



Godrej Industries Limited

Q3 & 9M FY2013 Conference Call Transcript February 7, 2013

Moderator Ladies and gentlemen, good day and welcome to the Godrej Industries Limited's Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in a 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 this conference, 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 over the conference to Mr. Anoop Poojari from CDR India. Thank you and over to you Sir.

Anoop Poojari Good morning everyone and thank you for joining us on Godrej Industries Q3 & 9M FY 2013 results conference call. We have with us Mr. Adi Godrej, Chairman of Godrej Industries, Mr. Nadir Godrej, Managing Director, Mr. Pirojsha Godrej, Managing Director and CEO of Godrej Properties, Mr. Balram Singh Yadav, Managing Director of Godrej Agrovet, Mr. Vivek Gambhir, Chief Strategy Officer, Mr. Ravi Venkateswar, Head - Finance and Corporate Services and Mr. Clement Pinto, Vice-President (Finance) of the Company.

We will begin the call with brief opening remarks from the management. Following which, we will open the forum to answer any questions you have.

Before we begin, I would like to point out that some statements made in this call may be forward looking and a disclaimer to this effect has been sent out in the conference call invite.

I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej Good morning everyone. I welcome you all to Godrej Industries conference call to discuss the operating and financial results for the third quarter and nine months ended December 31, 2012.

Godrej Industries continues to perform well at the consolidated level and maintain growth momentum, despite a challenging macro-economic

environment. With a diversified business model, through our presence in multiple high growth industries, we continue to leverage the “India growth story” and the power of our Brand to cater to the growing aspirations of all consumers – urban & rural, domestic & global. I am pleased to inform you that in the recently published Brand Trust Report, 2013, Godrej has been ranked the 6th most trusted brand in India, up five places from last year. This ranking is a strong endorsement for brand Godrej and the trust consumers and investors have espoused in us.

During the quarter, our agri-businesses registered a growth of 25% in total revenues primarily on the back of improved top-line numbers reported by the animal feeds segment which constitutes around 75% of total agri-business revenues. To cater to the growing volumes in animal feed, we commenced operations at our new feed mill in Khanna, Punjab. The quarter under review was particularly challenging for the oil-palm business as volumes dropped on account of weak rainfall in key areas and oil prices remaining weak. Going forward, we expect the prospects to look up for this segment as we expand acreages under cultivation. Agri-inputs sales remained stable, in spite of weak monsoon which resulted in a decline in cropped areas. During the quarter, sales volumes of HBR and Zymegold Granules, plant growth regulators increased by 38% and 108% over the corresponding quarter of the previous year. While the existing products continue to perform extremely well, we are developing a pipeline of new products which would enable us to accelerate growth going forward. Performance of our joint venture with ACI Bangladesh, which was impacted on account of bird flu in Q2 FY13, marked a marginal improvement in sales in Q3 FY13. Godrej Tyson reported an increase in sales of 21% amidst a challenging input cost scenario. Our seeds venture, ‘Godrej Seeds and Genetics Limited’, has witnessed an encouraging response and through concerted efforts we are confident of building this business significantly.

A strategic development at Godrej Agrovet, in Q3 FY13, was introducing Temasek as an investor and a partner. Temasek acquired 19.99% stake in GAVL for a total consideration of Rs. 572 crore. We believe that this will prove to be highly beneficial given their global credentials, knowledge of agribusiness and should enable GAVL to accelerate the strong momentum going forward.

Coming to our properties business – the third quarter has been a successful quarter for Godrej Properties as we witnessed strong growth in launches, bookings, and new business. We have also sustained new sales momentum by delivering four successful launches across the key markets of Mumbai, NCR and Bengaluru during the quarter. Our presence in the Mumbai redevelopment space was further strengthened with the addition of the Curry Road project in this quarter. We are strategically developing

our presence in crucial markets and adding value accretive transactions to our portfolio which clubbed with our unmatched brand equity, differentiated business model and strong execution capabilities will drive our future growth.

