



Godrej Industries Limited

Godrej Industries Limited Quarterly Results Conference Call

February 2, 2011

Moderator: Ladies and gentlemen, good day and welcome to the Godrej Industries Limited quarterly results conference call. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Anoop Poojari from Citigate Dewe Rogerson. Thank you and over to you.

Anoop Poojari: Good afternoon everyone and thank you for joining us on Godrej Industries Q3 and 9M FY 2011 results conference call. We have with us Mr. Adi Godrej, Chairman of Godrej Industries, Mr. Nadir Godrej, Managing Director of Godrej Industries, Mr. Pirojsha Godrej, Executive Director of Godrej Properties, Mr. Vivek Gambhir, Chief Strategy Officer of Godrej Industries, and Mr. V. Srinivasan, CFO and Company Secretary of the Company. We will begin the call with brief opening remarks from the management following which we will have the forum open for a question and answer session. Before we begin I would like to point out that some statements made in this call maybe forward looking and a disclaimer to this effect has been included in the conference call invites sent out earlier. I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej: Good afternoon everyone. Thank you for joining us today to discuss Godrej Industries operating and financial performance for the third quarter and nine months ended December 31, 2010. Let me begin this call by taking you through the key developments in our various businesses. For the period under review all the operating businesses and subsidiaries including chemicals, consumers, properties and agri have reported a healthy performance. Our growth strategy called CREATE which focuses on harnessing the full potential of our four core businesses, enabling a transformation across the group and incubating businesses for the future, remains key to mobilizing resources and successfully executing growth plans for each of our businesses. Let me begin the discussion by talking about our oleo-chemicals business. I am pleased to share with you that our chemical business reported a robust growth in revenues for the quarter as well as the nine month period under review backed by strong demand and firm prices. Revenues for the first nine months and financial year 2010-2011 were higher by 26% and PBIT 64% higher than the same period in financial year 2009-2010. In particular, our specialty chemical business registered very strong growth with sales in Q3 FY 2010-2011 30% higher than Q3 FY 2009-2010.

Specialty chemicals now account for 32% of the total chemicals business and have been instrumental in improving the margin performance of the business. Further it gives me great pleasure to share with you that the chemicals business was well recognized for its performance by external agencies, “the Frost & Sullivan Best Managed Company of The Year Award” and “Excellent QC Award” at the 24th National Convention of Quality Circle for our Vikhroli factory.

Our FMCG businesses represented by Godrej Consumer Products where we have about 21.7% equity stake, reported a 40% growth in profits for the quarter. Our performance is a reflection of our continuing endeavor to drive profitable growth. Enhanced penetration and improved volumes have driven our sales growth. Continuing focus on optimizing our category mix is also enabling us to improve our profitability. Our international operations have also performed strongly during the period under review. The macroeconomic environment is improving. We continue to explore the opportunities to strengthen our presence and competitive position in home care, personal wash and hair care space.

During the quarter, GCPL acquired Naturesse Consumer Care Products and Essence Consumer Care Products, which own the Swastik and Genteel brands. With these strategic acquisitions, we expect our presence in the liquid wool wash and Shikakai soap segments to considerably improve. International businesses now comprise about 35% of GCPL’s consolidated revenues.

Our properties business, Godrej Properties, where we have a 69.4% equity stake, has reported a healthy performance in the third quarter and nine months period ending December 31, 2010. In particular, we are pleased with the sale at Godrej Frontier in Gurgaon and Godrej Palm Grove in Chennai, which are new markets for us and which demonstrate our ability to successfully launch projects across India. We had a great start to this quarter with the launch of the third phase of Godrej Garden City in Ahmedabad where we booked 600,000 square feet in the first week after launch. With several other projects likely to deliver healthy sales, we expect the coming quarter to be an important period for us. In addition to the sales performance, we expect to show construction progress in a number of projects that are currently under development and hope to successfully conclude some of the exciting business development opportunities we are currently working on. I am also happy to share that we have launched our Vikhroli project this month.

