# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT OF GODREJ AGROVET LIMITED

FOR THE FINANCIAL YEAR 2020-21

## A. CAUTIONARY STATEMENT:

The statements in the "Management Discussion and Analysis Report" describe the Company's objectives, projections, expectations, estimates or forecasts which may be "forward-looking statements" within the meaning of the applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied therein due to risks and uncertainties. Important factors that could influence the Company's operations, inter alia, include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic, political developments within the country and other factors such as litigations and industrial relations.

## B. COVID-19 UPDATE

The unprecedented COVID-19 outbreak has significantly impacted economies across the globe and India is no exception. With the strict lockdown imposed at the beginning of the Financial Year 2020-21, demand and supply were disrupted in India. However, the impact of the lockdown and economic disruption was different in different sectors. Agriculture and allied services, the sector in which your Company operates, was classified under essential goods and services and operations were allowed during the lockdown. Therefore, the manufacturing plants of your Company were functional from April 2020, after obtaining the necessary approvals from the relevant Government authorities.

At Godrej Agrovet Limited, the management and the employees worked with effective co-ordination and agility to adjust to the changing and the evolving situation. The Company ensured that manufacturing plants were well-equipped with requisite protective equipments and high level of safety measures were followed at all locations. The Company also efficiently leveraged technology for seamless interactions and conducted business through virtual meetings with multiple stakeholders including distributors, vendors, dealers and farmers.

## C. INDIAN ECONOMY AND AGRICULTURE OVERVIEW:

**Indian Economy Overview**

In the COVID-led Financial Year 2020-21, Central Statistical Organization (CSO), in its third advanced estimates, projects India's annual Gross Domestic Product (GDP) to contract by 7.3%. Considering the sector-wise growth, while the output for all the sectors declined over the previous year (except agriculture), construction and trade/hotels have been more severely hit and have seen a sharper decline in output.

In the first half of the Financial Year 2020-21, demand was lower across sectors due to lockdown and the supply of goods and services was disrupted mainly due to the non-availability of labour and logistics constraints. However, the gradual opening of the economy from October 2020, resulted in a faster-than-expected recovery in the second half of the Financial Year 2020-21. Leading indicators of pick-up in economic activity such as power consumption, GST (Goods and Services Tax) collections, PMI (Purchasing Manufacturing Index) were either similar or higher than the pre-COVID levels in the second half of the year. Multiple measures and much-needed financial support provided by the Government under the Atmanirbhar Bharat Mission also cushioned economic growth. Further, India continued to be a preferred destination for investments by global investors and was one of the few countries to receive high inflows in the Financial Year 2020-21.

As we enter the Financial Year 2021-22, the second wave of COVID-19 is more severe and is leading to a high degree of uncertainty. However, economists believe that as India's COVID-19 vaccination program gathers traction, economic activities will normalize in the coming months. Indian and international agencies expect India's real GDP growth to be in the range of 7.5%-9.5% and the growth will be supported by the pick-up in consumption, increase in investments, and revival in the service sector.