We believe that the recent reform momentum that the new finance minister has brought in, coupled with the shift in the interest rate cycle, which commenced recently, is very positive for the Indian economy and the consumer sentiment. As we progress into the future, we firmly believe that we are in a good position to capitalize on the opportunities in the real estate space.

At Godrej Consumer Products, this was another quarter of good performance in both the domestic and international operations. While the consolidated net sales enhanced by 26%, the profitability for the quarter showed a marginal growth of 3%, since we increased our marketing investments to back several key launches. We continue to be very optimistic of continuing strong sales growth momentum and expect profit performance to improve on the back of stronger traction from new launches and favourable input prices.

Moving on to the performance of the oleochemicals segment – this quarter was a very difficult quarter for the business as the global economic environment combined with raw material price fluctuations dampened the performance and price realization. As the business follows a B-to-B model, a decline in the input price is immediately passed onto the customer without a lag – thus impacting price realizations. The scheduled maintenance shut-down of our manufacturing facilities too affected the performance. Nonetheless, we are confident that the coming quarters will witness improved numbers.

Let me now briefly run you through our financial highlights. During the quarter, our consolidated total income grew by 22% to Rs. 1,854 crore from Rs. 1,520 crore during the same quarter last year and Net Profit stood at Rs. 179 crore, a growth of 112%. For the nine months ended 31st December 2012 Consolidated total income stood at Rs. 5,725 crore, a growth of 32% and Net Profit stood at Rs. 298 crore, a growth of 20%.

In summary, Godrej Industries will continue to focus on our CREATE strategy, which will harness opportunities in a diverse array of businesses. We believe this will create value over the long term and we are confident of continuing to deliver value for all our stakeholders going forward.

Thank you for your time and we will now be glad to take your suggestions and answer any questions that you may have.

Moderator Thank you very much Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Mayur Gathani of OHM group. Please go ahead.

Mayur Gathani Just wanted some outlook on the Chemicals business for the coming quarters. And a lot of movement in the capital employed; it is Rs. 100 crore plus this time, it was Rs. 70 crore last quarter, so what is the reason behind that?

Nadir Godrej There is improvement in the scenario for the Chemicals business. The global recovery is proceeding well. So demand for products looks to be improving. Since the government raised import duty, refining is once again economical in India and PFAD and stearin prices are now the lowest in the world in India which helps our competitive position significantly. This is a recent development which will help us going forward and the reason for more capital employed is further investment in our Ambarnath plant.

Mayur Gathani So with that duty thing, do we see exports increasing for us?

Nadir Godrej Yes, we feel exports increasing and apart from benefiting us in the fatty alcohol where we export a lot, we also see exports improving in fatty acids - fatty acids based on stearin and PFAD which we have not exported in the past, an opportunity is opening up now. Also, in our Erucic Acid and Behenyl Alcohol portfolio which depends on Indian Rapeseed Oil, the situation is improving because India is expected to have a bumper Rapeseed Crop this year.

Mayur Gathani And steady state margins for this business would be in what range?

Clement Pinto It should be in the range of around 8%.

Mayur Gathani And coming to the Palm Oil business, how many hectares have we added this in the last 9 months and what are the total hectares under cultivation currently?

Balram S Yadav Total hectare under cultivation is about 50,000 hectares and we have added more than 5,000 hectares in last 9 months. In the next 3 months we will add more hectares both in Tamil Nadu and Andhra Pradesh. There is an improvement of about 12% over last year.

Vivek Gambhir Typically, I think we are looking at adding somewhere between 7000 – 9000 hectares every year.

Mayur Gathani And what is the outlook on this Agri business Sir?