Now coming to the key developments at Godrej Agrovet or GAVL, which operates our agri-related businesses - the excellent performance continued this quarter. Our focus on improving the productivity of Indian farmers by innovating products and services that sustainably increase crop and livestock yields is delivering strong results. GAVL registered a 17.8% increase in sales and a 57.5% increase in PBIT in the first nine months of financial year 2010-2011 versus the same period in the previous year. All the four verticals, namely, Animal feeds, Agri inputs, Oil palm and Godrej Tyson Foods, have reported increase in sales and profits. With strong performance and volumes growing across product categories, animal feed continues to be the prime revenue driver for GAVL. We are also in the process of adding new feed mill capacities across India. During the quarter, the oil palm business registered excellent growth of around 58% on a year-on-year basis due to firm crude palm oil prices and improved yield from existing plantations. The total oil palm territory allocation now stands at about 2.5 lac hectares. We believe that this operation holds a very promising potential for the future. During the quarter, sales in the agri input segment was moderated due to unanticipated rainfall pattern and sowing delays. However, in

this segment also, sales were up 21.9% in the first nine months of FY 2010-2011 versus the same period last year. Going forward we expect the segment to report a sizable growth in volumes with new product pipeline on track for being launched in FY 2012. Our joint venture with Tyson witnessed a robust growth of around 26% for the nine months period under review.

In line with our vision for brighter living for all our stake holders, we have spent the last few months figuring out what we can do to further our commitment through 'shared value' initiatives that create both social and business benefits. In line with this, we have crafted a vision for playing our part in creating a more inclusive and greener India. We have named this effort 'Godrej Good & Green'. As part of 'Good & Green', we will aspire to create an employable workforce, a greener India and innovate for good and green products. I believe that Godrej Good & Green will play a vital role in charting the course ahead for our group. I am also delighted to share with you that during the quarter "Godrej Khelo Jeeto Jiyo", our popular lifestyle reality show on television, has been awarded Gold for "Best Campaign in Country – India" and Gold in "Best Brand Building Campaign" category pan Asia at the Promotion Marketing Awards of Asia (PMAA) 2010.

Let me now briefly run you through our financial highlights for the period under review. Our consolidated Total Income improved by 20% to Rs. 1,076 crore during the current quarter from Rs. 899 crore in the corresponding quarter last year. Net Profit was at Rs. 61 crore, an increase of 39% over the corresponding quarter last year. For the nine-month period, Total Income increased by healthy 22% to Rs. 3,171 crore from Rs. 2,607 crore and Net Profit grew by 46% to Rs. 185 crore from Rs. 127 crore in the corresponding nine-month period last year.

With businesses across the key growth sectors of economy, strong execution capabilities, a solid business model and a well-established brand 'Godrej', we are confident of our businesses delivering sustained performance going forward.

Thank you for your time and we will now be glad to take your suggestions and answer any questions that you would like to discuss.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Kushal Sanghrajka from HDFC Securities. Please go ahead.

Kushal Sanghrajka: My first question is to do with the palm oil business. I see that palm oil year-on-year has had good growth. So from what I understand in the business is that once we have certain fruiting palm plantations, it is a continuous cycle as to like income just adding, revenue should just add. Why is there such a drop on a quarter-on-quarter basis in revenue then?

Nadir Godrej: The quarter-on-quarter basis drop is entirely seasonal. Palm oil production is highest in July, August and September quarter and is considerably lower in the October, November and December quarter because less fruit bunches are produced in that quarter.

Kushal Sanghrajka: Okay so this would be the trend going forward every year because that is how it works on every season.

Adi Godrej: Only a year-on-year comparison is valid.

Kushal Sanghrajka Okay and another question again not to do on a year-on-year basis but agri inputs was fairly flat year-on-year and then de-grew again, the revenue is down significantly quarter-on-quarter. I know that there were harsh weather conditions which is why probably there was some effect, but is that the only reason why there was such a drop?

Nadir Godrej: Actually agri inputs have mainly two seasons, pre-kharif and pre-rabi. The kharif season was very good for us, but the pre-rabi season was not so good because of unseasonal rainfall.

Kushal Sanghrajka In the other segment we reported a good growth in revenue but if you look on the profitability the PBIT year-on-year fell significantly. Is there any specific reason for that, would you like to highlight why that is?

