

## Godrej Industries Limited

### Q3 & 9M FY14 Earnings Conference Call Transcript

February 12, 2014

---

**Moderator** Ladies and gentlemen, good day and welcome to Godrej Industries Limited's conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's Chairman's statement. Should you need any assistance during this conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Anoop Poojari of CDR India. Thank you and over to you sir.

**Anoop Poojari** Thank you. Good afternoon everyone and thank you for joining us on Godrej Industries' Q3 & 9M FY2014 earnings 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 – Managing Director of Godrej Consumer Products; Mr. Nitin Nabar – Executive Director and President (Chemicals) and Mr. Clement Pinto – Chief Financial Officer of the Company.

We will 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 begin this call, 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 included in the conference call invite sent out earlier. I would now like to invite Mr. Adi Godrej to make his opening remarks.

**Adi Godrej** Thank you Anoop. Good afternoon everyone. I welcome you all to the Godrej Industries' conference call to discuss the operating and financial performance for the third quarter and the 9 months ended December 31<sup>st</sup> 2013. I would take you

through some of the key developments and operational performance at each of our businesses followed by a summary of our financial results for the quarter and 9 months gone by.

The consolidated performance during the quarter is encouraging especially given the challenges in the macro-environment. This is a testimony to the strong and resilient business model that we have created which is enabling us to ride through various business cycles in a fairly sustained manner.

Our Agri business witnessed yet another quarter of sustained growth led by impressive performance across Agri verticals; Animal Feeds, Oil Palm, Agri Input and poultry resulting in a healthy PBIT growth of 58%. Our Agri Input vertical recorded a strong growth across key product segments with an overall sales growth of 31%. Volumes of Zymegold granule, a plant growth regulator, recorded a growth of 46%. Besides, the new variants of Zymegold and HBR launched over the past few quarters are receiving encouraging results.

Our joint venture Godrej Tyson sustained its growth momentum with new product launches and significant expansion in distribution network. Revenues grew by 16% with volumes in retail and 'Yummiez' growing at 19% and 15% respectively. I am happy to share that we continued expanding the product portfolio and during the quarter, launched several new products under 'Real Good Chicken' and 'Yummiez' brands.

Our other JV, ACI Godrej also reported healthy growth with considerable improvement in aqua feed, layer feed and cattle feed volumes. The JV has done well despite significantly lower broiler placements in an extremely volatile external environment in Bangladesh. We laid emphasis on driving aqua feed and cattle feed volumes and these have yielded results through premium positioning in both segments. We will continue our efforts in this direction.

In the Animal Feed segment, volume growth in layer feed, fish feed and shrimp feed recorded a robust growth of 21%, 47% and 94% respectively. Overall, the Animal Feed segment did well despite the overall broiler feed market being impacted due to lower broiler placements and extremely volatile external environment.

Moving to the performance of the Oil Palm segment, higher volumes combined with improving oil prices during the quarter enabled an 85% growth in sales as compared to the corresponding quarter last year. The Oil Palm segment has been

incrementally adding acreage under cultivation. In addition, we have been allotted new areas in Tamil Nadu. Our new oil mill in Mizoram is progressing according to the plan and we expect to commence operations in the last quarter of this fiscal year.

Godrej Seeds, the latest addition to our agri portfolio continues to expand strongly. During the quarter, Godrej Seeds' top-line increased by 93% led by 62% growth in hybrid seeds volume. Our endeavor in the segment is to increase the breadth and width of our marketing and distribution network. Towards that end, we entered new geographies in the Rabi season including the subsidy sales market in select geographies. In addition, with focus on R&D, we target to launch new hybrids and increase our seeds portfolio to tap the immense opportunities in the agri sector in India.