Balram S Yadav	I think we have had a very good year. We believe that next year will also be very good because monsoon is predicted to be normal, and if that happens I think we will have another good year.
Moderator	Our next question is from Manish Gandhi. He is an individual investor.
Manish Gandhi	Sir I want to know out of Rs. 570 crore how much money has gone into the Agrovat company?
Adi Godrej	About Rs. 112 crore was primary infusion into Godrej Agrovat.
Manish Gandhi	And other money has gone to Godrej Industries in the...?
Adi Godrej	Other money - some shares were sold by Godrej Industries and some shares were sold by the Godrej family.
Manish Gandhi	So just asking this question because Agrovat is a very high ROE and low CAPEX business and our group track record of investing and allocating money is fantastic. So I was just wondering that do we see inorganic opportunity in Agrovat or huge organic growth that we require to dilute stake. Just wanted to have some understanding on that?
Balram S Yadav	Two things - One is we have accelerated our investment plan. When you met me last time I told you that we find completion of projects a problem, so we have accelerated the plan. So we have started several projects where this money will be deployed. And, of course, we are always on a look out for inorganic growth. And we believe we have the Balance Sheet as well as the required parentage now to fund that.
Vivek Gambhir	But Manish to your point I don't think any acquisitions would lead to dilution. I think the balance sheet is strong enough for us to fund any future acquisitions through debt.
Manish Gandhi	I agree with that but already we have diluted, that's what I was asking. It is a wonderful company – Agrovat. Of-course, you have your own reasons for getting Temasek into the Company. But I always feel it is such a wonderful Company and as a investor I am always a little bit hesitant - we are diluting stake in that company.
Adi Godrej	But Temasek will be a very useful investor for us in Godrej Agrovat for 2 or 3 reasons. First of all, Temasek has major investments in similar businesses across the world which knowledge will be of use. Secondly, and more importantly, Temasek has invested in a major agri research project in the University of Singapore which they introduced us to and which will be available to us for interactions and that we feel will help our future growth.

Manish Gandhi Just last, on a big picture Agroviet, of course, it is very hypothetical, of course we have grown to a very good size but next 5 – 10 years can you give some color?

Adi Godrej We don't want to give guidance for the future but we feel because of the agricultural importance to the economy and the government realization that agricultural productivity needs to increase and the technological improvements that we are seeing globally, we feel that the agricultural situation in India will provide Godrej Agroviet a tremendous platform for rapid growth in the future and we feel that its growth projections for the next 5 – 10 years would be even better than during the last 5 years.

Moderator Our next question is from Farzan Madon of Axis Capital. Please go ahead.

Farzan Madon What is the timeframe for the completion of the 3.5 million Trees project? And what would the expected selling price be, would it be similar to what we are selling Platinum at or it will be?

Pirojsha Godrej On the first question it probably will take us to complete the project in another 5 – 6 years. And I think on the selling price, yes, for today's market, Platinum is a good benchmark. Today we are selling at about Rs.16,500 sq. ft. on a saleable area. But I would just point out that prices do tend to move up in such projects particularly as we complete the initial phases. If you compare Platinum prices over what we were selling in Godrej Platinum exactly 12 months ago, the prices are up almost 40%. Obviously that kind of price growth is not sustainable year-on-year but we certainly expect that the average price for 'The Trees' would be higher than the selling price today, which is about Rs.16,500 sq. ft.

Farzan Madon My second question is regarding the Agroviet business. Are we on track to continue the traction of around 20 – 25% PAT, CAGR?

Balram S Yadav I think I can share that YTD we are at about 30% top line growth and EBIT is 42%.

Farzan Madon Would the drop in PBIT be because of Animal Feed?

Balram S Yadav No, last quarter the drop took place because of two reasons. One was the fall in prices of Palm Oil and second was the Chicken prices were very low and the raw material prices were very high, so our Godrej Tyson business suffered. Animal Feed, Agri Input did much better than expected last quarter.

Nadir Godrej Chicken prices are picking up now.