Adi Godrej: I think it is to do with the accounting of Nature's Basket which in that previous quarter was sold from Godrej Agrovet to GIL.

Kushal Sanghrajka Those were the only questions. Thank you.

Moderator: The next question is from the line of Mr. Gaurang Kakkad from Religare Capital Markets. Please go ahead.

Gaurang Kakkad: My question is on the palm oil plantation business. I would like to know currently what would be the total hectares that would be yielding and on a YOY basis what is the increase that we have seen in the area under acreage in terms of hectares.

Adi Godrej: I think total hectares is about 40,000 hectares currently

Gaurang Kakkad: 40,000 is currently yielding?

V. Srinivasan: Our total planted is about 40,000 hectares, about 15,000 is yielding now.

Gaurang Kakkad: 15,000 is yielding now and last year this number would be, just wanted to get YOY basis what is the increase?

V. Srinivasan: The increase is about 3000 hectares.

Gaurang Kakkad: So, last year this would be 12000.

V. Srinivasan: Yes around that. That was for the full year, this is nine months. You are comparing last year's to this year right?

Nadir Godrej: We have done significant plantings in the last quarter.

Gaurang Kakkad: Going forward say over the next two years, how many which have already been planted would start yielding?

V. Srinivasan: Typically, whatever was planted three years ago will start yielding and if you see our pattern it could be about 8,000 to 10,000 hectares over the next two years at least.

Gaurang Kakkad: These 2.5 lakh hectares is the total area which has been allotted to us right, so maybe on a yearly basis how much of this is possible to say plant or any sense on how this would actually come into yielding?

Nadir Godrej: The last two years, it has been at the rate of around 8,000 hectares a year.

Gaurang Kakkad: So that should be more or less similar going forward also around 8,000 hectares.

Nadir Godrej: It could be similar, but some years will be higher, some years not so high. This year we have had bit of a challenge because of the very high sugar prices. If sugar prices fall, I think we could see improvements in the numbers.

Gaurang Kakkad: Sir, also wanted to know the outlook on palm oil prices, which have actually risen significantly, what is your take on that?

Nadir Godrej: Palm oil prices are at record high. Normally we would expect prices to come down somewhat by June, but there are constant weather problems all over the world. Just this week, there has been flooding in Malaysia, which has send palm oil prices high. So lot will depend on the weather around the world. In the normal situation we expect some drop in June, but if weather continues to be bad the sky is the limit.

Gaurang Kakkad: Okay, but then till June the prices could remain firm is your sense.

Nadir Godrej: Till June the prices will definitely remain firm.

Gaurang Kakkad: That's it sir, if I have something else I will come back. Thank you.

Moderator: The next question is from the line of Manish Gandhi, an individual investor. Please go ahead.

Manish Gandhi: Sir, I just want to know broadly in this rising interest rate scenario, how you see property sales because as we have seen that we are booking very good sales in last few months. But as per your internal whatever planning you must have done do you see any challenge for the next year?

Pirojsha Godrej: I think the interest rate rising does pose a little bit of a challenge for the real estate sector but it is not something that is unmanageable and it is quite normal for the sector to go through this kind of cyclical period. What we see is that while economic growth is good and people's incomes are rising, it really does not have much of an impact. Actually if you see our sales in the third quarter has been the best quarter in the year and actually this quarter will be even better than that and just in the first month, in the month of January, we have already sold over a million square feet in Godrej Properties. So I think we are quite confident. Particularly in the mid income residential space demand continues to be very strong.

Manish Gandhi: On commercial side sir have we done anything on this Kolkata commercial property, any sales or something like that.

Adi Godrej: Demand has started to rise in the Kolkata Commercial property also.

Pirojsha Godrej: you know in Commercial, sale is typically going to happen once the project is complete. Godrej Waterside which is our first IT park project, the first phase of that project is complete and has been completely sold out. The second phase of that project will be completed in the next few months. We expect to lease and then capitalize the leases in the next few months.

Manish Gandhi: Thank you sir. The next question is on the palm oil business, actually most of my questions has been answered in palm oil, just one broad idea, last few days there were some newspaper articles one about Andhra Pradesh in that small farmers find it nonviable at this price – Rs. 6,000 a tonne for FFB, any comment that sir.