**Agriculture Sector Overview**

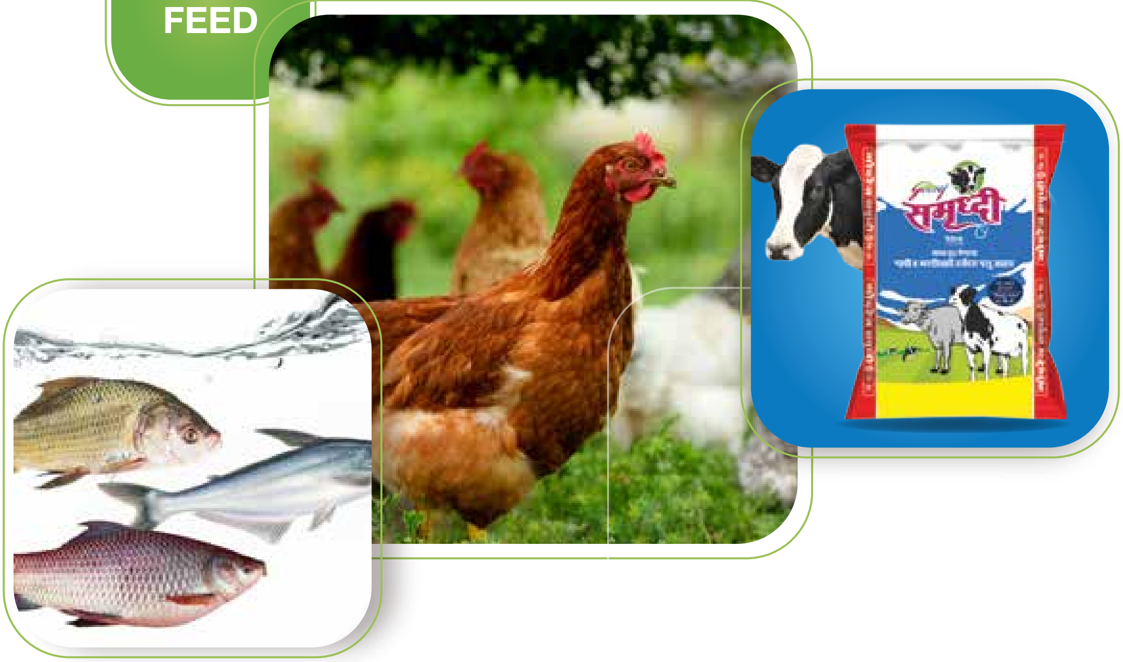
Though the difficulties created by the lockdown significantly affected the performance of the non-agricultural sectors, the agriculture and allied services sector was relatively resilient and its output grew by 3.6% during the Financial Year 2020-21. Agricultural activities were categorized under essential goods and services and this coupled with favourable macro indicators and timely Government support resulted in the agriculture sector performing better than others. Cumulative rainfall during the monsoon was 109% of the Long Period Averages (LPA; highest in last 25 years) and was well-distributed with most regions enjoying above normal rainfall. This led to higher sowing and higher food-grain production during the Kharif season. Further, sufficient water reservoir levels and good soil moisture content resulted in higher sowing for the Rabi season, despite a high base of last year. As a result, food grain production for the Financial Year 2020-21 is estimated to be 305.44 million tonnes as compared to the previous year's production of 297.50 million tonnes.

Financial Year 2021-22 also looks promising for the agriculture sector and has started on a positive note with Rabi harvest for key crops being higher than, both the previous year and the average harvest of the previous five years. Further, the Indian Meteorological Department (IMD), in its recent monsoon forecast, has predicted a normal south-west monsoon and cumulative rainfall is expected to be at 101% of the LPA (with a model error of +/- 4%). This will be the third year of good monsoon, which will result in another year of high farm production and will support both the farmers and the companies catering to the sector. Further, the rural sector will also benefit from various interventions by the Government for the development of allied sectors including animal husbandry, dairy and fisheries. This exhibits the Government's resolve towards tapping the potential of allied sectors to further enhance farm welfare. If the measures announced by the Government are implemented within the defined timelines, it will benefit the farmers in the long-run.

## D. KEY BUSINESS SEGMENTS:

Your Company is a diversified, research and development focused agri-business Company with operations across 5 (five) business verticals - animal feed, crop protection, oil palm, dairy and poultry and processed foods. The Company focuses on

# ANIMAL FEED




improving the productivity of farmers by innovating products and services that sustainably increase crop and livestock yields. Detailed information on the current performance and future strategy of 5 (five) key business segments is as below:

**Animal Feed Business**

Favourable commodity prices and realization of R&D initiatives undertaken in the past few years led to segment results increasing by 24.12% in the current Financial Year. The Company launched a cattle feed product 'Samruddhi' in the western region and enjoyed excellent customer response. Focus on increasing penetration in key geographies also yielded results and the Company was successful in strengthening its market position in few regions. Further, digital initiatives introduced in factories and supply chain have helped to optimise fixed costs in the segment.