Farzan Madon	Just last question, when you will close the Vikhroli plant how much of the write-off do we expect in the next couple of quarters, that will be somewhere in September - October?
Adi Godrej	There will be no write off, because it is all depreciated. And in fact that will enable us to get 'The Trees' project going faster. So there will be large benefits from moving the factory.
Farzan Madon	In terms of VRS?
Adi Godrej	No, there will be no VRS because all the employees have agreed to move to Ambernath.
Moderator	Our next question is from Bharat Sheth of Quest investments. Please go ahead.
Bharat Sheth	When do we expect to ramp up, full fledged starting of this Ambernath plant and how efficiency wise and all help us, just can you elaborate?
Nadir Godrej	We expect Ambernath to start up at the end of the current calendar year and there will be somewhat higher capacity at Ambernath than we have at Vikhroli currently. Plus some of the new plants will be more efficient than the plants we have at Vikhroli.
Adi Godrej	So starting of Ambernath will be very beneficial overall to the Chemicals business.
Bharat Sheth	And will it change away more towards Specialty rather than this Commodity business which we have - ultimately where we are looking at?
Nadir Godrej	Yes, to some extent Specialty business will have a higher proportion from the Ambernath plant. We are also doing some investments at Valia which enables us to make more Specialty products.
Bharat Seth	Sir when is 'The Trees' next Phase-2 will be launched at Vikroli?
Pirojsha Godrej	Our goal is to launch that towards the end of the next financial year, however, it is linked to regulatory approvals. I think better clarity on that will emerge over the next few quarters. But our goal is to launch in the next financial year.
Bharat Seth	Our Ahmedabad project where because of regulatory approval which was delayed. Now recently there was a news item that the government has changed lot of DCR rule over there also. So how is going to affect us, will it be beneficial or?

Pirojsha Godrej We don't expect any changes to the project as announced. I think we have already got the township approval. If at all the FSI may slightly go up through the new rule but we don't expect any major impact.

Bharat Sheth Second thing Sir for this Agrovet, we understand that Agrovet is having almost around 100 plus acres in Bengaluru which was earlier at the outskirts and then once this expansion of the city limit, now that plant we have shifted further, the land has been freed, so what is the plan for that land?

Adi Godrej That land will become valuable in course of time. And as and when it is developable either in a joint venture with Godrej Properties or if we get a good offer we could even sell the land, there are many alternatives. But that will create value into the future.

Bharat Sheth So when do we expect? Now the whole poultry farm has been shifted?

Adi Godrej It's not yet been fully shifted. Shifting doesn't take too long and we will do it at the right time.

Bharat Sheth Any timeframe Sir if you can?

Adi Godrej No, because it depends on how the Bengaluru property market develops and how this particular area develops.

Bharat Sheth And just on Palm Oil price, can you say which way it is moving now?

Nadir Godrej It is very difficult to predict Palm Oil prices. Best guess is that they will stay at around these levels. If Crude Oil goes higher, Palm Oil prices will also go higher. If the government imposes a higher import duty on Palm Oil, currently they have imposed a duty of 2.5%, Palm Oil prices in India will go somewhat higher.

Bharat Sheth And currently what is the prevailing price?

Nadir Godrej 44,000 currently in India.

Bharat Seth And what was it the year back?

Nadir Godrej 55,000.

Moderator Our next question is from Rahul Haria. He is an individual investor. Please go ahead.

Rahul Haria I just was there in the Godrej Properties concall and came to know that you are taking some cost cutting initiatives for Godrej Properties. So can you throw some light on that issue?

Pirojsha Godrej It's not really a cost cutting initiative. We have been working on internal operational excellence initiative called "Project Pyramid" through which we are seeking to look at all aspects of our operations and looking to see how we can deliver our projects, what we like to say faster, better and cheaper. I think the implication is that we are looking at things like our contracting strategy, our procurement strategy, how we are planning our cash flow collection from customers, so it isn't just focused on one thing, we are looking at design standardization. So, I think across the board from an operational perspective we are looking at how we can improve what we are currently doing. And I think we have been very happy with the outcome of the exercise. We have managed even in the current financial year to save substantial cost. But I think more importantly this exercise should give lasting benefits and make us lower our cost base on future projects.

Moderator Our next question is from Kaushik Poddar of KB Capital. Please go ahead.

Kaushik Poddar Can you throw a bit of light on the performance of Godrej Tyson. You said the chicken prices are not so good. Are we price takers, can't we set the price?

Balram S Yadav So two things with Godrej Tyson last quarter. One was the very high raw material prices which is corn soya prices. So the peak cost went up by almost 40%. We definitely are price setters in the processed category, but unfortunately the chicken prices in the open market were down, so we were not able to pass on the increased cost. But last 6 -7 weeks the prices have recovered magnificently. Godrej Tyson has improved performance in January and it continues to improve in this month also. So we believe we will be back on track in this quarter.

