week ago. Apart from that, some value-added products like high-protein milk etc. also have been a hit. The only big thing which we are waiting to happen in dairy is opening of the HoReCa. Once the markets open, once the tea and coffee shops open, I am very sure that milk consumption will go up. That is point number one. Milk prices will also go up at both ends, and we will be able to substantially improve margins of milk business this year. The only thing is that when this opens will also determine when our sale of value-added products will go up and that is a big driver of profitability this year.

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

Sumant Kumar: My question is regarding Astec. So can you quantify the CRAMs growth or the triazole chemistry, how the performance was in domestic as well as export markets?

Ashok Hiremath: CRAMS growth has been 20% a year, in line with our overall growth. Obviously, our strategy is to make this a larger proportion. Currently, it constitutes 20% of our business. Our aim is to make CRAMS a much larger proportion and eventually 50% of CRAMS and 50% of what we call enterprise sales. As far as the triazole fungicides are concerned, they are performing extremely well. We have increased capacity in our key triazole fungicides very significantly last year, and coupled with better realizations on the finished products, cost optimization on imports, our margins have really improved. The domestic season has been very good for us. The season has started early, and we've seen good demand for our products. We were also able to restart our plants after the COVID shutdown. We were able to start on 10th of April. But because of the restrictions, it took us about a month to completely scale up our production and bring it to the full capacity utilization. But in spite of that, there was very strong demand for our triazole fungicide. That has done well. Even the export market looks quite good.

Climatically, we are seeing that things are good in Europe and things are good in North America. We are waiting and watching in South America, Brazil, we're seeing demand, but we're waiting to see the full impact of it. But nevertheless, since we are so geographically spread in terms of our triazole fungicide sales, we don't see any difficulty selling all the production we're going to have.

Sumant Kumar: Okay. So can you talk about how the growth of 45%, particularly through triazole chemistry is and how is the volume and realization growth?

Ashok Hiremath: On the triazole chemistry?

Sumant Kumar: Yes.

Ashok Hiremath: Well, I mean, for example, the first quarter, our volume growth was 20%, but our value growth was 45%. This was not only on triazole. We had contract manufacturing products and so on and so forth. So we sold more expensive products. So I don't have the exact breakup on the triazole segment by itself, what was the difference between the volume growth and the value growth. But I'm just telling you, for the first quarter, this was the difference between volume and value growth. So that was the blended average of all our products put together.

Sumant Kumar: You said that 20% is CRAMS, right?

Ashok Hiremath: 20% is CRAMS, yes.

Sumant Kumar: Yes. So what was the growth we have, 45%, so majorly driven by triazole or some contribution from CRAMS also?

Ashok Hiremath: CRAMS also. We had some CRAMS products in Q1.

Sumant Kumar: So higher weightage of triazole or CRAMS of growth of 45%?

Ashok Hiremath: A bit of both. It was a little bit of everything that contributed to our good performance in the first quarter. More sales of triazoles, better realization, some CRAMS products.

Sumant Kumar: So the overall 80% of the business, can we say that has grown 30%-, 40%?

Ashok Hiremath: No. Actually, that's also grown 20% and CRAMS has grown 20%, which is why really the proportion of CRAMS is remaining at 20%. So both are growing at the rate of 20% per annum.

Sumant Kumar: You're talking about 20% volume growth?

Ashok Hiremath: The value growth because it's not accurate to put it in volume growth because, for example, the new products were bringing out a very high value. So they would add low volume, but they'll have much higher value. So for this year, we are putting out an additional 2 new products. We did last year 2 products. This year, we are putting out new products. The value of those is much higher than the value of our non-CRAMS products. So you cannot equate volume growth with value growth.

Sumant Kumar: So can we say that 20% business has a higher value growth, say it is almost double. Can we say that?

Ashok Hiremath: Yes, the average pricing is yes, I would say...

Sumant Kumar: No. I'm not talking about average pricing, I'm talking about 20% business has almost doubled.

S. Varadaraj: So this is Varadaraj. So as Mr. Hiremath mentioned, overall, our growth has been 45%. Obviously, there are several cuts to it. And when we talked about CRAMS, when we talk about enterprise, domestic and exports. So those cuts, maybe what we could do is we could share that offline with you if that is fine. We separately share it with you in terms of how those cuts look like.