Nadir Godrej: FFB price at 6000 is higher than it has ever been. It is quite viable for farmers but the only thing is that the very high sugar prices make it attractive for the farmers to grow sugar. But sugar prices are abnormally high and we feel that they will come down after sometime and then people will find palm oil again very attractive.

Adi Godrej: You must remember that individual crops currently, sugarcane and corn, are attractive for the farmer, but they will not be attractive for the farmer throughout the period he might plant palm. Palm would yield for 30 years. Typically there might be ups and downs based on some other crop being good at a particular point of time but in the long run, we feel palm will be the most profitable for the farmer.

Manish Gandhi: One more article- in Mizoram that government is pushing for palm oil, so like we have seen good traction in Gujarat, so do you think Mizoram also could be the next Gujarat in kind of you know palm oil in fast clearance and government help to the farmers?

Nadir Godrej: We have allocated land in Mizoram and our company has started planting in Mizoram. There are about 6000 hectares already under plantation in Mizoram and allocation is 21,000.

Manish Gandhi: Do you see any ground level changing from the state government in Mizoram for the palm oil?

Nadir Godrej: The state government is already very, very cooperative in Mizoram.

Manish Gandhi: Thank you very much, that's all from my side.

Moderator: Thank you. The next question is from the line of Aparna Karnik from DSP Blackrock. Please go ahead.

Aparna Karnik: Actually I had a couple of queries more on the balance sheet, one is just wanted to have a sense of the breakup of the total debt which is there on the books of standalone Godrej Industries and the debt sitting in the books of the key subsidiaries, also wanted to get a sense in terms of the loans and advances if any have been given by Godrej industries to the key subsidiaries and the thoughts on the same. If you could just give us a sense on these two queries.

V. Srinivasan: The total debt on Godrej Industries standalone balance sheet is about Rs. 530 crore as of December and there is a fair mix of long term and short term debt. And as far as loans and advances go, there are no

major loans and advances to any of our subsidiaries. We could park some of the amount temporarily with some of the subsidiaries if they are in need of funds. As of now I do not think there is any substantial amount with any of the subsidiaries.

Aparna Karnik: Okay also in terms of the debt on the books of the key subsidiaries could we assume that apart from 530 the larger debt is sitting on the books of Godrej Properties?

V. Srinivasan: All the subsidiaries have a very good debt equity ratio, property is about 0.8:1, and Godrej Agrovet is about 0.5:1, so the debt is well under control in all the subsidiaries.

Aparna Karnik: Okay, one more thing I just wanted to get a sense in terms of CapEx plans and funding plan for the same both for Godrej Industries and for the key subsidiaries?

V. Srinivasan: In the case of Godrej Industries, we have announced two projects; one is an expansion project in our factory at Valia for fatty acid manufacturing facility, that is about Rs. 52 crore, which was recently approved by the Board. Prior to that, we had already announced setting up of a new oleo-chemicals complex at Ambarnath, approximate CapEx cost is about Rs. 230 crore. Both these projects in Godrej Industries would be financed by a mix of debt and internal accruals.

Aparna Karnik: Could you give us some sense in terms of what sort of consolidated debt we could expect to see at Godrej Industries say next year?

Adi Godrej: The only company that may borrow considerably could be Godrej Properties because the expansion plans are very big, growth is very strong. Now, the expansion will be financed by a combination of internal resources and debt. Then as you may know our model is to get private equity at the SPV level that also helps the financing and then we could raise some more debt because our debt equity ratio is well below the 1:1 level. Only after a considerable period of time, we would have to look at perhaps raising equity in Godrej Properties, but that would be a long while away.

Aparna Karnik: The reason probably this query came from is what we understand is that on the real estate side, there is some level of difficulty, some challenges, which companies are facing in terms of raising debt on timely basis from banks for ongoing projects. So do you see this actually playing out and could it have any implication on advances given to properties going forward.

