



Godrej Agrovet Limited

Q3 and 9M FY'21 Earnings Conference Call

February 05, 2021

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 now hand the conference over to Mr. Devrishi Singh from CDR India. Thank you, and over to you, sir.

Devrishi Singh: Thank you. Good afternoon, everyone. Welcome to the Godrej Agrovet Q3 and 9M 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.

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 question-and-answer session.

Before we start, I would like to point out that some statements made in today's call may be forward-looking and a disclaimer to this effect 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 you and your families are in good health and are staying safe.

With a sharp decline in COVID-19 cases in India, the economy is recovering at a faster than expected pace. Economic indicators have been strong over the last 3 months and GDP growth rate is expected to be in positive territory from quarter 4 of fiscal year '21 onwards. The agricultural sector has grown ahead of the economy in the first 9 months, and near-term prospects are also promising with higher free production, higher Rabi soil and favorable commodity prices.

Further, measures announced by the government in the recent budget are positive for the agricultural sector in the near to long term. Overall allocation for the sector under various schemes has increased by around 6% for the next year. The budget primarily focused on increasing farmers' income and their access to credit, which also augers well for the company in the agricultural sector. In addition, the increase in customs duty on shrimp feed and increase in customs duty plus taxes on crude palm oil will help in increasing domestic production and is beneficial for Indian

companies. However, the rate of recovery remains slower in the feed sector, demand from the HoReCa segment is still subdued and alcohol consumption is much lower. But we believe that with the opening of the economy, demand should increase in the near term.

Moving to the financial and operational performance:

The key highlights and developments for the third quarter and the 9 months ended December 2020 are as follows. We had another quarter of good performance. Our consolidated profit before tax during quarter 3 fiscal year '21 increased to 87 crore, representing a growth of 28.4% year-on-year. This was despite a 14.3% decline in the consolidated total income. Similarly, for the first 9 months, our profit before tax increased by 39.8% to 367 crore, despite a 10.2% decline in consolidated total income. Please note, that the third quarter and 9 months of the current year's total income and profit before tax exclude nonrecurring profit of 2.8 crore earned on sale of land. Also, for 9 months, total income excludes 9.6 crore, and profit before tax excludes 4.8 crore of nonrecurring income earned from the sale of a real estate project.

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

In Animal Feed, the segment results grew by 9.1% during the current quarter and by 11.2% in the first 9 months. However, lower demand for the end protein basket i.e. milk, chicken and eggs continue to impact volumes for cattle, broiler, and layer feed. As a result, volumes declined by 16.5% each in quarter 3 fiscal year '21 and in the 9 months fiscal year '21 and sales were lower by 23% and 19%, respectively. Though the pickup in feed volumes in quarter 3 has been lower than earlier expectations, in the coming months, we expect a faster uptick in the demand from the HoReCa segment as restrictions in these sectors have started easing.

In the vegetable oil segment, the current quarter was adversely impacted by a white-fly attack leading to lower fresh fruit bunch arrivals and lower oil content in the fruit. Therefore, segment revenue and segment results were lower by 16.6% and 30%, respectively. For the 9 months fiscal year '21, while revenue grew by 5.2% driven by an increase in crude palm oil prices, segment results declined by 7.8%.

In the crop protection stand-alone business, increase in volumes led to revenue and segment result growth of 13.4% and 23.2%, respectively, during the quarter. Further, collections were 572 crore in the first 9 months compared to 454 crore in the same period in the previous year, which is an increase of 26%. However, with the supply chain disruptions and low application opportunities in the first half of the year, sales and profitability of the 9 months have been adversely impacted.

Moving to the performance of our subsidiaries

In Astec LifeSciences in the current quarter total income and EBITDA declined due to deferment of a few orders and decline in the price of one of the key products. However, on a 9-month basis, total income grew at a healthy rate of 12% and EBITDA grew by 62%. This growth is driven by higher volumes, realizations of key products. Geographically, revenue growth in the 9-month period is driven by the domestic business. However, exports have also been higher than the previous year.

In our poultry subsidiary Godrej Tyson Foods Limited, while sales were marginally lower this quarter than the previous year, profitability was strong as the company reported EBITDA of 10.6 crore compared to an EBITDA loss of 9.2 crore last year. For 9 months, the revenue grew by 15.5%, and EBITDA was 41.1 crore compared to an EBITDA loss of 14.1 crore in the previous year. Both Live Bird and Yummiez

segments recorded strong growth in profits and benefited from low raw material prices.