Godrej Consumer Products has been able to consistently improve its positioning and market share. Godrej Consumer Products continues to outperform the FMCG market in category growth with hair colors growing at 37%, household's insecticides at 8% and soaps at 6%. This is reflected in the healthy consolidated sales growth of 18% with international businesses growing at 25% and India business growing at 14%. In a challenging macroeconomic environment, we are prudently managing the business and have launched several excellence initiatives to further enhance our operational performance. That said, we continue to invest judiciously to improve our position and create competitive advantage which will enable us to grow stronger in the years to come.

Let me now come to Godrej Properties. Our results over the 9 months period had demonstrated our ability to maintain growth in adverse market conditions. For the 9-month period, we witnessed a growth of 12% in total income, 41% in EBITDA and 30% in net profit in the midst of a tough operating environment. On the sales front, we saw a 29% Q-o-Q increase in value of sales bookings in the third quarter and remained focused on substantially increasing our bookings in the current calendar year. We also continue to expand our development portfolio and have added a new joint venture project in Bhandup, Mumbai which will be developed as a premium residential project with 7.7 lakhs square feet of saleable area.

Moving to our Oleo-Chemicals business. The profitability this quarter was better as compared to the corresponding quarter last year with revenues growing by 11% and export sales by 33%. Activity at our new Oleo-Chemicals facility at Ambernath has begun and the facility should be fully operational in the last quarter of this fiscal year. I am pleased to share with you that the Chemicals business won the CII

Environmental Best Practices Award 2013 for Innovation. The award recognizes best innovative environmental projects and facilitates the information sharing to enhance environmental performance and operational efficiency. The Chemicals business won this award for our Valia factory's Effluent Treatment Plant sludge reduction project which ties in directly with our greener India goal of having zero waste to landfill.

Let me now briefly run you through our financial highlights. During the quarter, consolidated total income was higher by 18% at Rs. 2,033 crore as compared to Rs. 1,723 crore in the corresponding quarter of last year. Consolidated profit before tax stood at Rs. 95 crore, growth of 48% over the corresponding quarter last year, net of exceptional items. For the 9 months ended December 31, 2013, consolidated total income and profit before tax increased by 9% and 85% respectively over the corresponding period last year.

Overall, despite numerous headwinds in the macroeconomic environment, our performance has been encouraging and we are confident of achieving long-term objectives of inclusive, sustainable and profitable growth. I am confident that our disciplined strategy, prudent approach, focus on operational efficiencies and our committed team will enable us register improved performance and create shareholder value.

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

- |                        |  |
|------------------------|--|
| <b>Moderator</b>       | Thank you very much sir. We have the first question from the line of Sumit Arora from Silver Stallion. Please go ahead.  |
| <b>Sumit Arora</b>     | Very strong set of numbers from Godrej Industries across all verticals. Does the recent Supreme Court ruling on forest land positively impact Godrej Properties? Secondly, what is the progress on the four launches in Q4?  |
| <b>Pirojsha Godrej</b> | The Supreme Court verdict is helpful. Godrej & Boyce, which owns most of the land in Vikhroli, had a large portion of land, about 130 acres in total that was impacted by the Supreme Court judgment. We do believe that some part of the land will be developable in the near future through our pre-existing arrangement with Godrej & Boyce. So this is very good news for the Company which further enhances the very strong development potential in Vikhroli. The exact details on the plan will be worked out over the next few months. |

On the launches front, things are still on track. We did one launch couple of weeks ago of a third phase of our project in Bangalore Godrej E-City and we have some exciting launches here in Mumbai. We hope to execute both in this quarter and a lot of launches for the remainder of the calendar year. As I mentioned on the GPL call, we expect 2014 to be our best ever year for new launches for Godrej Properties.

**Sumit Arora** Fantastic set of results reported again from Godrej Agrovet. What led to strong performance in the Oil Palm business?

**Balram Singh Yadav** Oil Palm performance during the quarter was good because our FFB arrivals were better than expected. The FFB arrival is also dependent on climatic conditions, which were very good, and the age of the trees. The second reason was that we have fantastic crude palm kernel oil prices which jump from almost Rs. 56,000 - Rs. 57,000 a tonne to almost Rs. 75,000 a tonne. So these were the two reasons for very good Oil Palm performance.

