Godrej Agrovet Ltd.
Registered Office : Godrej One,
3rd Floor, Pirojshanagar,
Eastern Express Highway,
Vikhroli (E), Mumbai 400 079, India.
Tel. : +91-22-2518 8010/8020/8030
Fax : +91-22-2519 5124
Email : gavlho@godrejagrovet.com
Website : www.godrejagrovet.com
CIN : L15410MH1991PLC135359

Date: August 3, 2022

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

Ref.: BSE Scrip Code No. "540743"

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

Ref.: "GODREJAGRO"

Dear Sir / Madam,

Subject: Transcript of Conference call with Investors & Analysts held on July 30, 2022

Ref. Submission under Regulation 30 of the Securities and Exchange Board of India (Listing obligations and disclosure Requirements) Regulations, 2015

Please find enclosed herewith transcript of Conference call of Godrej Agrovet Limited with the Investors and Analysts held on Saturday, July 30, 2022.

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

Please take the same on your records

Thanking you,

Yours faithfully,

For Godrej Agrovet Limited

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

"Godrej Agrovet Limited
Q1 FY 23 Earnings Conference Call"

July 30, 2022

MANAGEMENT:	**MR. NADIR GODREJ - CHAIRMAN, GODREJ AGROVET LIMITED**
	MR. BALRAM S. YADAV - MANAGING DIRECTOR, GODREJ AGROVET LIMITED
	MR. S. VARADARAJ - CHIEF FINANCIAL OFFICER,
	MR. ANURAG ROY - CEO, ASTEC LIFESCIENCES
MODERATOR:	**MR. NITIN AGARWAL - DAM CAPITAL**

Moderator: Good day, ladies, and gentlemen. Welcome you all to the Godrej Agrovet Limited Earnings 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 opening remarks from management conclude. 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. Nitin Agarwal from DAM Capital. Thank you, and over to you, sir.

Nitin Agarwal: Thank you. Hi, good afternoon, everyone, and thank you for joining us on the Godrej Agrovet Q1 Earnings Conference Call. From the company, we have with us Mr. Nadir Godrej, Chairman of the company; Mr. Balram S. Yadav, Managing Director; Mr. S. Varadaraj, Chief Financial Officer; and Mr. Anurag Roy, CEO of Astec Lifesciences.

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 the initial remarks. Please go ahead, sir.

Nadir Godrej: Good afternoon, everyone. I welcome you all to the Godrej Agrovet earnings call. I hope and wish you are doing well and are healthy and safe.

Q1 FY23 was a mixed quarter for Godrej Agrovet as we achieved robust volume performance in the majority of our businesses, and as a result, reported 25.7% year-on-year growth in our total income to reach INR 2,517.5 crore. However, profitability was impacted for some of our businesses due to external as well as internal factors, such as high-cost inventory, input cost inflation, limited transmission, and sales deferrals, etc. During the quarter, soymeal prices sharply declined as the government of India allowed import of GM soymeals. We did not anticipate that it would happen as soon as it did.

Other key input commodities, such as maize and fish meal, also witnessed a decline in pricing trend. The delayed Southwest monsoon in June impacted the sowing of Kharif crops and the application of crop protection products was delayed. On the other hand, crude palm oil prices reached an all-time high level before correcting rapidly at the end of the quarter.

Coming to the key financial and business highlights of each of our business segments. In Animal Feed, we achieved 11% year-on-year volume growth in Q1. The volume growth was achieved across key feed categories and was mainly led by market share gains. However, segment results were impacted due to high-cost inventories of some of our critical raw materials which could not be fully passed on. On a more positive note, we have already utilized most of the high-cost inventories in Q1 and we expect a quick turnaround of profitability in Q2. For the Vegetable Oil segment, it was another quarter of strong growth, led by improvements in yield levels and all-time high oil prices. Segment results grew by 2.6x year-on-year in Q1 FY23. The average prices of crude palm oil and palm kernel oil were higher by 24% and 41%, respectively in Q1 FY23 versus Q1 FY22. Standalone Crop Protection business suffered from lower sales of in-house and PGR products as a delayed monsoon deferred application opportunities in Q1. In addition, strict focus on channel credit hygiene also led to lower placements as compared to last year. Liquidation and collection of our key products have improved in the first few weeks of Q2 on account of increased rainfall coverage in our key operating regions. We expect a recovery in profitability of our standalone Crop Protection business in Q2.