Adi Godrej: Not at all. First of all, we have not given any advances to Godrej Properties. Godrej Properties are entirely financing its own debt. We have had no problems in raising debt because our debt equity ratio is well under control. Our Balance Sheet is strong; we have had an IPO little over a year ago. So we are having absolutely no problems, and I would imagine even our interest cost are low in comparison to most other property development companies. It is under 10% , our interest cost.

Moderator: The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: I wanted to understand what the margin in the specialty chemical business is; I understand it is much better than the normal chemical business?

V. Srinivasan: Yes. They are much better than the normal chemical business. The variable margins would be in the region of about 20%.

Mayur Gathani: 20% and so what are the margins for the oil palm crushing plants that we run sir?

Nadir Godrej: High, it is of the order of 20%.

Mayur Gathani: Any development on the Wadala land sir?

Adi Godrej: Wadala land, there are developments, but nothing which we can announce and we hope to get some clearances from the Bombay Port Trust. But we do not know exactly when it will be. But that has progressed, considerable progress.

Mayur Gathani: How about expansion plan of Nature's Basket sir?

Adi Godrej: Nature's Basket we are expanding very considerably. We have opened up in Delhi. We are now planning to open a store each in Bangalore and Pune,

Vivek Gambhir: The plan for Nature's Basket is we have 11 stores right now. Over the next one to two years the plan is to add up to eight more stores in Pune, Bangalore, Delhi and Mumbai.

Adi Godrej: But the most remarkable thing we have seen in Nature's Basket is in the same store, sales are increasing very considerably sometimes up to 50%.

Vivek Gambhir: That is a very important point because I think the key metric we are measuring is store level EBITDA and for most of our stores typically we are finding that we are breaking even on a store level EBITDA within the first year of the store opening up.

Mayur Gathani: That's it from my side, thank you.

Moderator: The next question is from the line of Sumeet Rohra from Silver Stallion Investments. Please go ahead.

Sumeet Rohra: Sir, it was very heartening to see the chemical business, actually report multi fold increase in profit over last quarter and you know to see the nine month profit actually rise by 46% to Rs. 185 crore in FY'11. Sir you know this is just a thought process to just see on the track which grows Godrej Industries over the next couple of years. You were mentioning that Sir you would see FY 2011 with 40% growth over FY'10 profit which effectively means that so Godrej Industries can definitely have a very bright future and do a very good profit for FY'11, which could be if basing Rs. 200 crore was the profit for FY 2010, so which means it roughly about Rs. 280 crore profit for FY 2011 and I do understand that you know since Godrej Properties is one of the integral parts of Godrej Industries and it is one of the growth engines, which I would assume for the Godrej Group going ahead, we would see a substantial portion of the fourth quarter profit coming from Godrej Properties?

Adi Godrej: Well I do not want to make any forward looking statement. We have not projected our growth in profits for the year as a whole. We expect very strong results for the year as a whole. We expect very strong

results during Q4 and you are right that Godrej Properties ought to have a very strong Q4 and that will help the Q4 of consolidated numbers in Godrej Industries too.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Can you explain the whole business model of this palm oil plantation business?

Nadir Godrej: The government allots us land and we have to provide plantlets to the farmers who plant them and the farmer is then obliged to sell the fruit bunches to our mill. We invest in the mills and we crush the fruit bunches to produce both palm oil and we also remove the nut. We extract palm kernel oil from the kernels and so that gives us additional stream and we also use our biomass to generate electricity and to provide fuel for our boilers. So that is essentially our business model.

Adi Godrej: Low capital and another point is that the farmers have to come to our mills because the fresh fruit bunches after being plucked would spoil in a very short period of time. So it is difficult for them to take them to any other mill even if they wanted to, so we have no such problem.

Nadir Godrej: They have a legal obligation.

Bharat Sheth: Is this purchase from farmer at market price?

Nadir Godrej: Government fixes the price and currently it is fixed at a little under 13% of the palm oil price for the fruit bunch.

Bharat Sheth: Once the palm oil tree is planted is there any chance of switching over to other crops?