**Sumit Arora** Godrej Agrovet across the other verticals also has done very well. How do you see next year for Godrej Agrovet?

**Balram Singh Yadav** For Animal Feeds, we are likely to maintain the momentum in both top-line and bottom-line because we will commission three more plants in the next 2 months. One of our biggest plants will be the aqua feed plant, which is a profitable vertical for us and will be commissioned in April this year. We believe Animal Feed momentum will be maintained. Agri Input is also dependent on monsoon. So let us hope the monsoon is good. We will better the performance of this year. Seeds continue to grow at a rapid pace, but on a very small base. So next year, with a little bit of help from monsoon, should be a good year for us.

**Sumit Arora** It is very heartening that you have achieved a PBT of about Rs. 47 crore on capital employed is Rs. 90 crore. Wish you all the best. My next question is for the chemicals part wherein we have seen a very good growth in terms of top-line, from Rs. 301 crore last year to Rs. 334 crore this year and our profitability is also at about Rs. 10 crore. Is it safe to assume that chemicals business has now stabilized and from hereon we can only grow in terms of profitability?

**Nadir Godrej** There would be improvement in profitability as Ambernath comes on stream fully in the next quarter. This would be because we do not pay octroi at Ambernath and the plants are more efficient than the ones at Vikhroli.

**Nitin Nabar** We have also increased capacity by about 10%-15%.

<b>Moderator</b>	Thank you. We have the next question from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.
<b>Hardik Shah</b>	What is the working capital cycle for the chemical business?
<b>Clement Pinto</b>	We manage our capital base prudently and are at negative net working capital in the chemicals business.
<b>Hardik Shah</b>	What about the gross and the net debt levels for the Company?
<b>Clement Pinto</b>	For Godrej industries on a standalone basis, debt is at about Rs. 1,300 crore.
<b>Hardik Shah</b>	Is this gross?
<b>Clement Pinto</b>	This is gross and effectively net because currently for December there is not too much of cash on hand.
<b>Hardik Shah</b>	What about repayment for the next year?
<b>Clement Pinto</b>	We have a mix of long-term, medium-term and short term. Not too much of short-term loans are coming up for repayment in the next year.
<b>Hardik Shah</b>	What about your hedging policy? How much do you keep yourself hedged?
<b>Clement Pinto</b>	For the chemicals business, we work with a net exposure policy. We try to keep it as low as possible. We have exports which form a natural hedge to imports and we keep our net exposures quite low.
<b>Nadir Godrej</b>	In our chemicals business, it is pretty much hedged.
<b>Moderator</b>	Thank you. We have the next question from the line of Abhijit Akella from IIFL. Please go ahead.
<b>Abhijit Akella</b>	I was just trying to understand the breakdown of Godrej Agrovet's financials between the segments that we report in our quarterly results. Is Godrej Agrovet split between Animal Feeds and the Veg Oils segments or is there a presence in any others as well?
<b>Clement Pinto</b>	Agrovet has five verticals; Animal Feed, Oil Palm plantation, Agri Input, Poultry and the recently added seeds business. Animal Feed is shown as a separate segment. The Oil Palm business is shown under the Veg Oil segment and all the other