In dairy subsidiary Creamline Dairy Products Limited, sales were impacted by low out-of-home consumption and subdued demand from the HoReCa segment. However, the impact in the current quarter is lower than the impact seen in the previous 2 quarters. During the third quarter, revenues declined by 10.1% year-on-year, but low procurement prices and focus on fixed cost control resulted in sharp EBITDA growth. We also relaunched Godrej Jersey Ghee during the quarter. For the 9 months, while sales have declined by 17.3%, EBITDA is up by 15.9%.

GAVL is a joint venture in Bangladesh. ACI Agrovat recorded another quarter of strong performance with revenue growth of 25% and profit before tax growth of 32.3%. Performance was driven by strong volume growth across all these categories that is cattle, poultry, and aqua feed.

That concludes our business and financial performance update for the quarter and the 9 months. With this, I close my opening remarks, we will be now happy to take your questions. Thank you.

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

Prashant Biyani: Sir, the economy is in unlock mode and out-of-home consumption has also increased but our decline in feed volumes is still to the level of, in Q1 of around 16% to 17% when the impact of lockdown was much more severe. So, in current quarter as well this 16% decline in feed volumes, what has led to this? If we can get some more clarity on that?

Balram Yadav: So even though economy has started improving, the contraction of the sector has not eased fully. According to us, chicken is still operating at about 75% to 80%, chicken and egg, milk is operating at about 80% to 85%. In the first month of this quarter, we had seen some improvements in almost all the animal protein sector, but for the bird flu, which hit the egg and the chicken sector again. So, my sense is this is the quarter when the consumption will come down. This is the quarter when profitability and volumes of the animal feed businesses will improve. And you will see that consumption of milk has already started improving and shortages have been registered in several parts of the country and ex-farm milk prices have also increased. So, my sense is that April to June will be the quarter when we will come back to what we were in last January, as far as animal protein industry is concerned.

Prashant Biyani: And sir, on the palm oil side, how much was our volumes for quarter 3, processing volumes, plantation area and recovery rate?

Balram Yadav: I'll just add to what I said. I think for first 6 months-7 months of this calendar year, milk will be short, milk prices at the farm level and with a time lag at retail level will go up. So, my sense is that profitability will be impacted in the first 6 months-7 months of the first quarter, but it will start improving thereafter.

S. Varadaraj: Oil palm volume, we have around 1 lakh tonnes of FFB which we processed, the Fresh Fruit Bunch, which we processed. We sold around 19,000 tonnes in this particular quarter, crude palm oil.

Prashant Biyani: And sir, how much is the plantation area in your sense?

S. Varadaraj: Plantation area would be around 73,000 hectares overall.

Prashant Biyani: Including the Telangana allotment that we got?

Balram Yadav: That will come in future. This is the area which is already planted.

Prashant Biyani: And recovery rate would be how much?

S. Varadaraj: See oil extraction rate would be about 18.7%.

Prashant Biyani: And sir this OER was how much in Q2 and Q3 last year?

S. Varadaraj: In Q3 last year was around 19% and...

Prashant Biyani: In quarter 2?

S. Varadaraj: 17.3% was in Q2.

Moderator: Thank you. The next question is from the line of Nitin Shakhder from Green Capital Single Family Office. Please go ahead.

Nitin Shakhder: My question pertains to Godrej Tyson Foods. What have we seen in terms of last quarter's performance vis-à-vis this quarter's performance- in terms of modern retail home trade and in terms of the movement of chicken and products on the shelf? And can we anticipate a better performance in quarter 4 considering we had a drawdown in quarter 4 of last year Jan-Feb-March onwards on the modern retail home trade? If you could just talk about some points, there. Thank you.