The demand for animal feed, viz., cattle, broiler, layer, fish and shrimp feed is directly proportional to the demand for the end protein products, viz., milk, chicken/eggs, fish and shrimp. In the Financial Year 2020-21, because of the lockdown, the demand for end protein products from the HoReCa segment (Hotels, Restaurants and Catering), which forms nearly 30%-35% of the overall industry demand, was severely impacted. Even though demand picked up with the gradual unlocking of the economy, it was much lower than the pre-COVID levels. As a result, volumes and segment revenues in the animal feed business declined by 13.07% and 16.80%, respectively, in the Financial Year 2020-21. However, shrimp and fish feed volumes grew over the last year, despite the industry declining, and this helped the Company gain market share in these segments.

Godrej Agrovet's 50:50 joint venture with Advanced Chemical Industries Limited (ACI), Bangladesh, named ACI Godrej Agrovet Private Limited, continued its stellar performance and posted strong growth. Revenues and reported profit before tax grew by 21.83% and 43.83%, respectively and this was on account of strong volume growth across all segments, i.e., cattle, poultry and aqua feed.


CROP PROTECTION

Going forward, the focus will continue to be on increasing the presence in key geographies across feed categories to drive the volume growth. The Company plans to replicate the success seen of recent cattle feed product launch in the Western region in other key markets as well. The ongoing digital initiatives undertaken in the production processes and supply chain management will further help in achieving costs optimisation in the animal feed segment. The fish feed manufacturing plant being set up in Uttar Pradesh is expected to be completed in the Financial Year 2021-22 and will cater to the demand in the Northern and Eastern region, which are large markets for fish feed. In shrimp feed, the recent Union budget announcement of increasing import duty to 15% (from 5% earlier) on imported shrimp feed augurs well for the domestic shrimp feed producers.

**Crop Protection Business**

In the current Financial Year, the objective in the standalone crop protection business was to accelerate collections and improve the working capital cycle. The collections increased to ₹ 629.04 Crore from ₹ 495.32 Crore in the previous year, representing a growth of 27.0% year-on-year. The Company also focused on increasing the distribution reach of the in-house products by partnering with other major agrochemical players in the industry. Hence, higher emphasis was given to increase sales of products launched in the past few years, i.e., 'Hitweed Maxx' – an in-house cotton herbicide and 'Hanabi' – an in-licensed weedicide.

In terms of performance, standalone segment revenues grew at a marginal rate of 2.42% and segment results at ₹ 153.42 Crore were nearly similar to the previous year. Revenues and profitability could have been higher, but production disruption of the key products in the peak season due to COVID-led lockdown impacted performance. Your Company's subsidiary, Astec LifeSciences Limited, maintained its strong performance for the Financial Year 2020-21 as profit before tax grew by 45.18%, year-on-year, despite a modest 5.29% growth in total income. Segment-wise, revenue growth is driven by enterprise sales and geographically, domestic business contributed to the growth.

The standalone crop protection business will continue to focus on expanding its product portfolio either through in-house developments or through in-licensing arrangements. The aim will be to increase sales and profitability along with maintaining an efficient working capital cycle. In the subsidiary Astec LifeSciences Limited, the new herbicide plant will start generating revenues and this will help in diversifying the business. The Company is on track to set up the state-of-the-art R&D facility which will significantly increase the research capabilities and will support the growth aspirations in the medium to long-term.

**Oil Palm Business**

The palm oil plantation in Southern India was impacted by the white-fly infestation, which not only lowered Fresh Fruit Bunches (FFBs) volumes but also the oil content in the fruit. Therefore, FFBs volumes and oil extraction ratio declined, which adversely affected profitability level in the Financial Year 2020-21. However, the sharp increase in global crude palm oil prices and palm kernel oil prices provided some respite. Crude palm oil prices and palm kernel oil prices increased by 33.37% and 29.05%, respectively. In terms of performance, while the segment revenues increased by 5.43%, the segment results declined by 6.27% year-on-year.