Astec Lifesciences delivered revenue growth of 43.3% in Q1. The robust top line performance was mainly driven by higher export realizations and CMO volume. However, Astec's growth was restricted by deferment of sales worth 20% of the total revenues. This coupled with the compression of margin in one of our key products and higher cost structures on account of the herbicide plant led to decline in profits. These sales have been pushed to the next quarter. Our Poultry segment registered one of the strongest quarters, with a revenue growth of 39.8%, led by volume growth in Real Good Chicken and better realizations in the Live Bird category. EBITDA for the quarter also jumped to INR 20.9 crore as Live Bird prices rose sharply. Our Dairy segment continued to gain market share in value-added products such as curd, buttermilk, ghee, milk drinks, etc. in its key markets. As a result, revenue from value-added products grew by 69% in

Q1 over the previous year, while milk revenues grew by 24%. This further translated into CDPL's total revenue growth of 47.6% in Q1. However, sustained rise in procurement and packaging costs led to subdued profitability.

GAVL's joint venture in Bangladesh, ACI Godrej, recorded another quarter of strong performance with revenue growth of 42% in Q1. All feed categories, that is cattle, poultry, and aqua feed, witnessed strong demand and market share gains in Bangladesh. That concludes our business and financial performance update for the quarter.

With this, I close my opening remarks. We will now be happy to take your questions. Thank you.

Moderator: We have our first question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: I have two or three, sir. First on the soya inventory issue. Just sort of wanted to get your perspective on the decision-making process within the Indian government, whether the industry is normally kept informed about such changes in policy as, for example, the import of GMO soybeans. And also, how do we derisk ourselves as a business against such policy changes in the future?

Balram Yadav: So yes, Abhijit, definitely, this was a big setback considering we had such good relation with the government and we were instrumental in getting soya imported last year which was a great relief to the industry. I must also tell you that during entire March and entire April, the industry, through their multiple fora and associations had kept on harping on government to allow imports. But the stand of the government was very clear and it was categorical. And then I think what happened towards the end of April, beginning of May, we were extremely sure that nothing is going to happen because all our efforts had come to naught, but I think the rising inflation, particularly driven by animal protein, was a trigger which immediately made the government take some knee-jerk reaction. And all of us were caught unaware because all of us had started covering soymeal because it was rising almost INR 1,000, INR 1,500 a week. And we had stock for almost 2 to 2.5 months that time when this happened. And we had to take a price decrease, because of which we lost significant profits.

So, if you ask me, definitely, I think this is a good learning. And we will be more vigilant. And I think this time, we thought because government has been very reliable whenever they have talked to us, whatever they are permitted and whatever they are not permitted, they have been very categorical about it. But we need to also work with other ministries, like Ministry of Consumer Affairs and Ministry of Commerce, who are a big influencer in these decisions, rather than Ministry of Animal Husbandry and Fisheries and only Ministry of Agriculture.

Abhijit Akella: Got it, sir. Second, on the oil palm business, now with prices beginning to fall sharply, how should we think about the segment's earnings trajectory for the rest of the year? And also, on the new oil palm mission front, how is the traction going? And can it meaningfully accelerate our acreage growth in this segment?

Balram Yadav: So, I just forgot to add one thing that all our high-cost soya inventories were exhausted by end of June or beginning of July and profitability is back with a bang in the feed business. On oil palm plantation business, definitely, the prices were very, very high and they were unsustainable. And all our calculations were done at the current prevailing prices, so we benefited from high prices in the first quarter. My sense is that even though there have been surpluses, etc. but there is a limited amount of capability, both in terms of processing in Indonesia and logistics worldwide. So, it is not that suddenly everything will get exported. And my sense is that prices will prevail at about say, INR 1,00,000 to INR 1,10,000 a ton. And currently, it fell to almost INR 1,03,000 a ton. In last 1 week, it has gone back to INR 1,10,000 a ton. So that is point number one. That is what we feel will be the average prices in Q2 and Q3, which are very critical for us.

The second thing is that it is not that, that central government will wait for prices to fall significantly. We must also remember once the inflation starts coming down because of other commodities, and with our oilseed season around the corner, the government will be willing to listen to increase in duties in case the oil prices fall further, because they don't want to shortchange our own oilseed farmer whose crop will be coming to market in 8 to 10 weeks from now. So, my sense is that this will remain at this level. Slightly 5% here and there is the only difference which will happen.