Balram Yadav: So as far as Q3 was concerned, we were very happy because whether it was Yummiez, whether it was RGC or whether it was Live Bird, all of them were doing very well. Profitability-wise also and sales-wise also, because the markets were coming back to normal. Profitability also improved because of low raw material prices. So, cost of production of chicken had gone down. We were expecting a very-very good quarter for all the chicken products. Unfortunately, because of bird flu, there has been a little bit of setback, particularly in the last 20 days of January and now that some improvement has started. We still believe that post 15th of February, the chicken consumption and the prices will rise further, and the prices will become remunerative. Raw material costs are still benign. So, we expect that whatever we have lost in the first few weeks of this quarter will be made up in the last few weeks of this quarter. Having said that, I must tell you that with these kind of disruptions, whether it is bird flu or whether it is any other kind of reason like last year, which was corona, chicken prices go down and they come back with a vengeance. So, our sense is that we are likely to have very good March and the first quarter of next year. Because chicken production, again, has taken a turn downward. So, we believe that in a few weeks, the shortages will hit. Yummiez is doing well. It is not that it is growing at 40%-50%, what we did in the first half of the year, but we are maintaining a steady pace of 15% to 17% growth Q-on-Q in the Yummiez segment.

Nitin Shakhder: Is there any innovation planned in terms of expanding the chainline, while I understand India to be a predominantly a vegetarian or chicken poultry country, but there are certain trends to indicate plant-based meat products or even certain meat products where the consumption is increasing in India. So, is there any line to say that Godrej Tyson might look at certain more meat rather than chicken in the coming year? And if you could just talk about that a little bit?

Balram Yadav: So, Tyson has progressed well in U.S. on this alternate meat. And we are watching, we have the know-how through Tyson's as and when we believe that market is ready

in India, and we keep on doing consumer surveys for that, it would not take us a long time because of our partnership with Tyson to launch products like these.

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

Ankur Periwal: Sir, first question on the palm oil side. Now if I look at the 9-month performance here, while the recovery rates you mentioned, especially for this quarter is largely flattish, what it was last quarter. From the margin side, the performance has not been as great. So, if you could put some light over this year performance? And how should we look at this business going ahead?

Balram Yadav: So, let me tell you that first-time in the history of palm oil in this country, we had this white-fly attack on the plantation. And not just us, but all the other companies also have suffered because this is a problem which will affect the community rather than a few gardens. Unfortunately, when this was noticed, it was also at the starting point of corona lockdown. And the sad part is that in spite of the fact that we knew what the treatments were, it couldn't be controlled because of the lockdown in the first few weeks. And that is why the FFB production for all the players have suffered. And that is primarily the reason why this business has contraction of margins. So not only we had less fruits, initially we even had less oil because this white-fly is a very devastating insect for all crops. Now what has happened in last 3 months-4 months rampant spraying has been done by all players supported by the government. Several other kind of biological treatments have also been embarked upon. And with a very, very good success because we are seeing that as compared to last year, the infestation is at very low level. We will still keep our fingers crossed because this is a fight, which any individual company or farmer cannot fight. It has to be fought by all the companies and all the gardens have to be sprayed regularly to keep this insect away. That is primarily the reason why the OER suffered initially and Fresh Fruit Bunch arrival suffered in this business. If you see, this would have been one of the greatest years for the business because of such high oil prices. But unfortunately, because of this Black Swan event, both in terms of corona and in terms of white-fly attack, we could just barely come to the level of last year results.

Ankur Periwal: So, sir, so this year is largely done. But let's say, FY '22 onwards and where I'm coming from is our earlier commentary wherein, we had highlighted the mechanization as well as the newer machinery which would have helped the company in terms of getting a higher yield as well as sort of margin accretive investment there. So, should those benefits start accruing FY '22 onwards? Or how should one look at it?

Balram Yadav: I'm saying that one good thing about plantation is that every year is a new year for plantation. In case there is no insect infestation, we are very sure that OER as well as fruit arrival will improve. And almost 3,000-4,000 hectares in Andhra Pradesh will also come into production, and that will also add to our volumes. So, we are expecting a good year in all 3 areas: more oil, more fruits, and better prices.

Ankur Periwal: Sir, secondly on the animal feed side. Now we have seen a pretty impressive performance there on the margin front. Although realizations have been probably declining over the last year or even a flattish sort of a structure on a Q-on-Q basis? So, two parts there. One is how is the volume breakup between the respective subsegments here, broiler, cattle, layer, etc.? And what are your thoughts on the margin sustainability? I remember you had earlier also mentioned that we'll maintain or improve these margins. But what should be the steady state outlook here?