Nadir Godrej: It is very costly for the farmer to cut down the tree. It has occasionally happened in the past but with current high palm oil prices, it is impossible for the farmer because he would lose all his investment if he were to cut down the tree. It is economically extremely unlikely and the tree keeps on growing for 25 years. It will last even longer but then the tree becomes very tall and harvesting is difficult. So in Malaysia usually replanting is done after 25 years. In India harvesting can be done easily because labor is available. We think that the economic life of trees can be even beyond 30 years.

Bharat Sheth: You said about switching over from sugarcane and other crop to?

Nadir Godrej: That is when they want to plant, when we try to persuade the farmer to plant the palm tree, he will get no income for the first few years although the government does provide some subsidies during this period. Whereas if you were to grow sugar instead of planting the palm tree, he will immediately get an income and when sugar prices are high, he defers his decision to switch over to palm. But the advantage of palm is that once the tree grows he will have a steady income for 20 years and it won't be a seasonal income, it will be throughout the year with six months of high yields of fruit bunches regularly, he does not have to wait for harvest - the fruits will be coming regularly. So in the long term, palm oil is extremely economical, but palm oil requires an investment and when sugar prices are high the temptation is to grow sugarcane for one more crop and then switch to palm oil.

Vivek Gambhir: I think the important point as Mr. Godrej was mentioning is that once the tree has been planted uprooting is very, very unusual.

Bharat Sheth: I understand that Sir, so once the tree is planted first you say it takes three years to start yielding the fruits correct, so how will the farmer manage all these three years without income?

Nadir Godrej: There is a subsidy from the government.

Bharat Sheth: For all three years?

Nadir Godrej: For the first five years.

Bharat Sheth: But that can take care of switching over from other crop to this palm oil.

Nadir Godrej: In the normal case, but as I said when the sugar prices are very high the temptation to grow sugar is there.

Vivek Gambhir: The other important thing is the profile of the farmer which gets attracted to this kind of a crop tends to be a longer term farmer with slightly larger average land holding. So they do have the economic power to sustain themselves for that period as well.

Nadir Godrej: Many farmers also convert half their lands to oil palm, so that they get income and then when palm oil prices are high the other trees are already grown and they are giving you steady income, they convert the remaining half of their land to palm oil. That can also happen.

Bharat Sheth: I understand. I mean vis-à-vis as you rightly said but is there any special weather environment required or only in tropical area it can grow?

Nadir Godrej: Oil palm ideally grows in tropical conditions and in Malaysia and Indonesia they have 11 months of rain. In India typically we have four to six months of rain in palm oil growing regions and therefore we have to use irrigation. But the irrigation enables them to have good yields under Indian conditions as well but irrigation is a must and we are helping our farmers to put in drip irrigation so that they do not lose too much water and get a very good yield. Now the interesting thing is that because of global warming people hypothesize that India's climate will change. There will be more rainfall but much more erratic rainfall. The monsoon we had this year is typical of this rain and we saw rain in October and November, which is unheard of and damaged many crops. But this kind of rainfall pattern is ideal for palm oil and so global warming might actually make India ideal for palm oil.

Bharat Sheth: Sir, can you give any rough estimates that per acre if one plants, how many normally say for pulses and it gives around 1 lakh of rupee income to a farmer.

Nadir Godrej: I do not know about pulses and palm oil does not compete with pulses, so we don't worry about pulses. We actually think that pulses are very unremunerative crop. The competition we see is sugarcane and maize. Maize typically gives eight to nine tonnes per hectare at a price of around Rs. 10 a kilo and sugarcane in 18 months gives about 50-60 tonnes of sugarcane and I can't recall the exact price

currently. I think it is about Rs. 2000 per tonne. And palm oil can give 20 tonnes of fruit bunch and the current price of fruit bunch is between Rs. 6,000 and 7,000 per tonne of fruit bunch.

Bharat Sheth: Sir, do you have any plan I mean to take the Godrej Agrovet for listing?

Adi Godrej: Not currently.

Bharat Sheth: In what timeframe?

Adi Godrej: We do not know. We will have to review it. The board has not given a thought yet.

Bharat Sheth: Sir now recently this Godrej, which has come up with a new project in Vikhroli. It says that the property is of Godrej & Boyce and Godrej Industries, all three are there. So what is Godrej Industries role in that?