Sumant Kumar: Okay. And talking about the Palm Oil, the average realization, I'm talking about including Palm Kernel and Palm Oil, FY '20 was 60,000- 61,000 per tonne. And June quarter, currently, 70,000 the blended realization?

Balram Singh Yadav: You are talking about first quarter.

Sumant Kumar: Yes, I'm talking about first quarter.

Balram Singh Yadav: First quarter will be 64,000 - 65,000, if I'm not very off.

S. Varadaraj: Yes. 64,000.

Sumant Kumar: Yes. So from here, we are expecting the firmness in the price or increase in price?

Balram Singh Yadav: I think nobody can predict the price. I told you with the price, which is there currently, I don't know what is going to happen in 2-3 weeks or towards the end of the season, but we are hopeful that the prices will be better than last year.

Sumant Kumar: Okay. What is going to happen incrementally, it is going to be positive only. From here, whatever the outside. Home demand is sustainable and outside home, it is going to increase only at this level. So can we expect some increase in the Palm Oil prices?

Balram Singh Yadav: Yes.

Moderator: Thank you. We take the next question from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda: Could you give us the quarter number in the FFB arrival and the CPO, that is crushed, if you could give us that number for Q1 '21 and in the base quarter?

Balram Singh Yadav: Varadaraj, can we give Q1 last year, Q1 this year numbers?

S. Varadaraj: Sure. So this year, we processed around 126,000 MT of FFB, (fresh fruit bunches). This same number was around 140,000 in Q1 last year. So that's almost a 10% degrowth, which you are seeing in the FFB arrival during the first quarter of the current year.

Madhav Marda: And what was the CPO that we crushed? Just to get the yield number?

S. Varadaraj: So CPO, so if you want the yield number, I'll straight away give it, I think it was around 16%.

Madhav Marda: For Q1?

S. Varadaraj: Yes.

Madhav Marda: And what was it in the base quarter?

S. Varadaraj: It was around 17%.

Madhav Marda: And sir, just your outlook for the Palm Oil business, I think you have answered this earlier, but I have not been very clear. We have had anywhere between 17-20% EBIT

Margins in the segment in the past. For this year, can we expect a similar number or it would be a bit impacted because of the low volume?

S. Varadaraj: So honestly, there are multiple factors, which are affecting this number. So I refrain from giving a guidance on this because, one is the price of CPO, second is the formula which we talked about some time back, and the third is the oil extraction ratio. So all these things are going to impact it. Therefore, it is very difficult right now to share with a reasonable settlement as to what the margin percentage of this.

Madhav Marda: Got it. And just last question, the Godrej Tyson business, what should we think is like a stable annualized margin for the business, like just the potential margin. It has been a bit volatile in the last few quarters?

Balram Singh Yadav: So if you see, actually, this is a seasonal and a cyclical business. As our branded business grows, I feel that 5%-6% PAT is something which is steady state possible in this business.

Madhav Marda: 5%-6%, PAT. How much would that be into EBITDA level, sir? If you could just give us that also.

Balram Singh Yadav: EBITDA level would be 11-12%?

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

Aniruddha Joshi: Sir, in earlier interactions, you had indicated that HoReCa accounts were around 30% consumption of company's products, be it palm oil or milk or even chicken. So do you see any change? And HoReCa is getting impacted, so the consumption of these products will also be on the lower side in FY '21. So do you see any improvement in that? Is there any situation-changing, do you see month-on-month sharp improvement in this? How do you see the situation panning out?

Balram Singh Yadav: So let me just tell you what percentage of the industry in different animal protein is HoReCa or institutional sales, not necessarily our sales. So 30% of milk is institutional sale. About 45%-50% of chicken is institutional sale. About 15% to 20% egg is also institutional sale, where mid-day meals scheme is the biggest part of that sale, which is now off because kids are not going to school. So this is about these 3 segments.