Balram Yadav: Before that, I'll just make 1 comment on palm oil, and then my colleague will give you the numbers. So, I think you must understand one thing is that this oil prices, there

is a pulses movement for us in India. The way it happened in pulses a few years ago and pulse production went up, I think that is likely to happen in oilseed production also. And I must tell you the proactive step of the government in terms of reducing the duty from 27.5% to 15% and putting 17.5% agriculture cess. What they are also indicating that should the oil prices fall globally, there will still have room to increase duty to keep the local oil prices at very remunerative levels for the farmers. So, this is the point I wanted to make.

S. Varadaraj: In terms of our volumes, we have around 1,25,000 tonnes of cattle feed and poultry feed is around 1,20,000 tonnes. And aqua feed is around 23,000 tonnes and rest is other feed.

Ankur Periwal: And lastly, your comment on the margin front because while the realizations have been okay, but margins have improved significantly. So, your thoughts on that?

Balram Yadav: We expect the raw material prices to remain benign, except for soya bean, which has definitely gone up. I am very sure that the kind of coverages we have because last year also, we could have really done well, but for COVID because we've ended up with very good coverage and suddenly, raw material prices fell. So, we had to carry this high-cost raw materials through the P&L. So, this year, if you ask me, in case there is no untoward incident, we are very well covered, and we believe that we will be able to maintain these margins, and you will see this good news from the current quarter onwards.

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

Aniruddha Joshi: Dairy sector profitability is at peak. So now probably profitability might come down. So how do we see the profitability of Cream line working? And secondly, you have also got now brand name changed from Jersey to Godrej Jersey, so almost 3 months to 4 months have been over. Obviously, it's not a long period, but any early indications that is there more acceptance for the milk considering now there is Godrej, which is an extremely trustworthy name attached to the brand? And have you seen any traction for the premium products etc.? So that is question number one. And question number two is that the issues like bird flu kind of represented good opportunity for an organized and strong player like Godrej Agrovet to gain market share on a sustainable basis. So, what are the strategies that the company is working on to gain market share?

Balram Yadav: So Cream line Dairy, I'll refresh what I have been telling you for some time is that in year FY'19 and FY '20, we have commissioned several new production facilities like Visakhapatnam plant and a value-added plant near Hyderabad and these investments have been substantial, considering the size of the business. And they were supposed to start playing out from Q4 and Q1, Q1 of this year and Q4 of last year. But unfortunately, it took a setback. However, having said that, I must tell you that there is steady improvement in our EBITDA margins, if you see quarter 3, quarter 3 FY '20, our EBITDA margin was about 2.5%, it has jumped to 5.4%. And we strongly feel that our focus on value-added products will continue to keep on improving this EBITDA margin. The second thing I wanted to say was that ever since this brand thing has been done, month-on-month there is a steady increase in all our products, including liquid milk, curd, etc., but for the institutional segment, which is very subdued still. So, the overall numbers are improving in retail, but institutional segment is still not showing that kind of traction. Having said that, I must say that we are very encouraged by the digital marketing initiative taken in both our businesses because that was the only possibility and inefficient vehicle to reach as many consumers as possible, both in Yummiez and value-added products. Unfortunately, several studies which are done for market share have not been done by market share

calculating companies. So, we strongly believe in Yummiez and Godrej Tyson as well as our value-added products, particularly flavored milk, etc., in modern retail, we will see increased market share in the current quarter. Now high prices are a regular phenomenon once in 2 years-3 years in dairy business and I think that will put a lot of pressure on our profitability in the first 6 months. But we must also remember that this is a business where once the prices go up; they don't come down. So, come flush by August-September, we believe that the prices ex-farm will go down, and that will definitely improve our margins considerably. So, we might have a tough first 2 quarters, but we will have a very good last 2 quarters. I'm very sure.

S. Varadaraj:

Also, hopefully, next financial year, with the economy opening the HoReCa segment sort of opening up our business also, especially the institutional part of the business should start looking up. Because in the current year, this particular business has got severely impacted because of the HoReCa segment. And so, in our case, the exposure to the HoReCa segment was more, and that's where we got impacted more.

Aniruddha Joshi:

Sir, what is the total contribution of HoReCa plus institutional to the overall Cream line sales?

Balram Yadav:

In liquid milk, curd, etc., it used to be close to 30%.

Aniruddha Joshi:

And the last question on the strategies to gain market share in poultry and poultry feed business, given people get worried about the unorganized products, but they are still okay to eat organize products like Godrej Tyson or Yummiez, etc., So how do you see that market share gain movement happening for Godrej Agrovet?