Lastly, on NMEO-OP, I just wanted to brief them that we have got allocations in Assam, in Tripura and in Manipur, and these allocations are contiguous with our Mizoram mill. And definitely, we will be benefited in 3 to 5 years once the plantation starts yielding, because we are running Mizoram mill at a much lower capacity utilization than it was envisaged. And the performance of the plantations is much better in Northeast. So, we get a OER, which is at least 20% more than the OER we get elsewhere. And productivity also is 15% to 20% more and we are in the process of setting up a seed garden in Assam. So, I think that is the benefit of NMEO-OP. However, I want to point out that Telangana and Andhra Pradesh have still not signed the agreements with the central government. They are going by their old traditional formula. And I'm sure that they have started suffering because most of the investments have started moving towards East and other states like Odisha and Tamil Nadu, which have signed the NMEO-OP agreement.

Nadir Godrej: Yes. I would like to add that Senator Schumer and Senator Manchin came to an agreement and it looks that Biden's new bill is likely to pass in both the House and the Senate. And this bill promotes the use of biofuels, including biodiesel and green aviation fuel, both of which will give a boost to vegetable oil prices.

Abhijit Akella: Got it. That's really helpful, sir. I have one more question on Astec, but before that I just wanted to clarify on the NMEO-OP and the Northeastern expansion plan, any rough acreage we have in mind, sir, over the next 5 years, how much we plan to add in the Northeast?

Balram Yadav: So, if we say what is commercially possible in the area which we have got, it's close to about 12,000 to 14,000 hectares. We are still mapping because on paper, what looks feasible, when we go and see the terrain, it may not be feasible. But we are definitely planning for 10,000 hectares plus in next 3 to 4 years. That is the plan, apart from about 10,000 to 12,000 hectares in existing areas. And I also want to tell you that we have doubled our nursery capacity. Today, our nursery capacity was capable of doing about 5,000 hectares per annum. But next year onwards, it will be able to do between 8,000 to 9,000 hectares per annum.

Abhijit Akella: And lastly, on Astec, if you could please just talk a little bit about this quarter's pressures or challenges in some more detail? Also, the outlook for margins, given the price pressure indicated in one of the key products and also the status of the ramp-up of the new herbicide plant, Astec's press release talks about commercialization of 2 CMO products this year. So, are these from the herbicide plant itself or from some other source?

Anurag Roy: Thanks for the question. On the margin reduction piece in Q1, one of the primary factors, as was highlighted in Astec press release and in this call earlier was deferment of sales which happened in the Q2 because of some delays in deliveries and logistical issues in some of our export assignments. So that was one of the key factors. Other than that, in the mixed bag portfolio product which we have, on few of the products, we were seeing increased raw material prices. There were high-cost inventories as compared to the previous quarter last year, which has also resulted in some margin pressures. And then the third component which also impacted our EBITDA margins were the increased cost structure on account of the new herbicide plant which we commissioned in Q2 FY22. So those were the 3 factors that contributed to the margin reductions. The deferment margins will be realized, obviously, in Q2 and Q3, because it was a deferred sale.

In terms of your second question on herbicide plant utilization. We have given those indication in investor call that we'll be utilizing the plants over the next 3 years. This year also, we would be getting close to 60% - 70% capacity utilization and working almost at full utilization by end of third year. That's the guidance and indication which we have given to the market. In terms of the CMO products, it was a mixed bag. There were a few CMO products from herbicide plants and there were one CMO products which were from other plants that contributed to the growth end margins.

Moderator: We have our next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes. Sir, on dairy, how do we see the profitability for rest of the year now that the milk prices have started and, the cattle feed prices remaining high. Farmers have no choice but to increase prices. The question is, milk procurement upcycle has started. How do we see the profitability for rest of FY23 as well as FY24 for Creamline? That is one. And the second question is the Animal Feed profitability is also at the lowest level in many quarters. So, what are the initiatives to improve the profitability here?

Balram Yadav: So Creamline Dairy, I think our woes are very similar to the woes of the industry that the pricing is not able to catch up with the procurement cost increase of milk. And every week, particularly buffalo milk is breaking all records of price increases. Having said that, we continue to embark on our plan and whatever we had envisaged as a strategy. However, margins are not up to the level we wanted because of high cost of milk. But if you see, we have had almost 70% growth in value-added products, which historically had better margins than liquid milk, even though we had 20% growth in milk volumes also. Our salience from about 28% last year has gone to 39% as far as value-added products are concerned.