Our 20% to 25% of sale in milk was institutional sale, which is close to 4%-5% now and rising slowly because as certain areas, not particularly the cities in Southern India, but outside cities, which are opening up, so some consumption has started happening. There is a good sign there. In chicken, the good sign is that a lot of home delivery has started happening in the cities. So this hotels and restaurants have started operating at 15%, 20%, 25% level. And most of the QSRs, which are the multinational fast food restaurants have also come back to 25%, 30% of their capacity utilization, I would say. So there is some improvement, which we see there. So my sense is that depending on the COVID situation, situation is only going to improve from here. And I must tell you, in case it improves gradually it will be fine, but in case it improves rapidly, you will see a surge in prices of all animal proteins in next few weeks.

Aniruddha Joshi: Okay. Sir, if it is possible, can you indicate what were the institutional sales probably in July, on a Y-o-Y basis, are they flat? Or are they at 50% utilization?

Balram Singh Yadav: No, milk would be about, as compared to January at about 15%-20% levels. Chicken used to be 45%-50% of our sales was institutional, IT will be at about 10%-15%

Levels. So things are very slow. And I must also tell you that this quarter will be dotted with stop start, stop start, stop start. So the issue is that one week is good, one week is bad because suddenly, things don't get sold because some lockdown is announced. And one of the big problems, which is happening right now in several cities is that they have a complete lockdown on Saturday, Sunday, which are big consumption days of animal protein.

Aniruddha Joshi: Sir, one question, palm oil prices have remained firm. Globally, palm oil consumption should logically get impacted because of corona also. So do you see possibility of correction in palm oil price also because palm oil consumption is also impacted? So logically, there should not be so much firmness. I agree, there's some connection with crude oil and increasing crude oil prices may have some impact on crude palm oil. But do you see that crude palm oil prices remaining so strong?

Balram Singh Yadav: Mr. Godrej is the right person to answer because he understands global situation of not just palm oil, but other oils also.

Nadir Godrej: Right. China is a big consumer, and Chinese consumption is quite high, and Indian consumption has fallen somewhat. But overall, the consumption levels are high, plus the Malaysian government is very actively supporting the palm oil prices because the government is very weak and there may be an election at any time soon. And small old palm oil producers are major share of the voters in Malaysia.

Aniruddha Joshi: So probably not just pure demand, but some other reasons are also contributing to holding of the price?

Nadir Godrej: Yes. The supply has been affected because of labor problems because of COVID.

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

Hemant Patel: I have two particular questions on the Feed business. One, sometime back, I think Balram, you had mentioned about following an aggressive pricing strategy in the Feed business to gain market share and gain volumes, which has played out quite well. Just trying to understand where are we on that particular strategy at this particular moment? I guess that was mainly towards Animal Feeds- cattle feeds.

Balram Singh Yadav: Yes. So we grew very rapidly in those 3 years when we practiced that. And definitely, we would have continued with that momentum. Unfortunately because of COVID, the market has really shrunk. But when we come out of COVID, you will see our market share in all segments of Feed would have gone up this year because we know what has happened to competition, particularly the unorganized one. That's point #1. Point #2, margin expansion is the next important agenda. It is delayed by a quarter or two, but you will see that rolling out in the coming quarters.

Hemant Patel: Okay. And in terms of pricing, are we at a par with some of the organized players?

Balram Singh Yadav: So we are not at par. I would say that every market for us is different. Somewhere, we compete with the organized player. Some pockets, we compete with unorganized player. So we maintain a particular level of premium over these people. At one time, it used to be very high, almost 4%-5%, which made us uncompetitive. But, most of the places now that premium is between 1% to 2% and that is our benchmark, which we use to compete and that premium we will continue.

Hemant Patel: And another question on feeds is you did allude on the fact that you're spending or we've had a lot of R&D initiatives going into improving the product that we are giving to our customers. I just wanted to understand, would this improve or sharpen our ability to give more value by way of better yield for a farmer? Or is it just purely from a cost perspective where the cost of production will come down and we will get better margins?