Balram Yadav:

In both the geographies we operate, our retail sales have been less affected than the commodity sales as far as chicken is concerned. And we are getting a lot of institutional orders also. Because a lot of these institutions, which earlier would not buy from us, inquiries are coming. So, my sense is that once this bird flu blows over, say, by March-April, our processing plants both in Bangalore and Talaja which is near Maharashtra are likely to operate at about 70% to 75%. And I need to tell you that 1st Jan to March last year, these plants, it used to operate at a capacity of about 60%-65%. So, we are seeing very good traction for process chicken. Yummiez is up by almost 30%-35% over last year, and that trend is likely to continue.

Aniruddha Joshi:

Sir, last question from my side. In case of shrimps, we are still seeing that the entire industry is still not doing the way it used to. So how do you see the shrimp feed part of animal feed business doing? And let's say, 1 year kind of an outlook on that business. Now almost 6% to 7% of U.S.A. population is down with COVID. So, the major customer or shrimp itself is having multiple problems. So how should we read about shrimp feed business?

Balram Yadav:

I am very optimistic about the shrimp and shrimp feed business because of 2-3 reasons. First reason is that out of a market of about 1.2 million tonnes of shrimp feed, 12%-13% of share had gone to these imported feeds, just because of price differential and because of lower raw material price outside, a lot of Chinese and Vietnamese feed companies were selling feed in India. Because of duty increase from 5% to 15% that price advantage they had will be gone, and that benefit will come to local companies. And not only that price benefit will come to local companies because we will have both advantages. Advantage to get market share and advantage to improve margins because they have to increase their prices by 10% now. So that is point number one. Point number two is that the news, which is coming up of the placement for the coming year, everybody is very optimistic because you must also understand that placement of March-April will only come into market by

July, August. And we expect that most of the developed world where our shrimps go will be vaccinated by that time. So, we expect a very good year for shrimp.

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

Depesh Kashyap: Sir, in the animal feed segment, you gave the absolute numbers. Can you please give the volume growth number for your individual segments that is cattle, broilers and the aqua, please?

Balram Yadav: First 9 months or quarter?

Depesh Kashyap: Sir, for this quarter, please?

S. Varadaraj: Vis-à-vis same quarter last year, we have degrown in volumes in all the segment except for aqua. And I think around 12% degrowth is there in cattle feed, around 20% de-growth in broiler feed and around 28% in layer feed. So, poultry is around 24% or so.

Depesh Kashyap: And the growth in aqua, sir?

S. Varadaraj: So that's a small growth we are having, in the case of shrimp feed, we are having a growth of around 4%.

Depesh Kashyap: Secondly, sir, given the sharp drop in the broiler prices, just wanted your thoughts on how are the broiler placements happening in January-February? And what kind of volume and pricing impact you see on your broiler and clear feed segment in this quarter?

Balram Yadav: Definitely there is some drop in placements of broiler, but not that significant actually. So, we believe that our broiler feed volumes definitely will not be impacted. As far as layer is concerned, the placement of layer bird cannot be impacted because of few weeks of bird flu because the life cycle of this bird is almost a year. And you must have seen the egg prices have still held on and they have not dropped to the extent the way broiler prices have dropped because there is still a little bit of shortage of eggs because of lower placement during COVID. And this shortage of eggs is going to continue for the next 6 months-7 months. So, we believe that our broiler feed volumes are not likely to be impacted too much this quarter, but layer feed volumes will start picking up as the layer placement start from March-April onwards.

Depesh Kashyap: Sir, your palm oil segment. Just wanted to understand, given the high CPO prices and the stable OER ratio that you just talked about, why did the EBIT margins reduce Y-o-Y? Is there any change in the pricing formula or the depreciation number has increased?

S. Varadaraj: In case of oil palm business, though the selling prices increased, we have seen a small drop in the oil extraction ratio vis-à-vis last year. And that, as I mentioned earlier, has happened primarily because of the white-fly attacks, which was there. So that is the reason why our oil extraction ratio in the current year is lower than that of last year.

Depesh Kashyap: So, there is no update on the pricing formula that Telangana government was going to do?

Balram Yadav: Telangana government or both the governments have released pricing formula. And it is slightly higher than expectation, definitely, but I don't see a material impact

because anyway, we have already been providing at about 18.2% or 18.3%. So, there is only marginal increase in the formula. I would also tell you one thing is that, Out of something like 35,000, 36,000 hectares in combined Andhra Pradesh, only about 1,500 to 2,000 is in Telangana.

