



## Godrej Industries Limited

### Q3 & 9M FY15 Earnings Conference Call Transcript

February 16, 2015

---

**Moderator** Ladies and gentlemen good day and welcome to Godrej Industries Limited conference call. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing \* and 0 on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over 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 FY15 earnings conference call. We have with us Mr. Adi Godrej - Chairman of Godrej Industries; Mr. Nadir Godrej - Managing Director; Mr. Pirojsha Godrej - Managing Director & CEO of Godrej Properties; Mr. Balram Singh Yadav - Managing Director of Godrej Agrovet and Mr. Clement Pinto - CFO of Godrej Industries Limited.

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 start, 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 invites sent out earlier. I would now like to invite Mr. Adi Godrej to make his opening remarks.

**Adi Godrej** Thank you. Good afternoon everyone. I welcome you to Godrej Industries' conference call to discuss the operating and financial performance for the third quarter and nine months ended December 31, 2014. I would take you through some of the key developments and operational highlights at each of our businesses followed by a summary of our financial results for the quarter and nine months.

I am pleased to share that the overall performance of Godrej Industries Limited during the quarter has been good with consolidated net profit growing by 39% and total income growing by 17%. Our agri business continues to do well with profit growing by 29% during the quarter. While total income was flat on account of a sharp fall in Crude Palm Oil and Palm Kernel Oil prices and other commodities, sales volumes recorded a growth of 9% in animal feeds and 1% in the oil palm business.

Our Animal Feed vertical has shown robust profitability growth and this had been aided by our focus on improving operational efficiency. Cattle feed and Layer feed volumes, which are key growth drivers for our animal feed business, grew significantly. We are confident and expect these segments to maintain the growth momentum. While this quarter was a lean period for the Aqua Feed segment, we expect an uptake in demand for Aqua Feed volumes in the coming quarters.

In the Oil Palm business, we will look for further operational efficiency as well as enhancing the value of Biomass generated which will improve the profitability of this vertical.

Despite a bleak Rabi season, I am pleased to share with you that our Agri Inputs business grew by 7% in this quarter as compared to the corresponding quarter last year. Our agile supply chain and diverse product mix helped our business do well.

Godrej Tyson continues to focus on building brand based business strengthening our 'Real Good Chicken' and 'Yummiez' brand. Several innovative products have been launched under the 'Real Good Chicken' and 'Yummiez' brands both, in vegetarian and non-vegetarian.

Our emerging business in the agri space, Seeds has shown an impressive growth of 30% for the nine months period of this year over the corresponding period last year. The healthy growth in our new verticals despite a bleak Rabi and unattractive commodity prices gives us the confidence of doing well in the quarters to come. Our main stay in the Seeds business will be on developing and strengthening our position in maize across the country. With an agile team focused on continuously improving our operational efficiency and research and development in the agri businesses I am confident that our agri business across verticals will continue to do well and add value in the years to come.

Moving on to the performance of Godrej Consumer Products; I am happy to share that we delivered a 35% growth in net profit in this quarter as compared to the corresponding quarter last year on a consolidated basis. After a few quarters of

sluggish growth, consumer demand in India started show early signs of recovery in the third quarter of this fiscal. Our FMCG business delivered strong competitive double digit growth across categories and we have strengthened our leadership position across our core categories. We expect the Indian economy to pick up pace in fiscal 2015-16 and we see improved consumer sentiment on the ground. We are hopeful that this will translate into better consumer demand for us in the quarters ahead. With our relentless focus on innovation we are in a good position to capitalize in the uptake in demand. I am confident that with our clear strategic focus, differentiated product portfolio, superior execution and a top notch team, we will continue to deliver industry leading results and that our medium and long term growth prospects in India and our other emerging markets would remain robust.

Godrej Properties Limited had a good quarter delivering a growth of 112% in total income; 26% growth in net profit and a 37% increase in the volume of sales booking. In the nine months period of this fiscal, we delivered a 48% growth in total income; 26% growth in net profit and a 97% increase in the volume of sales bookings. During the quarter, we completed Godrej One which will be the new corporate headquarters for many companies in the Godrej group and also the first phase of Godrej Frontier our first project in Gurgaon. We hope to maintain the sales and execution momentum and look forward to a strong close this fiscal year.

The performance of our Chemicals business was impacted by the sharp fall in commodity prices which resulted in lower margins due to high inventory costs as well as subdued demand. We expect the situation to improve in the coming year.

Let me now briefly run through our financial highlights. During the quarter, consolidated total income at Rs. 2,374 crore grew by 17% and consolidated net profit at Rs. 91 crore grew by 39% over the corresponding quarter last year. During the nine months period consolidated total income at Rs. 7,120 crore grew by 18% and consolidated net profit at Rs. 264 crore grew by 24% over the corresponding period last year.

To conclude, our results over the past few years have been achieved in a difficult macroeconomic environment. As the macroeconomic climate is improving we feel more encouraged and confident of achieving our long term objectives of inclusive sustainable and profitable growth. I am confident that our disciplined strategy, prudent approach, agile execution, and committed team will enable us to improve performance and create shareholder values.

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

**Moderator** Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from Farzan Madon of Axis Capital. Please go ahead.

**Farzan Madon** Just wanted an update on Agrovet in terms of the underlying end markets. So basically we are seeing some weakness at least in the broiler segment however Agrovet has outperformed. So how has this been achieved?

**Balram Singh Yadav** We have done well in the other feed segments particularly in Cattle, Layer feeds and Shrimp feeds and there is growth in volume and profit per ton and absolute profit also.