So, I would say from a strategic point of view, product mix point of view, doing what is required by us, we are doing whatever it was we had planned and we are executing much better than the plan also as far as volumes are concerned. The only problem is milk cost. So, there are 2 things which should happen. One of the things is that like we have 30-year data where the prices of milk start falling during flush and the fall in prices is between 5% to 10% every year. In some years, it has been 13%, 14% also when the flush comes. And that is where most of the dairy companies made profits.

Now this flush has eluded us for last 2 years, we believe because of high milk prices, and that is what we are seeing in our cattle feed tonnages also, that there are more animals and people are taking good care of animals also. So, my sense is that this time, the industry will see flush.

However, having said that, I think there was an initial inertia and reluctance to increase prices, that I think the industry is coming over and adjusting to new normal. So, we have had 2 prices already in last 3 months. My sense is that in case the challenge continues, of course, the prices will increase. We are very hopeful that our losses will come down in Q2. And if we had a medium flush also, the business should become profitable in Q3.

Q4, again, will be a big quarter for us in value-added products. We would have commissioned additional lines. I am very glad to say that our value-added product sale was stunted in Q1 in spite of 69% growth because in certain plants we ran out of capacity. So that capacity enhancement has happened. We strongly believe that we will grow even more rapidly in value-added products in time to come which are higher margin. But lot of things, a lot of what I'm talking about rest in terms of margin on the flush. And we are not too far. I think in 3 to 5 weeks time, we should know the level and the quantum of flush. And we believe that some kind of reduction in prices will happen.

In the Animal Feed business, I think we are back to normal profitability. So last year, we did 6% EBIT on sales. I think in this quarter, we will get to between 4% to 5% EBIT on sales. And my sense is that we'll end the year at 5% to 6% EBIT on sales. And why do I say that? I think I can definitely share with you that we have an excellent position in DORB. We went wrong in soya because of external reasons. And DORB is rising every day and we have a very good position there. So, I'm extremely confident that we will get back the margins which we lost.

S Varadaraj: But for the soya material adverse impact because, otherwise, in terms of the cost structure, there has been no change in the Animal Feed.

Balram Yadav: And volume will grow above 10%. I'm very sure about that also.

Aniruddha Joshi: Okay. Sure, sir. That is very helpful. Just last question. Have we also been able to take prices in shrimp feed also? And roughly, what is our market share in shrimp feed now?

Balram Yadav: So, shrimp feed is a different story. This year the industry is in a little bit of flux because of late rains and because of floods after that and in some places, the culture has been wiped out. We strongly feel that July is too early to give up. I think we are hearing that almost 40%-50% of the area is going for restocking. I'm still hopeful that shrimp feed tonnages will be back and we will register about 10% growth over last year. And our market share will be about 3%-4%. Actually, it is very negligible, considering Avanti & CP are the big players there.

Coming back to margins in shrimp feed. Margins in shrimp feed will also improve because we also had a soya position there. The soya took a little 2-3 weeks more than in other animal feed business to get exhausted and now the margin improvement is visibly there. But having said that, I think shrimp feed and fish feed in Andhra Pradesh, difficult to increase prices because in all areas, in all businesses, the Andhra Pradesh government is exerting their pressure, they are trying to control. Even price controls are also there.

So, I think our focus is only on rest of India, where this plant called Barabanki is in the process of commissioning. Unfortunately, there is a Chinese machinery and the Chinese engineers could not come because of COVID lockdown there. But they have come now and most probably in a week or so we will get to full commercial production. And my sense is that in fish feed, we will do much, much better than what we have done in shrimp feed, both margin-wise and volume-wise this year.

Moderator: We have our next question from the line of Aman Vora from Premier Capital. Please go ahead.

Aman Vora: My first question was on our Crop Protection business. So last 4 to 6 quarters, you've been talking about improving channel hygiene and like we've taken a lot of steps in that direction. But, like, there has been some of the other reason for which this part of the business has been affected. So, I just wanted some medium-term outlook. And like, if the management feels that our overdependence on herbicides is causing this issue with the business?