Depesh Kashyap: And lastly, sir, what is the outlook on the CPO prices, given that they are still at very high levels.

Balram Yadav: I think I told you that CPO prices will continue to be a high level for some more time. We expect that from Q2 of the next year, that is from July onwards, they will start softening, and that is what the expectation of the central government is, and that is why they have created a space for increasing duty by reducing the custom duty and putting that agricultural cess. So, my sense is that government is very, very focused on improving the oilseed production in the country. And even though the prices fall, I have reasons to believe that government will provide protection because of duty increases. I just wanted to add one more line that at all food products are seen, whether it is chicken, egg or milk at certain prices the demand starts tripping. And CPO prices are extremely high as far as that is concerned. And at this level, the demand also starts stripping. So, we are not very happy at a price of Rs. 95,000 to Rs. 100,000 per tonne of CPO because at that time, at that point, the demand starts suffering.

Depesh Kashyap: Can you give the FFB process number for last year? You gave this year, this quarter, it was 1 lakh tonnes. What was in the third quarter last year, please?

S. Varadaraj: That would be around 1,31,000 tonnes.

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

Sumant Kumar: With the rising raw material prices of soya bean and others, can we expect price increase in Animal Feed segment?

Balram Yadav: Already happening.

Sumant Kumar: So how is the price increase in the current quarter at the time?

Balram Yadav: I would say December to January, the poultry feed prices have increased by about 3%.

Sumant Kumar: Okay. In line with the price increase of soya bean?

Balram Yadav: Yes.

Sumant Kumar: Whatever the contribution it is?

Balram Yadav: Yes. A full pass-through was there.

Sumant Kumar: And talking about overall, have talked about the bird flu and its impact. So, in this coming quarter, this quarter, we have seen an impact on the volume. What kind of volume impact is expected in the coming couple of quarters?

Balram Yadav: As I told you that whenever we have a problem like this, it is always followed by a very high prices, so profitability goes up. And definitely, with each of these disruptions, the processed chicken market improves. So, we believe that our market

share in the process chicken in Yummiez will improve as the bird-flu scare goes away. And profitability will also increase because commodity prices that is chicken and chicken particularly at the Live Bird level will go up. It has already started going up. If you ask me about 25th or 26th of January, the prices in South India, were at about Rs. 45 a kg. Today, they are at Rs. 68-Rs. 70 a kg. And most probably in a week's time, they will cross Rs. 80-Rs.85 a kg.

Sumant Kumar: Overall, in Tyson Foods, we will see a significant improvement, but Animal Feed segment will have an impact in the coming quarter, this quarter, Q4?

Balram Yadav: Animal Feed, as I told you that layer does not go up and go down significantly. I think layer has suffered a lot during COVID when the placements were not there. And India for last several months have had tightness on egg production. And that is why egg prices, ex farm has been at all-time high. The only thing is that since the broiler cycle is a short cycle, it is a 5-week cycle. There, we see more fluctuation in terms of placement and in terms of feed consumption.

Sumant Kumar: Can you talk more about the product launches in Crop Protection in the coming year and coming quarters?

S. Varadaraj: In terms of product launches, we have around 6 products which are in pipeline, of which 4 are herbicide, 1 is the fungicide and 1 is a biofertilizer. Yes. Apart from this, we have around 5 products, which will be in-licensed to us and which we proposed to launch.

Sumant Kumar: Out of 6, 5 is in-licensing?

S. Varadaraj: No. There are 2 at different things.

S. Varadaraj: No. Everything is not in the total pipeline.

S. Varadaraj: This is all pipelines. This is a total pipeline which I am talking about. There are 6 products which are in pipeline, which is our own product, which we are developing. And 5 products which are to be in-licensed to us. So, in all total 11 products, these are not all launches in the next year. This will be launched over the next 2 to 3 years.

Sumant Kumar: Okay, 2 years to 3 years. And talking about overall in budget, the government has effectively announced 5% increase in the crude palm oil, imported duty, right?

S. Varadaraj: Yes.

Sumant Kumar: And with the increase in prices globally and this duty increase of 5%. And in the coming season, assuming better fruits, FFB arrivals and OER, can we expect our '22 is going to be a bumper year for the palm oil?