	businesses of Agrovat i.e. the Agri Inputs, the poultry and seeds businesses are shown under the other segment.
<b>Abhijit Akella</b>	Within Veg Oils, other than the Oil Palm business, what would the rest constitute?
<b>Clement Pinto</b>	Apart from Oil Palm in the Veg Oil segment, we have international trading that forms a bulk of that segment along with a small portion of our Wadala Veg Oil factory.
<b>Abhijit Akella</b>	We have reported obviously good top-line growth in Godrej Agrovat. If I strip out the Animal Feed revenues from the total revenues that we have reported, it would seem like the rest of the business has basically grown by almost 50%. So what would you attribute that to?
<b>Clement Pinto</b>	Yes, all the other verticals have grown well both, in terms of top-line as well as PBIT.
<b>Abhijit Akella</b>	The EBIT that is reported for Agrovat is of Rs. 47 crore for this quarter. If I remove Rs. 37 crore of EBIT of the Animal Feed segment, can I say that the EBIT for the other business is Rs. 10 crore in total?
<b>Clement Pinto</b>	Yes.
<b>Abhijit Akella</b>	In that case, it seems Agrovat excluding Animal Feeds has gone from zero EBIT last year to Rs.10 crore EBIT this year.
<b>Balram Singh Yadav</b>	You must also understand one thing about Agrovat is that our Oil Palm business and Agri Input business is a seasonal business and almost 70% of the business happened within the first half of the year.
<b>Adi Godrej</b>	And this year, the Oil Palm was better than what we expected.
<b>Abhijit Akella</b>	So the jump in EBIT is largely because of Oil Palm, is that what you are saying.
<b>Balram Singh Yadav</b>	Yes.
<b>Abhijit Akella</b>	On that point, you talked about 85% revenue growth and you mentioned that the realizations were up by almost 30-35%. Would it be possible to breakdown the remainder of the increase in sales between increase in acreage versus increase in yields?
<b>Adi Godrej</b>	We can take it offline.

<b>Abhijit Akella</b>	One clarification regarding the broiler comment you made. You mentioned that the broiler market has not been doing well because of volatile prices. Yet our Godrej Tyson business has done pretty well in terms of sales. So how is it that that business is doing well yet, the Animal Feeds business is facing some pressure?
<b>Balram Singh Yadav</b>	Animal broiler feed business and Godrej Tyson business are hedged for each other. The placements for broiler have been very low. The Animal Feed share is low as far as broiler segment is concerned because there are less number of birds who we can sell feed to. Because of this shortage, chicken prices were very high that is why Godrej Tyson did very well.
<b>Abhijit Akella</b>	What is the reason for the improvement in profitability in the 'others' segment?
<b>Clement Pinto</b>	Apart from the three agri verticals, the other segment also comprises of Nature's Basket. The profitability for the whole segment in Q3 last year was Rs. 1 crore which has now become Rs. 9 crore. This is largely driven by the high profitability in the agri business i.e. Agri Inputs and poultry.
<b>Moderator</b>	Thank you. We have the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.
<b>Kashyap Pujara</b>	For the chemical business firstly, what do we expect the steady state margins to come back to as once the facility at Ambarnath is running, you will have savings on octroi and possibly better value-added products.
<b>Nitin Nabar</b>	As Mr. Godrej explained that the Ambarnath plant has started and will be fully operational by the end of Q4. We expect the current margin from 3-5% to go up to about 7% because of 1) octroi saving, 2) efficient technology and 3) capacity increase of about 15-20% on an average across different product categories.
<b>Kashyap Pujara</b>	The business is still continuing to operate at a reasonably high creditor days and the working capital remains negative more or less right?
<b>Clement Pinto</b>	Yes. We get good credits from our suppliers both, international and domestic. Therefore, we are on a negative net working capital position.
<b>Kashyap Pujara</b>	Once the Ambarnath plant starts, obviously that current land would be available. So, when do we see residential launches at project Trees?