During the Financial Year 2020-21, there has been considerable progress on R&D projects undertaken to increase the oil extraction ratio from the FFBs. Further, the Company has also worked on increasing area under plantation and currently has around 75,000 hectares under palm oil cultivation. Also, the Department of Horticulture, Telangana, has allotted Mahabubadad district to the Company for oil palm cultivation and the district has a development potential of 28,164 hectares.

The Government of India is planning to launch a national mission on edible oil to reduce imports and increase domestic production. If implemented, it will help to increase revenues and profitability both for the farmer and the companies present in the sector. Your Company being a large player

OIL PALM

in this segment is well-placed to capitalize on this opportunity. Internally, the business is also continuously working on multiple R&D projects which will help to increase the share of revenues from value-added products and increase the oil extraction ratio.

**Dairy Business**

HoReCa (Hotels, Restaurants and Catering) segment and out-of-home consumption form nearly one-third of the overall industry demand for milk and milk products. Lower demand from these segments lowered volumes and sales during the year. As a result, total income in the dairy subsidiary, Creamlime Dairy Products Limited ("CDPL") declined by 13.42% year-on-year. However, profitability improved from the low levels seen in the Financial Year 2019-20 supported by low procurement prices and fixed costs reduction. CDPL recorded profit before tax of ₹ 7.29 Crore in the Financial Year 2020-21 as compared to ₹ 3.14 Crore in the previous year.

CDPL focused on strengthening the marketing position and on increasing the brand awareness. Additional Jersey parlours, Jersey distribution Centers were set up and digital platforms were leveraged to increase brand awareness and market share. CDPL also re-launched the entire product portfolio under a new 'Godrej Jersey' logo. In the key southern markets, 'Mysore Pak' was introduced and 'Jersey Ghee' was launched in Maharashtra (Mumbai). Value-added products formed 27.17% of revenues in the current Financial Year as compared to 27.65% in the previous Financial Year.

In the near-term, the aim will be to increase milk volumes along with ramping up the value-added product sales in key geographies. For growing milk volumes, CDPL has designed a strategy for each of its micro-markets. In the value-added products business, CDPL will continue to launch new products based on market research and customer demand. CDPL is also working on strengthening the milk procurement network which is a pre-requisite to provide quality assurance and supply security.




DAIRY BUSINESS

**Poultry & Processed Foods Business**

For the subsidiary Godrej Tyson Foods Limited ("GTFL"), it was an excellent year with total income growing by 17.12% year-on-year. Profit before tax also increased to ₹ 22.67 Crore in Financial Year 2020-21 as compared to a loss before tax of (₹ 77.18) Crore in the previous Financial Year. The performance was supported both by the live bird segment and the Yummiez segment. In the live bird segment, growth was driven by remunerative end product prices on one end and favourable raw material prices on the other end. After the rumours of linking COVID-19 spread to chicken consumption started receding in April 2020, there was a huge surge in demand for poultry and poultry products which supported volumes and prices.

Lockdown led to an increase in demand for ready-to-eat and easy-to-cook frozen food products. GTFL capitalized on this opportunity by focusing on the Yummiez segment, thereby leading to a significant increase in sales for both vegetarian and non-vegetarian products. GTFL increased marketing initiatives and tied up with digital platforms which helped increase sales for the packaged food products. GTFL also launched new products in the Yummiez segment which increased the offering to the consumer. However, in the Real Good Chicken segment, the volumes declined due to lower sales from the HoReCa segment which constitutes a significant share of the overall demand in this segment.

GTFL will aim at maintaining the growth momentum in the Yummiez segment over the near-to-medium term by increasing the product portfolio and by increasing the distribution reach. Digital platforms will be further leveraged to create more brand awareness. GTFL has decided to grow the live bird business as nearly 95% of the Indian poultry market is a wet market and investments in growing this segment will be undertaken as per the industry demand. In the Real Good Chicken segment, GTFL will pursue volume growth in the profitable retail markets and will work towards leveraging cost efficiencies.