Balram Yadav: I think in our sector, predictions are not easy to make who had predicted that things will happen, the way they happened last year. But definitely, the prices will be good, the OER will be good and the arrival of fruits will be good. That I can tell you.

S. Varadaraj: Because this year, as we talked about, this white-fly effect has been quite severe. So hopefully, next year, we wouldn't see that impact. So definitely, things should look much better.

Balram Yadav: I need to tell you one thing. The problem was not white-fly last year that much. The problem was our inability to control it because of lockdown, etc. and by the time we could do that, and the farmer started spraying it at the population has reached a

critical level. At which the damage was already done. White fly is not a new insect in India. It is there and you must have heard that every year it strikes some or the other crop.

Moderator: Thank you. The next question is from the line of Shravan Vohra, an Individual Investor. Please go ahead.

Shravan Vohra: We've been invested in this company for the last 2 years. I am looking more for you on a longer-term basis, how we should look at the business because in terms of the nature of the business being such that we've affected by some natural calamities and things like COVID. How should we look the business growth on a 2 year to 3-year basis, say, if we are a 6,000 crore to 7,000 turnover company until where can we reach on a longer-term basis? And what kind of margins we can achieve?

Balram Yadav: So, two things. One is that definitely, we are looking at business by business and I must tell you that COVID also gave us an opportunity to evaluate portfolio, number one and look at our cost structure, productivity, etc. I need to tell you in most of our fixed costs particularly, there have been either no growth or reduction in the last 1 year. And we believe that we have redefined our cost structure, both in fixed and variable. The idea is to do everything possible through cost reductions, through research and development and through portfolio changes to de-risk this business more and more. I do not wish to elaborate more on this call and waste everybody's time, but I would encourage you to take time with Mrs. Chhavi Agarwal, our Investor Relations General Manager. And we would, on one-on-one way basis, we can definitely take you through what we are thinking and what we think, what realignments we have done in our cost structure as well as in the company.

Shravan Vohra: Just so that I can understand better, can you foresee the top 2 or 3 businesses that we have? Can you give a little bit of longer-term growth guidance or margin guidance? Because the nature of the business as such, like the margin tend to be because right now, the commodity prices are so depressed, they might not see so in the coming years. So, some longer-term margin guidance and top line guidance that we can give?

Balram Yadav: So, agrochemicals, we will be able to maintain the same profitability and much better growth than what we did last year. Last year, if you recall my earlier calls almost a month, we lost month production we lost in the month of May because of COVID infections in one of our factories. Animal Feed margin expansion is very much on the cards, some of the research and development initiatives will start proving. They should have proved themselves last year, but because of loss of volumes, etc., which could not happen. The last year was a very big disruption, I must say. So, Animal Feed margin improvement will happen and Agri businesses, the same margin will be there. Oil palm plantation margin expansion will happen because of several other initiatives we have taken to improve oil extraction ratio. So, I'm sure that in these businesses, all these businesses, we have some strategies lined up for, even if there moderate top line growth will happen, but we want all these businesses to show expanded margins in future. One of the metrics we follow, unfortunately, it went for a toss is fixed cost as a percentage of contribution. Contribution is margin after variable for us. And I think all the businesses have the target of improving that ratio. That is bringing down fixed cost as a percentage of contribution, so that this volatility does not hurt us, the way it has hurt us last year.

Moderator: Thank you. The next question is from the line of Vidyut Shah from IIFL. Please go ahead.

Vidyut Shah: My first question was just on the finance costs, which have kind of halved from the 1Q levels and even from the third quarter of last year to around 6.5 crore. So, I just