Pirojsha Godrej: Godrej Industries has a long-term lease from Godrej & Boyce and has entered into a joint venture with Godrej Properties to develop the land. So Godrej Industries get 40% of the profit from the development. If you actually think about it, given that Godrej Properties is a subsidiary, about 82% of the economic performance from the development accrues to Godrej Industries - 40% directly and 70% of the 60% that Godrej Properties gets.

Moderator: Thank you. The next question is from the line of Mitul Mehta from Lucky Securities. Please go ahead.

Mitul Mehta: Sir just to get a little bit more information on the palm oil business. What is the value addition between the price that you buy the palm oil fruit bunch and what is the EBITDA margin or the processing differential between that and your selling price?

Nadir Godrej: Since the fruit bunch price is fixed in percentage terms the margin fluctuates with the palm oil price. As I said earlier we are required to pay 13% of the palm oil price for the fruit bunch and the fruit bunch contains 17-19% oil. So that 6% is the margin plus we get some value from byproducts such as palm kernel oil and we can use the waste matter as a fuel.

Adi Godrej: So a lot depends on the efficiency with which we run the operations.

Nadir Godrej: And we are one of the most efficient mills in India and we extract most of the oil that is present in the fruit bunch with very little loss.

Mitul Mehta: Okay. So 13% of the sale price is the fruit bunch. Okay for every tonne of palm oil you get how much, how many tonnes of fruit bunch do you need?

Adi Godrej: We make a margin of about 20% overall.

Mitul Mehta: 20% EBITDA margin?

Nadir Godrej: 20-25% depending on palm oil prices.

Moderator: The next question is from the line of Abhishek Kumar from PINC Research. Please go ahead.

Abhishek Kumar: Good after noon sir. Just a small question on the chemical business - You are giving a CapEx of nearly Rs. 52 crore in Valia. So can you say what would be the capacity after this in fatty acid?

V. Srinivasan: Essentially the fatty acid capacity would increase by about 20%.

Abhishek Kumar: Because we are running at a capacity utilization of plus 82-83% in fatty acid.

V. Srinivasan: We have planned to do specialty fatty acids, so therefore that increase would be quite substantial on the overall turnover, the revenue increase would be about 15-20%.

Abhishek Kumar: And when it is likely to be operational?

V. Srinivasan: In about 15-18 months.

Abhishek Kumar: And the expansion which you have made in Ambernath, can you give us some bifurcation subsegment of the expansion either in terms of MT or in value?

V. Srinivasan: That will be about 70, 000 tonnes of oleo chemicals. We can make different kinds of fatty acids. We will also have surfactant facility there. Fatty acids and surfactants, that is what we are going to make there.

Abhishek Kumar: Can you say what is your strategy in the drip irrigation, micro irrigation, how do you want to progress on this particular segment?

Nadir Godrej: Agrovet is looking at entering the drip irrigation market and we will have a technology partner in that field.

Abhishek Kumar: So when will the technological partner be in, so can we expect by FY 2012 second half or in that case?

Nadir Godrej: Approximately that timeframe.

Moderator: Thank you. The next question is a follow up from the line of Kushal Sanghrajka from HDFC Securities. Please go ahead.

Kushal Sanghrajka: Thank you. My question is actually to do with a mention that Mr. Godrej said you are adding new feed mill capacities across India. I guess that is a standard procedure throughout the year, but is there any specific amount that we are looking at right now?

V. Srinivasan: Approximately I think the capital expenditure planned is about Rs. 30-40 crore over the next one year or so.

Kushal Sanghrajka: And what kind of capacity would that?

V. Srinivasan: That I do not have, I can let you know later on.

Moderator: The next question is a follow up from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Just can you throw some light on this Hitweed agri input thing that we have the cotton herbicide and how it is placed against competition?

Nadir Godrej: Hitweed is doing extremely well and this year I think the volumes have more than doubled this year. And we are also registering similar compound as a rice herbicide, which will take about 18 months to two years to get all the approvals. And we expect good growth for Hitweed. There is no real competition for Hitweed.

Mayur Gathani: Sir regarding this animal feed - currently there are 40 manufacturing units right sir?