**POULTRY & PROCESSED FOODS**

## E. COMPANY'S FINANCIAL AND OPERATIONAL PERFORMANCE:

**Standalone Performance:**

For the Financial Year 2020-21, your Company reported standalone total income of ₹ 4,513.81 Crore as compared to ₹ 5,159.69 Crore in the previous Financial Year. Profit before exceptional items and tax stood at ₹ 352.56 Crore as compared to ₹ 359.22 Crore reported in the previous Financial Year.

The key highlights of Standalone Financials for the Financial Year ended March 31, 2021 are as under:

| Particulars | Amount (₹ in Crore) |
|---|---:|
| Total Income | 4,513.81 |
| Earnings Before Interest, Tax, Depreciation and Amortization | 473.92 |
| Reported Profit / (Loss) After Tax for the Year | 279.00 |
| Reported Total Comprehensive Income for the Year | 281.71 |

**Consolidated Performance:**

For the Financial Year 2020-21, the Company reported consolidated total income of ₹ 6,306.27 Crore as compared to ₹ 7,010.86 Crore in the previous Financial Year. Profit before exceptional items and tax was ₹ 453.10 Crore in Financial Year 2020-21 as compared to ₹ 358.55 Crore in the previous Financial Year.

The key highlights of Consolidated Financials for the Financial Year ended March 31, 2021 are as under:

| Particulars | Amount (₹ in Crore) |
|---|---:|
| Total Income | 6,306.27 |
| Earnings Before Interest, Tax, Depreciation and Amortization | 603.33 |
| Reported Profit / (Loss) After Tax for the Year | 347.57 |
| Reported Total Comprehensive Income for the Year | 350.38 |

**Key Financial Ratios:**

The key financial ratios for both Standalone and Consolidated financials are as per the below table:

| Particulars | Standalone | | Consolidated | |
|---|---|---|---|---|
| | **2020-21** | **2019-20** | **2020-21** | **2019-20** |
| Debtors turnover ratio | 6.49 | 7.86 | 7.48 | 8.77 |
| Inventory turnover ratio | 6.82 | 8.05 | 6.71 | 7.80 |
| Interest coverage ratio # | 10.72 | 16.28 | 9.67 | 9.30 |
| Current ratio | 1.20 | 1.02 | 1.08 | 0.96 |
| Debt equity ratio * | 0.38 | 0.23 | 0.38 | 0.26 |
| Operating profit margin (%) ** | 8.81% | 7.48% | 7.17% | 5.56% |
| Net profit margin (%) ** | 6.32% | 5.73% | 5.55% | 4.32% |
| Return on networth (%) | 16.74% | 19.76% | 14.85% | 14.08% |

# Standalone interest coverage ratio is lower than the previous year on account of higher interest expenses resulting from increase in debt levels.

*Consolidated and Standalone debt equity ratio has increased due to increase in borrowings, mainly the short-term borrowings

** Consolidated operating profit margin and consolidated net profit margin is higher than previous year due to high consolidated operating profit and high consolidated net profit in the current Financial Year. Strong performance of subsidiaries (Astec LifeSciences Limited and Godrej Tyson Foods Limited) resulted in increase in consolidated profit for the current Financial Year.

There is no significant change (i.e. change of 25% or more) as compared to the immediately previous Financial Year) in other key financial ratios.

Formulae used for computation of key financial ratios are as follows:

| | |
|---|---|
| Debtors turnover ratio | Net sales (i.e. revenue from operations) /Average of opening and closing trade receivables |
| Inventory turnover ratio | Net sales /Average of opening and closing inventories |
| Interest coverage ratio | Profit before interest and taxes /Finance costs |
| Current ratio | Current assets /Current liabilities |
| Debt equity ratio | Debt (net of cash) /Total equity |
| Operating profit margin (%) | Profit before interest and taxes /Net sales |
| Net profit margin (%) | Profit after tax /Net sales |
| Return on networth (%) | Profit after tax /Average of total equity |

## F. OPPORTUNITIES, STRENGTHS, THREATS, RISKS & CONCERNS:

**(i) Opportunities and Strengths:**

- **Increase market share in existing business verticals:** Several sectors in which your Company operates are largely unorganized, therefore, cost leadership is a key enabler for your Company to increase the market share of its products in those segments. The Company's ability to increase sales will be strengthened by continued focus on offering a wide range of innovative products across all business verticals which will help in gaining market share. Also in the medium-term, due to supply chain disruption and lack of liquidity leading to the closure of smaller business units, larger players with strong balance sheets will gain market share.