- wanted to understand what has driven the reduction and what should we look at these costs to be going forward?
- S. Varadaraj:** In terms of the interest costs, basically, the interest rate has definitely been coming down for us. And we have been borrowing at a very competitive pricing though our average interest cost for last quarter was around 5%, the exit rate for us in January as we borrowed today is around 3.5%. So, I'm saying that we have been bringing down the interest cost to various avenues. Also, apart from that, the cash flow has been reasonably good. So, all this has helped us in bringing all the overall finance costs.
- Vidyut Shah:** So, has there been any change in the debt levels versus, let's say, the 2Q reported debt? Has it been around the same level?
- S. Varadaraj:** No, it's around the same level. In fact, but we have brought down that.
- S. Varadaraj:** That is different. But in terms of debt, it would be at similar level. And in fact, it would have gone up a bit vis-à-vis Q2 because 1 of the things which we did was we used to have a lot of supply financing which is there, supplier credit which was there. And we realized that the difference between the cost of funding for supply versus our own cost, the gap was fairly large to a reason that led us cutdown on supplier finance and move to our own borrowing and that's what we have done. So, the debt level, if it all has only gone up in the current quarter because of this.
- Vidyut Shah:** Sir, secondly, I just want to understand the CAPEX budget for FY '22 and the major projects that the company plans to be spending on?
- Balram Yadav:** Nothing very significant in FY '22, only 2 investments will be there, which are significant, one fish feed plant in Barabanki near Lucknow. I must tell you that the current trust of the government on aquaculture has opened a big market for inland fisheries, you'll be really surprised that the focus state for inland fisheries are UP, Uttarakhand, Bihar, parts of MP, Chhattisgarh. So, we are coming up with floating fish feed facility in Barabanki, UP, and we will continue to invest in more production facilities in Astec.
- Vidyut Shah:** So how much would like the CAPEX to be on these 2 projects?
- Balram Yadav:** I think the UP plant is close to about \$11 million or \$12 million. And Astec will commission one herbicide plant on in 2 weeks' time, that is the investment we had thought we will commission about 6 months ago but got delayed because of COVID and then we embark on 1 more facility, which will get commissioned in FY '23, but the CAPEX for next year will be close to about \$10 million.
- Balram Yadav:** So total, I think, about 150 crore to 170 crore.
- Moderator:** Thank you. We'll take the next question from the line of Pratik Rangnekar from Crédit Suisse. Please go ahead.
- Pratik Rangnekar:** My question is on the EBIT per tonne that we see in the Animal Feed business. From the second quarter to third quarter, there is a drop in the EBIT per tonne that we see. We've seen the similar drop last year as well. So, is there something to call out there? Or is there some kind of seasonality that we need to know here?
- S. Varadaraj:** Yes, there is a seasonality factor which is there, in Q2 versus Q3 the salience of key aqua feed reduces and that is what is sort of causing this kind of a change. But for that, otherwise, there are no major challenges.

Pratik Rangnekar: Other than that, whatever RM input cost increase has been there that you've seen after the quarter, and most of that has been passed on. Is that understanding correct?

S. Varadaraj: Yes.

Pratik Rangnekar: So, my next question is on the bird flu part. So, could you just kind of just summarize for all of us, what are the impacts that you're seeing on the different parts of the business from feed and the poultry business together as in separately, if you could just kind of summarize it for us.

S. Varadaraj: Impact of bird flu on feed as well as poultry.

Balram Yadav: The impact of bird flu is going to be very severe on Godrej Tyson Foods Limited, in case the prices don't recover and reach remunerative level in next one week. But the consumption is back to normal. The stocks are depleting at the farms. And South has started rallying. East was the first to rally. Cost of production of chicken in East is about Rs. 80-Rs. 82, and the prices have crossed Rs. 100 in the last 1 week. But unfortunately, we are not present there. And I think similar thing is likely to happen in South. And if West follows them, we will be able to recover whatever we have lost in January in the quarter as total. I don't see much of impact on layer feed because layer feed, anyway, the egg consumption is short, and there has been no disruption because of bird flu. But I definitely feel that broiler feed will have a small dip, particularly in the month of February because it takes time for feed to dip initially when the birds are not sold, they continue to eat. So, broiler feed has a lag affect as far as impact of bird flu is concerned. But having said that, I think the full impact of drop in raw material prices and margin expansion in animal feeds, you will see this quarter.

Pratik Rangnekar: Just a follow-up on that. We are seeing the consumption from the HoReCa segment pickup. So, will that not be sufficient to tide over the impact of bird flu, you would say that despite...

Balram Yadav: No, HoReCa will take time. Actually, it is more talk and less on the ground actually. I must tell you that what was the big consumer of animal protein, whether it is curd, ice cream, milk, chicken, the big consumers, big consumption was in parties, banquets, marriages, etc., And that is the big problem right now because most of the states have restrictions and number of people and a lot of these things are not happening at the same level. So, my sense is that HoReCa will take time. But if you really ask me why things will improve because industry has already contracted.

Pratik Rangnekar: So, it's more a function of the base. On that base, we will be able to see a growth.

Balram Yadav: Yes.

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

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

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