V. Srinivasan: Approximately.

Mayur Gathani: Out of which how many are owned by us?

V. Srinivasan: I think about 30% would be owned by us and the rest would be processing units, third party.

Mayur Gathani: Okay thank you very much.

Nadir Godrej: We are planning to have more and more of our own units.

Moderator: The next question is a follow up from the line of Mitul Mehta from Lucky Securities. Please go ahead.

Mitul Mehta: Sir I just wanted to understand the pricing in the palm oil, the buying of fruit bunches from the farmer. Is it as political or is it as prone to interference by the government or is it a fixed formula which is put down in to law?

Nadir Godrej: The formula is not put into law, the government can change the formula. But it has been quite steady for quite some time now and a committee is appointed to look in to it and so far it has been very smooth.

Mitul Mehta: This is an all India pricing or does it go state by state.

Nadir Godrej: It goes state by state, but with very small variation.

Mitul Mehta: So each state sets up a different committee, is it?

Nadir Godrej: Yes and Andhra Pradesh is the major producing state today.

Mitul Mehta: Typically does this kind of get set once a year or how often does it?

Nadir Godrej: Formula is set and fixed till it is changed. Maybe even longer than a year. The price is used to be set once a quarter, now it is set once a month, but based strictly on the formula.

Mitul Mehta: The 13% of the average traded price.

Nadir Godrej: Just under of 13%.

Mitul Mehta: Just under 13% for the last quarter or whatever it is

Nadir Godrej: Yes exactly.

Moderator: The next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Sir my question pertains to Natures Basket. I want the operating metric like if you can give sales/sq. feet, gross margin, EBITDA per square feet, average rental per square feet, CapEx per square feet and average floor size.

Adi Godrej: We do not have this information on us. Sorry.

Moderator: Thank you. The next question is from the line of Girish Solanki from Anand Rathi Securities. Please go ahead.

Girish Solanki: Sir, my question was more pertaining to the Agrovet business and cattle feed industry. We reported close to Rs. 1,200 crore of topline in the animal feed business, I wanted to know exactly how big is the animal feed industry in India and how much do we export?

Nadir Godrej: We have to distinguish between total feed stuff fed to animals and compound animal feed. Now in the case of poultry, all the feeds are pretty much compound animal feed. But there is fair number of integrators. So the animal feed market is for the non-integrated portion of the market. In the case of cattle feed a lot of raw materials are also fed. So it is very difficult to measure share compared with raw material. But in the merchant compound feed sector we would probably have 20% market share.

Girish Solanki: So whatever we contribute in the animal feed business, the Rs. 1,200 core which you say is 20%.

Nadir Godrej: With a caveat that there is a raw material market and there are integrators who produce their own feed in the poultry sector.

Girish Solanki: You mean to say is it DOC directly or something more to do with DOC.

Nadir Godrej: I do not think it is always compounded. All the ingredients are mixed with additives and fed to poultry. In cattle you have the choice from mixing the ingredients, making a compound feed or feeding the raw materials themselves.

Girish Solanki: So we do all the types, we do for poultry, we do for cattle.

Nadir Godrej: Yes we do for dairy cattle and poultry

Adi Godrej: And also aqua feed.

Girish Solanki: How big will be the cattle feed market? Can you put some light on it, or is it very difficult?

Nadir Godrej: In cattle feed, we would have roughly 10% of the market share of compounded cattle feed. The other big players would be the cooperatives and Kerala Solvents.

Girish Solanki: Okay so basically these cattle feed units they mix 2 to 3 or maybe 5 to 6 DOCs together and some amount of molasses I guess and some amount of some additives. In terms of poultry feed how big will be that margin because it is I guess more organized in poultry feed?

Nadir Godrej: I do not have exact number for the market. But I said our share in the merchant market would be very large, but they are also big integrators like Venky's and Suguna who produce their own feed.

Girish Solanki: Okay they do produce their own feed, I thought you also do supply to Venky's and Suguna

Nadir Godrej: They produce their own feed.

Moderator: As we have no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead sir.

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

Moderator: Thank you gentlemen of the management. Thank you Mr. Poojari. Ladies and gentlemen, on behalf of Godrej Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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