Balram Yadav: Let me tell you 3 things about this business. One of the things is that definitely, in this business, the external factors are very important. But if you really ask me, the mess we had created is also because of internal factors, particularly in this business. I think we realized that our processes and the systems we have are outdated and they were not in line and synced with the way the dynamism has changed this industry, which was also aggravated by the fact that because of COVID, we could not visit the markets and we were in total blind.

I think we goofed up big time in terms of tracking liquidation, tracking movement of material and particularly on debtors also there was a sufficient loss of control. So, corrections, definitely, we got EY into the system. They are doing almost 8-month long project and put new systems and procedures in place with a lot of digital backups everywhere. And the kind of visibility today I have in this business that was totally I've said earlier. So that's point number one.

Point number 2 is that I think that visibility is giving us an opportunity to monitor everything in this business very closely. And my sense is that hygienically, this year will be much better than last year and significantly better in terms of market hygiene. So that said, I think there have been some changes in the team also. We have a new sales head and a new CEO in this business, both of them have come from very big crop protection company. So that is the second part.

The third part is, yes, we are cognizant of the fact that our overdependence is there on herbicides and that is why we brought Hanabi and now Gracia in the fold. I'm extremely glad to tell you that Gracia, we have done very well. Last year, we did 26 KL of Gracia. In the first quarter itself, we have done 40 KLs. My sense is that we will do 4x - 5x of last year in Gracia. Gracia is a wonderful product and it'll be a driver of our growth and profitability in the next few years to come. Otherwise, also 1 or 2 more in-licensing products are nearing registration, which will be done next year. So, we have been trying and I have been telling on this call that we are fixing this issue. But unfortunately, it took us longer than required. But I think that today, whatever requires to be done in this business has been done.

Aman Vora: Right. And my second question is on the feeds business, sir. So, we have had like last 4 to 6 quarters, there have been all kinds of ups and downs. But we've had very solid market share gains on this side of the business. So now like you mentioned that sequentially, margins are improving and things are coming back to normal. So, do we see these market share gains to stay? Like, because you've had significant market share gains here.

Balram Yadav: So, I must tell you that we will have market share gain definitely in 3 categories, broiler is one which has driven our tonnages in the first quarter. Cattle field, consistently, we are growing much higher than the market. And my sense is with one more production facility in fish feed, we will definitely increase our market share in fish feed also, particularly rest of India. For your information, UP, Madhya Pradesh, Bihar are becoming big fish feed consumer states. And with a plant there, we will have much bigger advantage because of lower logistics costs and lower raw material costs. So, I think this will continue. In layer feed, we already have a very, very high market share, and we will be better it by a point or 2 or maintain that market share, that should be enough.

So, I think that a lot of things are going right in the feed business. Of course, in commodity business, you cannot get everything right all the time. So, that is a debacle happened in the soymeal business but can't help it. We can just learn from it and move on. But I can definitely assure you that profitability of 5% to 6% EBIT is not a big issue in this business.

Aman Vora: Right. Got it, sir. And sir, my last question is on Astec. So as Mr. Roy clearly pointed out, what was the main contributors of margin decline this quarter. But more sequentially and medium term, as the high-cost inventory is being used in this quarter and the teething issues with probably the herbicide plant having more fixed costs would also improve. What is our outlook on margins going ahead?

Anurag Roy: See, obviously, we do not make any firm statements on forward looking, but we maintain our position that our margins will grow in double digit. Obviously, you would have to realize that Astec is also in a lot of investment mode. So, there's a new herbicide plant as we were there, which has been commercialized. There is new CapEx, which would be coming up. So, there will be some impact on the PBT level due to increased Capex. But we hold our current outlook on at least double-digit growth on the margin as we move forward.

Balram Yadav: Another big CapEx which will be capitalized in Q3 will be our R&D center, which has cost us close to INR 120 crore.

Aman Vora: Sir, however, when you mentioned the R&D center, would just be for Astec or Agrovet B2C business R&D would also there?

Balram Yadav: Astec and CPB. We have a common R&D head for the whole company. And the purpose was that ultimately, in the Animal Feed business, whether it is fish or poultry, ultimately, there is a lot of chemical technology which comes into play. So, I think all businesses will gain from each other, and the R&D center will be utilized in a much bigger way for Astec and CPB, but also for other businesses in some small way.