Balram Singh Yadav: It is 80-20. 80% of it is right now aimed at giving the same quality at a lower cost and we share the benefit. We become more competitive in the market. And now we have started retaining it, and you will see that happen probably in Q3 in full and partly in Q2. About 10%- 20% effort is now also there to launch high-value products because one of the things, which we are also seeing, is that we saw evolution of our dairy industry in a very small way that these 100-200 animal farms have started coming and these farms have exotic genetics. Therefore, they have animals, which gives 25 to 30 liters of milk, whereas normal average is 10 to 15 liters. So their nutrition requirement is totally different. In addition, I think we have opened certain segments in our feed business to cater to these high-yielding animals and their offspring. So there'll be some effort in future to build this small segment, which may be high-value, high margin product, which delivers excellent quality to very high-yielding animals.

Hemant Patel: Okay. And this advantage that we're building through R&D, in your opinion, how long do you think is sustainable?

Balram Singh Yadav: So the issue is that, one thing which we have seen is, we started this journey about a decade ago. We have been doing this, and competition take 3, 5, 6, 7 years, depending on complexity to catch up. And we just have to keep on moving in. With that view in mind, we set up this 30 - 40 crore R&D center in Nashik. If you get an opportunity to visit it, once all this subsides, you must visit that. So we have a poultry farm there, which is a very sophisticated research poultry farm. We have a 100-animal cattle farm there. It is a big establishment spreading over now 16-17 acres. So issue is that we are always working on technologies for future. But yes, definitely, I think there is no limit to science, and we need to continue because in due course, people do catch up and learn.

Moderator: Thank you. We take the next question from the line of Pratik Rangnekar from Crédit Suisse. Please go ahead.

Pratik Rangnekar: I have just one on the poultry business. You mentioned about direct-to-home. How much of a distribution benefit will this provide in terms of network reach? And do you see this developing as a long-term channel, alternate channel for you? And if you could just throw some light on how much this has contributed in this quarter?

Balram Singh Yadav: So the plants were closed for a better part of April. I am not talking about Yummiez plants, but I am talking about chicken processing plants. This was not because there were no permissions etc. I must tell you that because most of our businesses are essential commodities, we have permissions very quickly. I am very glad to say that our people went beyond the call of the duty to start almost 55 out of 62 plants we have of different products in different regions, by 10th of April. Therefore, it is extremely well done.

Second thing is that we focus mostly in Yummiez because it is a product, which is frozen product and it can be stored for a longer time. Even though we would have run our chicken processing plants, the distribution of chicken in the cities were very difficult because of lockdown, nobody was stepping out. When the plant started, May and June- in last few months, we have seen almost 20% to 25% of our reduced production, which is 40%-50% of the normal level. 100% of that is going to retain in quarter 1. And of that, about 25% to 30% went to these home delivery platforms.

Moderator: Thank you. We take the next question from the line of Aakash Manghani from BOI AXA. Please go ahead.

Aakash Manghani: This question is for the Astec management. You mentioned earlier on the call that the R&D CAPEX that Astec could undertake would be a game changer. And you mentioned about a few new chemistries that you would be entering. Could you talk about what visibility would you be having on the financials to look 3 to 5 years out? How could this transform the P&L, the balance sheet for Astec, some broad numbers you could share. So if you are a 500 crore in revenue as of FY '20, if you were to look 3 to 5 years, in terms of revenues, profitability, return on capital, what would be the aspiration, I mean, with this massive CAPEX that are going to gain? That would be the first question.

Ashok Hiremath: Well, if overall growth is at 20% per annum, that is doubling our sales every 3.5 years, but I'll put it in a slightly different way in terms of our aspiration. The PI Industry contract manufacturing business is maybe in the range of $300 million to $400 million, right? And ours is significantly lower than that. We believe that once we have the capabilities, there is this trend of the big multinationals de-risking not only from China but also de-risking from the people who already have a lot of the business in India. So I think a lot of that will come over here. Now it's for us to really take that business, to be prepared for it. And that's what this new R&D center will do. Now for me to give a number that is very forward looking, I would not like to do that. But this is the kind of size of pie that we're looking at and this is the kind of opportunity size.

Aakash Manghani: Okay. Perfect. Second question is I noticed your EBITDA margins have increased a fair bit over the last 2 quarters. So could you talk about are there any one-offs? Or are there any some structural changes you have made in terms of cost reduction, which would elevate the margins structurally? I mean, last FY '19, FY '20, so in the range of 19%, 20% on the EBITDA, and they're significantly higher. So will you talk about that?