- Pirojsha Godrej** Residential component of The Trees is under the approval process. We certainly expect to see the first phase launch of the residential component of The Trees in this calendar year. The exact timing will depend upon the state of approvals.
- Kashyap Pujara** On the aqua feed business; we have seen phenomenal growth coming in here. Is this led by higher capacity that we have commissioned? Can this be a structural growth story that can continue considering that more capacities have come in or is it something which is more of one-off. Just wanted to understand where are we here?
- Balram Singh Yadav** The new capacity has still not come into production. However, there is very good growth in the aqua feed category in India. Market has grown more than 25% YoY for both, shrimp as well as floating fish feed. Now, with the current prices of fish and prawn in the market, the future also looks very bright. I believe the same momentum will continue. We will be benefited because our capacities will come into production in April and we want to repeat our performance of this year, in the next year also.
- Kashyap Pujara** What would be the total India capacity of aqua feed?
- Balram Singh Yadav** Floating fish feed capacity today is close to about a million tonne of production, but the theoretical potential is we can go up to almost 4 million tonnes because almost 3 million tonnes of fish is produced on traditional raw materials. As the penetration and category conversion increases, we will see increasing tonnages of floating fish feed. So I see a very bright future for floating fish feed at least for next 5-6 years. Prawn particularly is dependent on the export prices and we were benefited by some problems in Thailand. The prawn prices in India saw almost record high and that is why massive growth has taken place in the prawn segment also.
- Kashyap Pujara** What would our capacity be in this context post the expansion?
- Balram Singh Yadav** Today, we have a capacity of 30,000 tonnes of prawn feed which will go to almost 90,000 tonnes and we do not have any capacity for floating fish feed. We are getting it processed elsewhere and selling. Today our sale is about 35,000-40,000 tonnes. We will have a capacity of almost 90,000 tonnes now.
- Kashyap Pujara** That is quite a good quantum jump. Would the floating fish feed also be higher realization product compared to the traditional fish feed?
- Balram Singh Yadav** Yes. The realizations are higher by almost 35%-40%.

- Kashyap Pujara** In terms of value and volume growth put together, we would see a far higher number over the next few years?
- Balram Singh Yadav** We are hoping for that.
- Kashyap Pujara** While the chicken feed and the broiler placements were lower, we are still seeing other categories making up and seeing growth. Is it that the mix is better and are you seeing an improvement in margins on this business overall, even when chicken feed is concerned?
- Balram Singh Yadav** When there is a shortage of chicken, the prices go up. So Godrej Tyson foods benefit, but because the prices are up, the farmers also use high quality feed. Our high margin, high growth, and high performance feeds sale goes up and hence the margins go up because of upselling. So this benefit comes. That is why we see lower volumes in broiler feeds, but higher margin per tonne.
- Kashyap Pujara** We see that the overall market is huge, only 10% of the market is organized and out of that we have a 10% market share market. So where are we seeing things. Are we seeing incremental traction wherein organized sector is scaling up and are you seeing that steadily playing out in the foreseeable future?
- Balram Singh Yadav** Category conversion is taking place in almost all segments. We can see that very clearly in aqua and cattle. As far as poultry is concerned which is largely organized, we see lot of sophistication happening in the feed milling technology and lot of improvement in the nutrition part. That is why R&D is very critical in this segment which keeps us aware of the game. Thus, we have grown so well and improved our margin in last few years.
- Kashyap Pujara** Lastly to complete the Agrovet piece, just a clarification on the Oil Palm side. What is the total acreage at this point in time?
- Balram Singh Yadav** We have about 55,000 hectares.
- Kashyap Pujara** What would be the maturity profile at this point in time?
- Balram Singh Yadav** All 23,000 hectares are above 8 years which are yielding at full capacity. About 20,000 hectares are between 4 and 8 years and about 11,000-12,000 hectares are from 0 to 3 years.
- Kashyap Pujara** So you still have a substantial hectare which is not yielding fruit?

**Balram Singh Yadav** Yes.

**Kashyap Pujara** As far as the government formula is concerned, is the pricing at 13 or 14%?

**Balram Singh Yadav** Pricing has been revised. So our PBT which used to be 16-17% on sales will drop to about 12-13% on sales depending on the oil price. The positive side is that Oil Palm plantation was profitable for farmers. Now it will become even more profitable. There is huge area which is available for Oil Palm plantation in the country and we feel that conversion to this crop will accelerate in future.