Moderator: We have our next question from the line of Falguni Dutta from Jet Age Securities Private Limited.

Falguni Thacker: I just have one question. Can you share the volume in the vegetable oil business? And also, what was the realization for this quarter versus previous quarter?

Balram Yadav: Yes. So, I'll tell you, Q1 to Q1.

Falguni Thacker: Q4 over Q1. I mean, previous quarter.

Balram Yadav: It's not a good comparison because Q4 is off season.

Falguni Thacker: Yes. Or you can tell me both. I mean, I wanted to know the realization for Q4.

Balram Yadav: Q4 realization we find out. But I'll tell you, in the meantime, Q1 CPO volume, last year, we did 21,411 tons. And this year, we have done INR 22,174 million. And revenue last year, Q1 was INR 241 crore in CPO. And this year, it's INR 309 crore. Realization INR 1,13,000 a ton and CPO price this quarter was INR 1,39,000 a ton. Q4 CPO realization was INR 1,19,000 a ton. And contribution margin after variable last year was 15%. This year was 25%.

Falguni Thacker: I just wanted to know, in case I have just started following Godrej Agrovet since the past 2, 3 quarters, so in case I want to know something, some queries on the business, whom can I call? I have been trying, but not getting through. So, I just thought I'll check with you.

Balram Yadav: Mr. Aditya Desai will connect with you. So, he's sitting right here. So now he cannot escape. Don't worry.

Moderator: We have a next question from the line of Vidit from IIFL Securities.

Vidit Shah: Sir, just in terms of data points, could you also give us the OER for this quarter?

Balram Yadav: Thank you for this question. We have done well. So OER, Q1 last year was 17% and this year is 19%. I must tell you something. So normally, OER should not be that high in June, but there were no rains.

Vidit Shah: Yes. Since there were no rains, you had higher OER?

Balram Yadav: Yes.

Vidit Shah: Got it. So, in terms of the Animal Feed business, now that soymeal prices have started correcting after the import being allowed, do you see the feed industry taking any price corrections? Or this is what prices will be? And do you only see margin improvements, sir?

Balram Yadav: Yes. So, no price increases have happened in poultry feeds, but price increases have happened in cattle feed because the De-oiled Rice Bran has risen sharply more than 15% to 20% in last 1 month. So, cattle feed industry is taking prices and we have good position in DORB. In fish feed and shrimp feed, the price increases were due 3 months ago, but the Andhra Pradesh government is blocking that.

Vidit Shah: Okay. But we won't see any further correction from here because of a decline in raw material prices?

Balram Yadav: No further correction because all the corrections have happened. Now in case the prices go up, particularly we are expecting corn prices to increase, in case that happens, there might be an upward movement in poultry feed prices also.

Vidit Shah: Okay. Got it. And just finally, my last question was on Astec. You briefly touched upon margins of one product being impacted during the quarter. So just how long do you think these margins will remain impacted going forward? And when can we expect margins of Astec to get back to the 22%, 23% levels?

Anurag Roy: See, as I was mentioning, one of the reasons for margin impact towards increase in raw material prices, there were some high-cost inventory from the previous quarter. So that resulted in margin pressure. So, for the most part, those inventories have been liquidated. There is also some supply demand imbalance in terms of the gap in the demand with supply. So that is also creating some pressure on a few of our products. But see, these are the normal volatility in the product portfolio which we have. And through strategic sourcing, through production efficiencies, we are very confident that we'll be able to make up for these margins. So, I think this is how we play in these markets, the product portfolio which we have and we feel that we will be able to recover some of these margins as we get into the next quarters.

Moderator: We have a next question from the line of Depesh Kashyap from Equirus. Please go ahead.

Depesh Kashyap: Sir firstly, on palm oil. In the last call, I think you gave a guidance of 17% to 18% volume growth in FY'23. Will you maintain that despite the fall in FFB arrival that you saw in the first quarter?

Balram Yadav: So, I think we have seen that FFB arrival varies with several factors. And one big factor is monsoon. So. if you ask me, my sense is that we will have 17% to 18% growth in this business from CPO and PKO volumes. One driver of growth will be more FFB and second will be more OER because we believe that this year, again, we will have some improvement in OER. So that was one of my premise. And we are very happy at the delay of the season, because normally, when post monsoon, the OER goes up significantly. So, the trees are looking very good. We have done another survey. My sense is that the recovery will start as soon as the rains have started. Some recovery has already started. And I think this season will shift by at least a month.