Ashok Hiremath: Some of our products, of course, we had some contract manufacturing products, which had a high margin during this period. Some of our triazoles also had better realizations because China was shutdown because of COVID during that time and the demand sustained in Q1 as well. And we had actually taken a very good position in terms of our raw material planning and everything. And therefore, we were able to sustain our production when other people were shut. So there's a combination of these factors, which gave us a higher EBITDA. But having said that, it was not a one-off kick. We believe that we can still maintain a 20-plus percent EBITDA going forward.

Aakash Manghani: So something between 20%-25% would be a fair number to work with over the next couple of years.

Ashok Hiremath: That is something that we're looking to do.

Aakash Manghani: Okay. And lastly, your net working capital cycle has reduced significantly, right, FY '20 versus the last 4-5 years, and the cash generation was pretty good in FY '20. So are there any structural changes we have done to the business model, which will enable you to operate at a much lower working capital cycle? Or it will revert to the average number over the last few years?

Ashok Hiremath: No. We've changed our methodology of working. When we do our export sales, we go in for a nonrecourse factoring. So, when we do nonrecourse factoring, the cost to us comes at about 4%. Our normal borrowing rate was 6.5%, now it's 5.7% so it's cheaper, and it also reduces the amount of debt in our books. And when we get extended credit on our supplier side, that also comes in at about 4%- 4.5% per annum, which is lower than the cost of our own internal borrowings. So then, we get extended credit from our suppliers and we factor our receivables. So this methodology of managing our working capital has worked well for us. So which is why you'll see our debt has come down to 98 crore as of last year and 82 crore at the end of quarter 1. And you will see that our net interest cost is hardly 2% of our sales.

Aakash Manghani: Okay. So that's a sustainable number, the one that is FY '20 working.

Ashok Hiremath: Well, I mean this method of working is sustainable, yes.

Moderator: Thank you. We take the last question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Yes, sir, my question is on Astec, just a follow-up from the participant earlier. So we have in the annual report, talked about the herbicide CAPEX of about INR 100 crore. And the 2 CRAMS product where the commercialization or ramp-up has started. So just wanted to understand over a 3-year period based on the CAPEX or the infrastructure that we have today, what kind of revenue is possible. Other way what is peak revenue possible out of the infrastructure considering this herbicide CAPEX?

Ashok Hiremath: Yes. Our asset turnover ratio is about 1.5 to 1.7. So that's the incremental revenue that we will get from additional assets that we create. But that's a rough number. It's very hard to say this particular investment is giving so much. But as we go forward and we make capital expenditures, you will see that our asset turnover ratio will be in that range.

Pritesh Chheda: This is despite the CRAMS improving in your mix because initial remarks, you mentioned that aspirational, you want to be 50% CRAMS and 50% enterprise.

Ashok Hiremath: Yes.

Pritesh Chheda: Despite that, the asset turnover will be what you're indicating at?

Ashok Hiremath: Yes, I think that's about average for the industry. I mean it might come down to about 1.5, but that's about what it is for the industry in general, and we will be in line with that.

Pritesh Chheda: And the margin mix that we see today, so initially you mentioned that there was no substantial mix change in the last 2 quarters that went by, which is quarter 4 and quarter 1, where we saw plus 20% margin. And you said that all the parts of the business grew, so whether it is CRAMS or enterprise business, both grew at a similar run rate. Is that the observation correct? Or my hearing of your observation is that the way?

Ashok Hiremath: No. CRAMS business is not uniformly distributed throughout the year. So for example, some of our CRAMS business is back-ended into Q4. So therefore, if you look at it on an annualized basis, it is the same. But sometimes, we manufacture in Q2, Q3 but then we sell it in Q4. So therefore, the mix is more CRAMS oriented in Q4. And in this particular year, Q1 as well.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Nadir Godrej: Thank you. I hope we were 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. Thanks once again for taking the time to join us on this call.

Moderator: Thank you. On behalf of Godrej Agrovet Limited, we conclude today's conference. Thank you for joining. You may now disconnect your lines.