**Kashyap Pujara** Will volumes make up for it?

**Balram Singh Yadav** Sure.

**Kashyap Pujara** At this point in time, the import duties have been raised. So what are the current duties?

**Balram Singh Yadav** 2.5% of fruit palm oils.

**Kashyap Pujara** Last clarification was on this Wadala Commodities, what company is this and what are the synergies?

**Adi Godrej** Wadala Commodities is a listed company. It has very little business within the company because it was carved out of a larger entity which has been merged with other parts of the group. It used to be called Godrej Foods originally. Now it is a listed company without much trading. In order to protect the interest of the minority shareholders, it would be much better if it is merged with a large listed entity in the group Godrej Industries. In order to protect the interest of minority shareholders in Wadala Commodities, that will be borne by only the promoter shareholders of Godrej Industries and not all the shareholders of Godrej Industries. So this merger will be very fair to all the minority shareholders of both, Wadala Commodities and Godrej Industries.

**Kashyap Pujara** That is very encouraging and it is a good gesture from the promoters. How would management describe their performance of Nature's Basket so far? Are you satisfied with the performance till date? Is the loss within the budgeted level and the revenue growth higher than budgeted level?

**Adi Godrej** Nature's Basket has been growing very well. Even in this quarter, it had a growth of above 30%. We feel it is a very strong business. Same store sales are also

growing. We are also expanding into more stores and it will create a fair amount of value in the future.

**Moderator** Thank you. We have the next question from the line of Manish Gandhi, an individual investor. Please go ahead.

**Manish Gandhi** Congratulations on good set of numbers despite macro challenges. On Wadala Commodities which we merged and again on Swadeshi Mill amalgamation, are there any land part involving that we can develop in near future?

**Adi Godrej** Neither of these entities have any land assets.

**Manish Gandhi** There was one newspaper report a few months back regarding Creamline Dairy stake sale, where we have a holding of 26% in Godrej Agrovet. So could you want to comment on that?

**Balram Singh Yadav** Creamline Dairy promoters decided to run a process to sell controlling stake to a strategic or private equity because this business has reached a level where new technology, greater capability on value addition, etc., is needed to take this company to the next level. So, that process is on. There are some strategic and private equity funds which are there in the process. So it is still at initial stages and we will know more about it sometime in the next quarter.

**Manish Gandhi** So would we also like to divest our stake?

**Balram Singh Yadav** We still have to see what comes out of this process and what kind of valuations that come on the table. Since we are the largest shareholder, we will definitely take a decision which is beneficial to us whether it is staying in the Company or exiting it totally. That decision we will take at the right time.

**Manish Gandhi** In the last 1-2 years, there is a lot of attraction in dairy merger and acquisition and the sector itself is growing phenomenally. How can we benefit from cattle feed because this is one of the markets where there is hardly any organized player, 10% market share. Can you just throw some light on that?

**Balram Singh Yadav** Dairy had a bad year last year, in 2012. Milk prices were very low and the cattle feed sales were also very sluggish. But in last 6-7 months, because the numbers of milch animals have reduced, the milk prices have shot up to almost Rs. 25 ex-farm for cow milk and Rs. 42 - Rs. 43 ex-farm for buffalo milk. We are also seeing a lot of upselling in our cattle feeds. Also, farmers are taking lot of initiatives to produce more milk because milk is very profitable product for the farmer now. In case

government does not take some knee-jerk reactions of importing a few thousand tonnes of milk powder to reduce the prices, the milk industry is likely to do very well. The other reason why I see a very bright future for milk industry is that we are seeing almost 6%-7% CAGR in volumes. The show spoiler for the profit pool for this industry were the cooperatives; because they will increase the price at the farmer level and not increase the price at the consumer level and take the loss because of whatever reasons. Now their share in total milk is reducing which is also reducing their power of pricing the milk particularly, value-added products. That is why you see so much of excitement in this industry and so many world giants in dairy attracted to India now.