- **Pan-India presence with extensive supply and distribution network to benefit the Company in the long-run:** Your Company has a pan-India presence and operations spanning across 5 (five) business verticals. The Company has set up processing facilities and supporting infrastructure as well as R&D to develop a modern operating platform across key agriculture verticals. As a result of its widespread network and significant operational experience, the Company is well placed to identify key market trends and introduce a range of innovative and value-added products in the market to cater to the evolving needs of the customers. The nationwide footprint also allows the Company to leverage the competitive advantages of each location to enhance competitiveness and reduce geographic and political risks in businesses.

- **Diversified businesses with synergies in operations:** Segmental and geographical diversification across business verticals provide a hedge against the risks associated with any particular industry segment or geography while benefiting from the synergies of operating in diverse but related businesses. Synergies across diverse businesses provide the ability to drive growth, optimize capital efficiency and maintain competitive advantage. The Company also derives operational efficiencies by centralizing and sharing certain key functions across businesses such as finance, legal, information technology, strategy, procurement and human resources.

- **Strong Research & Development (R&D) Capabilities:** The Company's emphasis on R&D has been critical to its success and a differentiating factor from competitors. Dedicated R&D is undertaken in existing products primarily with a focus to improve yields and process efficiencies. The Company also focuses on R&D efforts in areas where there is significant growth potential. Acquisition of Astec LifeSciences Limited provided your Company access to strong R&D capabilities in the agrochemical active ingredients category. Investment is also being made in developing innovative technologies to further grow our product portfolio across businesses.

- **Focus on inorganically growing business offerings:** Your Company will evaluate inorganic growth opportunities, in keeping with the strategy to grow and develop market share or to add new product categories. Your Company may consider opportunities for inorganic growth, such as through mergers and acquisitions, if, amongst other things, they consolidate market position in existing business verticals or achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits. Your Company can also look at opportunities that will strengthen and expand its product portfolio and increase its sales and distribution network.

**(ii) Threats, Risks & Concerns:**

- **Adverse economic impact of COVID-19 pandemic**: While agriculture is more resilient than other sectors as it forms part of the essential items, if the COVID-19 pandemic continues for a very long time leading to lockdowns, it can disrupt economic activity. It can lead to issues regarding unavailability of labour, inter-state trade movements, exports and imports which can adversely impact the businesses in which we operate.

- **Unfavorable local and global weather patterns can have an adverse effect on the business**: As an agri-based Company, the businesses are sensitive to weather conditions, including extremes such as drought and natural disasters. The availability of raw materials required for operations and the demand for products may be adversely affected by longer than usual periods of heavy rainfall in certain regions or a drought in India. The occurrence of any unfavorable weather patterns may adversely affect business, results of operations and financial condition.

- **Availability of raw materials and arrangements with suppliers for raw materials:** Each of the businesses depends on the availability of reasonably priced, high-quality raw materials in the quantities required by operations. The price and availability of such raw materials depend on several factors beyond the Company's control, including overall economic conditions, production levels, market demand and competition for such materials, production and transportation cost, duties and taxes and trade restrictions. The Company typically sources raw materials from third-party suppliers or the open market which exposes the Company to volatility in the prices of raw materials and dependence on third-party for delivery of raw material. Also, any inability to procure raw materials from alternate suppliers in a timely fashion, or on commercially acceptable terms, may adversely affect operations.