Kaushik Poddar How much is processed chicken as a percent of your turnover?

Balram S Yadav Godrej Tyson roughly is about Rs. 300 crore a year and about Rs. 240 – 250 crore of this is processed chicken and rest is Yummies. Yummies which is the value-added product like chicken fingers, chicken nuggets, etc.

Kaushik Poddar So in a way you should not have been affected because mostly it is value-added whatever chicken you are selling, isn't it?

Balram S Yadav Yes but unfortunately this Rs. 240 – 250 crore is fresh chicken. Branded but it does compete with normal chicken in the market.

Ravi Venkateswar So 80% is processed chicken.

Moderator Our next question is from the Gaurav Oza of GEPL Capital. Please go ahead.

Gaurav Oza Just wanted to ask a question regarding Godrej Nature's Basket. I just want to know what are the future plans regarding this Nature's Basket thing and plus the FDI in Retail has already been announced. So are we looking at something big in coming 5 - 6 years?

Adi Godrej Nature's Basket is growing very well. Not only is the overall growth growing because we are opening a lot of new stores but same store sales are also growing which is a very good development in modern retail. We are not looking at FDI currently because based on the current FDI rule I don't think Nature's Basket will qualify for FDI. But if the rules are changed later we might look at it. But currently, we will run it as a 100% subsidiary of Godrej Industries.

Gaurav Oza Which of our subsidiaries you feel which is more prone for inorganic expansion for next 5 – 6 years, any idea?

Adi Godrej The only business which has strong inorganic opportunities is Godrej Consumer Products. We will look at inorganic opportunities in Godrej Agrovet.

Gaurav Oza And Sir how many Nature's Basket stores you are planning to add in next 2 – 3 years down the line?

Ravi Venkateswar We will go up to 40 stores in about 3 years time.

Gaurav Oza And you will be targeting mostly Tier-1 cities like Bombay and Delhi?

Ravi Venkateswar We have Mumbai, Delhi, Bengaluru.

Adi Godrej Hyderabad, Pune and surroundings of Delhi like Gurgaon.

Gaurav Oza And we are not looking at Tier-2, Tier-3 cities like?

Vivek Gambhir Not for the next 3 years. The thinking is for us to consolidate and deepen our presence in existing cities so that we have a higher local relative market share. That's the ultimate level of profitability. Once we get to a certain amount of minimum scale in our existing footprint then we look to add more of it in Tier-2 Tier-3 cities but not in next 3 years.

Gaurav Oza And Sir any plans of selling direct chicken like how we have McDonalds, such kind of a thing?

Ravi Venkateswar We already sell to KFC and McDonald's.

Gaurav Ojha But not like direct stores?

Balram S Yadav No plans to get into retailing.

Adi Godrej We are not planning to get into restaurants.

I would like to just mention that one of the benefits in this quarter's improved results was that we no longer need to consolidate losses we used to have in Godrej Hershey as you know we sold our shareholding in Godrej Hershey. So that has been a positive in this quarter and will continue to be a positive in future quarters.

Moderator We have a follow up question from Mayur Gathani of OHM Group. Please go ahead.

Mayur Gathani This is regarding Nature's Basket. Are we EBITDA positive?

Vivek Gambhir No, I think it will be at least 2 – 3 years more before we are EBITDA positive, though we are EBITDA positive on stores that have been operational for at least 3 years. But the thinking right now is typically the model has evolved to the point that typically we can now get stores EBITDA positive in about 18 – 24 months. And it varies a little bit by location depending on real estate cost. So stores in areas like Bengaluru are turning to be EBITDA positive in a much shorter timeframe.

Mayur Gathani And the same-store growth for stores that are older than 2 – 3 years would be approximately how much Sir?

Vivek Gambhir 30% plus.

Moderator Thank you. As there are no further questions from the participants I will now like to hand the floor back to the management for closing comments.

Adi Godrej Thank you all. 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.

Moderator Thank you very much Sir. Ladies and gentlemen, on behalf of Godrej Industries Limited that concludes this conference call.

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