Depesh Kashyap: Got it. Secondly, sir, on the Animal Feed segment, specifically on the shrimp segment, what was the price rollback that the industry did in the last quarter? And do you think, is there any other pressure to further roll back the prices because of soymeal correcting?

Balram Yadav: So, in poultry industry, the price reduction was between INR 2,000 to INR 2,500 a ton. And in shrimp also, shrimp and fish, we had taken a price increase of INR 2,000 a ton with the government forced us to roll back.

Depesh Kashyap: Right. So, is there a further pressure to roll back? Because I think the prices are decreasing.

Balram Yadav: No, I think so far, everything is fine. And I think we have just approached the government to take the prices up again. So, let us see. But between different states, I think Andhra is becoming very difficult to work with.

Depesh Kashyap: But that is 80% of the market, that is the main.

Balram Yadav: Yes, but that is why we are moving out. And I must tell you that the dominance of Andhra in fish is only a few quarters away. So, I think we're moving away from Andhra now, particularly in fish and probably in case the attitude continues like this, the shrimp will also start moving out.

Depesh Kashyap: Got it, sir. Sir, lastly, sir, what is the CapEx expectation for FY'23 and FY'24, if you can give overall and also specifically for Astec farmer and the Animal Feed segment that you talked about?

Balram Yadav: So, CapEx, we have a CapEx of close to INR 500 crore. But of course, we are delayed in some of the CapEx for about 3, 4 months in acquisition of land. Almost 60% of this CapEx will go to Astec Lifesciences. About INR 80 crore will go to oil palm plantation business, where we wish to pay refinery as well as solvent extraction plants, which will enhance our margins on oil further. We will quantify it probably in the next 2 to 3 quarters.

But we are very, very optimistic because savings in logistics, et cetera, immediate processing of oil, reduction in FFA losses which we used to have in transportation, so that will add to this. And one INR 50 crore-plus investment is coming in our dairy business. Not INR 50 crore, it is much less, about INR 30 crore or so on more line in value-added products, we are erecting because in some of our products, we had run out of capacity in this season. So that was very good news. And we are very, very confident that value-added is going to be a driver of our top line as well as bottom line in the dairy business.

Depesh Kashyap: And the fish feed, you also talked about that you are going to increase in capacity rate?

Balram Yadav: Fish feed, we have already commissioned this plant.

Balram Yadav: Yes. So, this is already capitalized.

Depesh Kashyap: Sir, INR 500 crore is specifically for FY'23 you said?

Balram Yadav: Yes, FY'23, but my sense is this project, I think, Astec is the ongoing project. So how much of INR 300 crore or so we have planned for Astec will be deployed? Definitely, the land has been bought, so 1/3 of that is definitely getting deployed in the next 2, 3 months. And a lot of equipment will have to be ordered because there is a lot of waiting period for the equipment. So, my sense is all this INR 500 crore definitely will be deployed in this year.

Moderator: We have a next question from the line of Saurabh from Asian Market Securities. Please go ahead.

Saurabh Kapadia: Sir, my question is on the Astec. So, the high-cost inventory was related to the raw material? Or it was for the finished good?

Anurag Roy: Yes, it was related to the raw material.

Saurabh Kapadia: So now everything has been liquidated. So, in Q2, we should not see any impact?

Anurag Roy: Right. Yes.

Saurabh Kapadia: And the second one on the deferment of about 20% of the sales. So what kind of impact it had on this current quarter's margins? So maybe 100-200 basis points, what would be the impact?

Anurag Roy: So almost 20% of the revenue, more or less similar kind of profit margins or the PBT as for the existing revenues and PBT which have been realized. So almost similar kind of impact on the PBT, which was deferred into Q2.

Saurabh Kapadia: Okay. And is it everything for the enterprise business? Or was there element of the CMO business as well under deferment?

Anurag Roy: So, it was a mixed bag. Obviously, the enterprise constituted to almost 80% plus of it. And the balance was the CMO piece.

Saurabh Kapadia: Okay. And the last one on the Propiconazole also, we are getting the feedback is the Chinese companies have started, post their shutdown, the production. So, there could be some pressure on the prices of Propiconazole. Has there been a trend that have now come off in the last 1 month?