**Manish Gandhi** I have one question for Godrej Properties. Pirojsha, the Company has sent one resolution for enabling investment. But there is one property you mentioned in Pune. So is it a new joint venture you are going to do or have we done this in Keshav Nagar?

**Pirojsha Godrej** No, this is the project that we are in advance discussions for bid. The enabling resolution has nothing mandatory about it, but if the project does come in, we would like to have this enabling resolution in place. But we are in advanced discussions for several new properties.

**Manish Gandhi** These resolutions are for the new projects which you are in discussion with?

**Pirojsha Godrej** Not all, about half of them are for existing projects and half for new projects.

**Manish Gandhi** We have two projects in Pune, near Undri or NIBM. So, is this some different area?

**Pirojsha Godrej** That is right.

**Moderator** Thank you. We have the next question from the line of Mahesh Kumar, an individual investor. Please go ahead.

**Mahesh Kumar** On the investment, Godrej Industries investment in Godrej Consumer and Godrej Properties, you have taken a resolution of buying 12,50,000 shares of Godrej Consumer over the next few months. Since the time I have been tracking this Company, you as a Company have been investing in the other group companies when it is in need of capital. Right now, Godrej Consumer is such a big Company that it does not require capital from Godrej Industries. As an investor, I feel Godrej Industry should divest or give free shares of Godrej Consumer to its shareholders so that value can be added to the shareholders, because in the last few years Godrej Consumer shares have gained whereas Godrej Industries have not

performed to that level. What is your view on that? Also what will be the group companies' investment by Godrej Industries?

**Adi Godrej** This is an enabling resolution to invest in shares of Godrej Consumer Products. This may not be a primary issue, this may be secondary purchases. We always would like to have a limit for being able to make such investments as and when there are good opportunities.

**Mahesh Kumar** In terms of your strategic view, would you continue to buy shares of Godrej Consumers when the opportunity arises?

**Adi Godrej** We are only buying small numbers of GCPL shares and we may continue that from time to time.

**Mahesh Kumar** Over the last few years, the gain that we have seen in Godrej Consumer shares, Godrej Industries have not seen a benefit up to that extent. Market is not valuing Godrej Industries shares as per their actual true value. So, have we considered anything that Godrej Industries shareholders should be given shares from Godrej Consumer and what would be the strategy going?

**Adi Godrej** We have considered all alternatives, but that is not viable proposition at this point of time.

**Moderator** Thank you. We have the next question from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.

**Hardik Shah** In the real estate business, for the 9 months, the sales is around Rs. 800 crore and PBIT was around Rs. 280 crore. Out of that, for the third quarter itself, we have made Rs. 250 crore sales and Rs. 106 crore of PBIT. Majority of the PBIT has come in this quarter. What was the reason for the low profitability in the previous quarters?

**Pirojsha Godrej** In the current quarter, margins in the business were higher. This is largely a reflection of the mix of projects that contribute to each quarter. We have a certain quarter where higher margin projects contribute more to the top-line. Those are the quarters where you see a better margin mix. For example, in the third quarter we had several high margin projects that contributed substantially which is why the margins were higher in that quarter. But our margin has generally been in the range of 25% upwards. Last quarter, they were quite high at about 38% for the reason I just mentioned.