- **Improper handling, processing or storage of raw materials or products:** The products that your Company manufactures or processes are subject to risks such as contamination, adulteration and product tampering during their manufacture, transport or storage. Inherent business risks exist in form of product liability or recall claims if products fail to meet the required quality standards or are alleged to result in harm to customers. Such risks may be controlled, but not eliminated, by adherence to good manufacturing practices and finished product testing. Although the Company has product liability insurance cover for domestic and international markets for businesses, it cannot assure that this insurance coverage is adequate or that any losses will be adequately compensated by the insurers in the event of a product liability claim.

- **Seasonal variations in the businesses:** Your Company's businesses are subject to seasonal variations that could result in fluctuations in performance. For example, in the animal feed business, the Company sells lower volumes of cattle feed during the monsoons due to the availability of green fodder. In the poultry and processed foods business, the demand for poultry products is higher in the second half of the Financial Year since the consumption of poultry meat and eggs is higher during winter months, while the sale of such products is lower during certain religious festivals. As a result of such seasonal fluctuations, sales and results of operations may vary by fiscal quarter, and the sales and results of operations of any given fiscal quarter may not be relied upon as indicators of the sales or results of operations of other fiscal quarters or future performance.

In addition, financial performance is also impacted by other risks such as inability to manage diversified operations, dependency of revenue from animal feed business and dependency of the utilization of services of third parties for our operations.

## G. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Your Company remains committed to improve the effectiveness of internal control systems for business processes with regard to its operations, financial reporting and compliance with applicable laws and regulations. The Company has a proper system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that all transactions are authorized, recorded and reported correctly.

## H. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES/INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED:

The workforce is a critical factor in maintaining quality and safety, which strengthens the competitive position and the human resource policies focus on training and retaining of the employees of the Company. The Company trains employees regularly to increase the level of operational excellence, improve productivity and maintain compliance standards on quality and safety. Employees are offered performance-linked incentives and benefits and the Company conducts employee engagement programs from time to time. The Company also hires contract labour at few facilities, from time to time. Employees at certain facilities have formed registered unions. However, the Company believes that it has good relations with the employees. As on March 31, 2021, the total number of permanent employees was 2,637.

The Company would like to sincerely appreciate the valuable contribution and support of employees towards the performance and growth of the Company. The management team comprises of professionals with a proven track record. The Company continues to remain focused and sensitive to the role of human resources in optimizing results in all its areas of working and its industrial relations also continue to be cordial.

## GAVL has delivered strong performance over the years

**Revenues from Operations ( ₹ Crore)**


**Earnings before interest, depreciation and tax ( ₹ Crore)**

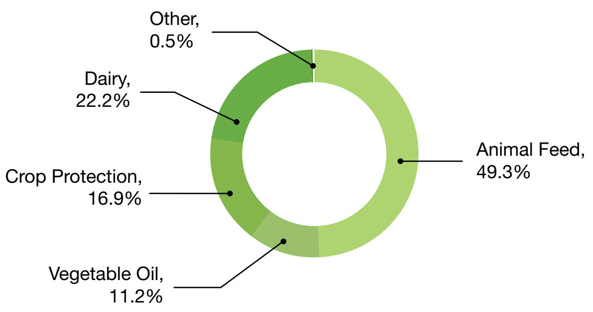

**Profit Before tax and exceptional items ( ₹ Crore)**


**Total Equity ( ₹ Crore)**

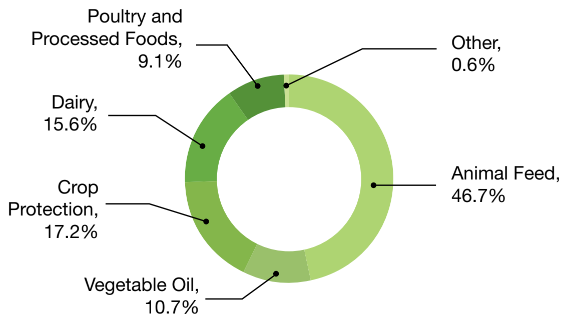

**Net Debt to Total Equity (times)**


## GAVL has diversified the product portfolio

**Segmental Revenue Mix FY2017-18**




**Segmental Revenue Mix FY2020-21***




*For Financial Year 2020-21, revenue from real estate has been included in other segment