Anurag Roy: Yes. See, that's what I discussed earlier in this call, that we have been seeing some supply-demand imbalances which is also putting pressure on margin. But on some of these products, we have a very strong footprint and very strong cost structures with our ability to backward integrate and deliver at the best prices and maintain our margins. So, we see this trend as normal in the market, the supply-demand imbalances, and we have very clear strategic sourcing and production efficiency strategies in place to at least deliver on similar margin profiles. So that's one.

And then second thing, as we are commercializing 2 of the CMO products, we'll also have some stable source of margin coming in from these products, because for the CMO, we typically work on cost plus model, which is typically margin immune to the volatility in the market. So that's how we are planning to drive through the supply, demand imbalances as we move forward over the next few quarters.

Saurabh Kapadia: So, these 2 CMO products will get commercialized in Q2 or later?

Balram Yadav: I think we are in the last 5, 6 minutes of the call, so can we probably ask only 1 question per head so that everybody gets a chance.

Moderator: We have our next question from the line of Kruti Karani from Axis Capital. Please go ahead.

Kruti Karani: Just a couple of questions from my side. On the Animal Feed margin, like, what should be the stable margin on a rupee per KG basis for you?

Balram Yadav: So last year, in Animal Feed, we made something like INR 1,700 a ton. So, I have a feeling that with 10% to 11% volume growth, we'll end up close to this number, maybe 5% less or something like that, yes.

Kruti Karani: Okay. by when do you expect the RM pressure in the feed margins to settle down?

Balram Yadav: I said that we have flushed all the high-cost inventory in the feed business. So, I think there is no mark-to-market issues anymore. And I must also tell you, in case mark-to-market is there, that is all positive for us now.

Moderator: We have our next question from the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: Just 2 questions from my side. First one would be the impact of lumpy skin disease on your business, both your feed business and your dairy business, because you would have a better handle than anybody else whether this is affecting or going to affect the industry or not. And if so, how will it affect the industry?

Balram Yadav: Very good question, my dear. I'm so happy that you asked about lumpy skin disease. One of the reasons why milk flushes did not happen last year was because of this lumpy skin disease at several places. And it has been underreported. According to us, it is much more rampant. But as it happens, most of these diseases are taken care of by culling animals, et cetera. So, I think that problem was grave about 6 months ago, but it is subsiding now.

Nitin Awasthi: Okay. Sir, the reason I took this question up was because I was looking for precedence of how this disease was dealt with in the past in other countries, and some of these countries had steps which India can't take, some of these countries like Israel, where they just culled the whole herd to get rid of the disease, so that's not possible in India because that'll have a very big implication on the industry. You think vaccination will be the solution?

Balram Yadav: Yes. So, one of the big issues is that we continue with a lot of diseases, because culling is not possible. But I think vaccination and other remedies are there. But I think in case you are more interested in the subject; I think we should talk offline.

Nitin Awasthi: Definitely, sir. And sir, the next question would be fish feed market share of the company.

Balram Yadav: 7-8%.

Moderator: We have our next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: My question is regarding Crop Protection, and we have seen underperformance by Godrej Agrovet in Crop Protection in the last couple of years compared to industry growth. And sometimes, we have seen as a volume degrowth. And then we have seen a margin contraction, also. So, as compared to industry margin contraction, we are severely underperforming in this quarter and maybe in last couple of quarters also. So, for this side, what we are doing for to protect our business, also a better margin profile?

Balram Yadav: So, I think I answered this question earlier, that I think a lot of our issues were also internal, which we have addressed. Unfortunately, it took us much longer time to correct them because of 2 years were COVID and last year, we had failure of monsoon in July, which is our main season for herbicide.

Having said that, at one time, we had the highest EBIT margins in the industry. Definitely, I think that will be our aspiration to go back to that level again and balance our top line growth and margin growth in future. But most of the corrections have been taken according to us. And let us see how this season plays out. And in case what we are seeing in last 2, 3 months and in the current month itself, a lot of efforts we have taken are yielding results. But this is a seasonal and cyclical business, so these corrections take a little more time. We get only one opportunity a year to sell herbicide. So, I think to judge us, I think you should give us one more season.

S Varadaraj: So Sumant, you may note that the margin is also, in fact, result of the composition. In Q1, the mix of our in-house product was less, and that sort of led to compressed margins. It is a question of product mix as well.

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 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: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.