<b>Hardik Shah</b>	Going forward, how do you see this real estate business as a contributor to your entire consolidated sales? How much percentage do you focus it to be?
<b>Adi Godrej</b>	Real estate is a sector that has a very strong potential for growth for us because we do not have to be very concerned about category size or competitive pressures because in real estate, no player has any major share of the overall Indian market. So we think we can grow much faster than our other businesses and over a period of time, we think the salience of our real estate business in the overall business will tend to grow.
<b>Hardik Shah</b>	Going forward are there any significant land parcels that you are investing in or planning to purchase or are you going to develop for the existing ones that you have?
<b>Adi Godrej</b>	We do not invest in land by and large, but we will certainly develop in terms of development management agreements with Godrej & Boyce, our large parcel of land in Vikhroli.
<b>Pirojsha Godrej</b>	Our model is to do developments in partnership with land owners. We have several models through which we do that including the development management fee model and joint ventures; both of which we will look to expand in the coming years. Over the last 3 years, we have more than doubled the number of projects in the GPL portfolio. Our portfolio size now is already quite substantial. We do see continued opportunities to expand it. The focus will be on a mix of executing the current portfolio and continuing where we find value accretive opportunities to enter those, but in none of these instances will we be looking at investing large amount. These are all quite capital efficient investments through which in some cases we invest nothing like in the development management fee model.
<b>Hardik Shah</b>	From the point of view of sales, are you seeing any inventory buildup in various projects in different geographies or are the prices panning out as per your expectations?
<b>Pirojsha Godrej</b>	On the pricing front, in most of our projects, prices are up slightly over the last few quarters and over the last year. We have been consciously not trying to take any very rapid price increases given the current market sentiment. For the sector as a whole, you have seen prices moderate over the last 12 months and that is a good thing and we hope it continues in the future. It will be important to have prices relatively stable to get volumes back into the market. On inventories, we are not seeing any inventory buildup at all. We are eagerly looking forward to getting our

	approvals and launching several new projects. The only projects where we have any concern on inventory is; in some of the older commercial projects which we talked about for some time. On the residential front, our inventory is actually lower than they were 12 months ago.
<b>Hardik Shah</b>	Are you seeing any price correction in any particular geography?
<b>Pirojsha Godrej</b>	There have been a lot of geographies and lot of developers who are offering particular incentive payment plans, etc.
<b>Hardik Shah</b>	80-20 schemes have come up a lot.
<b>Pirojsha Godrej</b>	That is correct. There are a lot of tools that developers are using to try and push sales in a tough environment. We have not seen too many absolute price cuts. The outlook for next year will depend more on factors outside the direct ambit of the sectors, things like how GDP growth picks up, how interest rates go over the next year, what will the election outcome deliver. Those are the factors that will likely lead to the sector seeing an upswing because there is a greater likelihood of positive outcomes on each of those individual factors. Also, there remains a list of negative outcomes of those as well.
<b>Hardik Shah</b>	For the Company as a whole, if you have to name one particular concern or risk that you are seeing, what would that be?
<b>Adi Godrej</b>	The major risk could be the general growth pattern in India not improving. It has been poor for the last 2 years or so. If it does not improve, the Company will face macroeconomic difficulties.
<b>Moderator</b>	Thank you. We have the next follow-up question from the line of Abhijit Akella from IIFL. Please go ahead.
<b>Abhijit Akella</b>	We had this plans of introducing Bispyribac in the Agri Inputs division which I believe is pending regulatory approval. So any update on that, how is that going along?
<b>Balram Singh Yadav</b>	So all approvals in CIB have been stopped because of some adverse court ruling from High Court of Gujarat. So it is stuck there. Most of the companies are trying to take legal recourse and get a relief from the High Court. So, that process is on. Let us see what happens. I believe that will take a few months more to get the product registered.



**Abhijit Akella** Can we expect it in time for next Kharif or will it be in Rabi of next year?

**Balram Singh Yadav** I think it will be Rabi of next year where the case is going.

**Abhijit Akella** In terms of the outlook for the dairy market, with rupee depreciation having improved prices of skimmed milk powder, do you see dairy prices continuing to remain firm for next year and what impact would that have on Animal Feeds demand in general?

**Balram Singh Yadav** The milk and milk products prices will be firm for at least next 12-15 months and skimmed milk powder exports will not be very high because there is huge demand for domestic consumption. We also see the cattle feed business doing good over the next few quarters.

**Moderator** Thank you. Participants that was the last question. I now hand over the floor to the management of Godrej Industries for closing comments. Thank you and over to you.

**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 sir. Ladies and gentlemen on behalf of Godrej Industries that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.

---

*This is a transcription and may contain transcription errors. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.*