**Farzan Madon** Then the EBITDA margins this time are the highest ever or close to that?

**Balram Singh Yadav** Yes.

**Farzan Madon** Is there a one-off or it is sustainable because over the years, our EBIT has improved from 5% now closer to 6%?

**Balram Singh Yadav** For the nine months, they are sustainable but if you ask me only about Q4; Q4 is normally weak for Fish feeds and Broiler feeds. So profit per ton might be sustainable, but absolute profit might come down by 5 to 10% because of drop in volumes.

**Farzan Madon** Sir, when are we launching the residential phase of project Trees?

**Pirojsha Godrej** In the first half of next financial year.

**Farzan Madon** Sir, my question to Mr. N. B. Godrej regarding the seed division. Any developments over there and also in terms of agrochemicals are we seeing any in-licensing, out-licensing?

**Balram Singh Yadav** I will answer that. Farzan, I think we were very badly hit in our seeds business because we are a one seed Company still and that makes us very vulnerable. Also, because of late start to monsoons, we missed the entire season in Kharif and we are left with inventories and we will take about a year to liquidate that. So seeds division definitely is on the right track. Though we have made losses, but most of the loss is on account of research and development which is for future because it is not

contributing anything right now. We have started working aggressively on hybrid rice also because in 3 to 4 years we have to hedge ourselves from being a single product Company. On agrochemicals yes, talks are on with lot of suppliers and some kind of success has been there from one Japanese supplier. We will be selling one product exclusively in time to come may be from Kharif 2016. But these things take time. However, we are working on lot of combinations in our new product pipeline and in 2016 and 2017 Kharif you will see at least one launch each.

**Farzan Madon** Okay Sir, thank you it is really heartening to know that we are continuing with the momentum of 25% growth rate year-on-year. Sir, my last question is on the Chemical division. Of course the quarter has been weak because of the macroeconomic situations. Sir, how much is the inventory loss this quarter? I just want to understand that whether the chemical division can go back to an EBIT margin of 7 to 8%?

**Clement Pinto** The impact of the raw material prices was on both, lower margins as well as the inventory write down and the total impact was about Rs. 7 to 8 crore.

**Moderator** Thank you. Our next question is from Sumeet Rohra of Silver Stallion. Please go ahead.

**Sumeet Rohra** Sir, most of my questions have been answered on the chemical part as well as the Agrovat. I just wanted to get a quick sense on the BPT land. Do we have any update?

**Adi Godrej** No, the BPT land will be developed as and when BPT's policy is clear. They have not yet clarified and we do not have final permissions. So we are awaiting the decision.

**Sumeet Rohra** So what should the FSI be over there in that area approximately?

**Pirojsha Godrej** Sumit, there is no clarity currently available on what zoning is going to be created in that area or what FSI would be permissible. It is quite premature for us to make any sensible comments on it for now.

**Sumeet Rohra** Just one question on Godrej Agrovat. Balram, fantastic set of numbers again. I think our margins have now gone to 6.5% in the Animal Feed business. It is a very ambitious question to ask but can this go to 7% margins?

**Balram Singh Yadav** Sumit, I think the answer lies in lower commodity prices. So if you see the topline growth is half of the bottom-line growth. So if the commodity prices remain subdued for the next coming year, I am sure that you will see increase in profit as a percentage of sales.

**Sumeet Rohra** So what commodities should we track very closely then?

**Balram Singh Yadav** Soymeal, corn, and De-oiled Rice Bran are the three commodities for Animal Feeds and Crude Palm Oil and Palm Kernel Oil for our Oil Palm division.

**Nadir Godrej** I would like to add therefore it is the margins per ton are more important than the margins in percentage of revenue.

**Sumeet Rohra** If I can just ask you a question on that, how have the prices of soya, corn and all been over the last three months. Have they been down only or are they climbing actually?

**Balram Singh Yadav** They are moved horizontally. It is a range bound within Rs. 1,000 a ton on a base of Rs. 30,000 a ton.

**Moderator** Thank you. Our next question is from Suhas Hari of JM Financials. Please go ahead.

**Suhas Hari** I just had two questions. One is I just wanted to understand are we now fully clear on how the Vikhroli development is going to take place and what will be the share of value between Godrej Properties as well as Godrej Industries and how will it be? Secondly, just in terms of maybe I do not know how you can comment on this but in terms of share price performance, if you look at the three large entities which is Godrej Consumers, Godrej Properties and Godrej Industries I think over the last one year, the associate and the subsidiary which is GCPL and GPL have done phenomenally well from a stock price performance. But I think this Godrej Industries obviously has not done as well and is that something how should as a shareholder of Godrej Industries look at it and what can we expect from value creation stand point as it has underperformed by almost 60%. There is clearly a lot of value in Godrej Industries. So, how can we see that value unlocking take place?

**Pirojsha Godrej** Your first question on the Vikhroli Development. There is no recent change in the structure of how the development will unfold and what the economic interest of GPL and GIL is. But, just to reiterate what the current status is has been the status for some time. We have a development called the 'Trees' which is a 3.5 million square foot mixed-use project that is being developed in partnership by Godrej Properties and Godrej Industries and the economic stake of Godrej Properties is 60% and Godrej Industries is 40%. As a part of that, there are some lands that have been acquired from Godrej & Boyce for that development. So that is on the 'Trees' for the broader development of Vikhroli Godrej Properties is in a direct partnership with Godrej & Boyce through which it is entitled to 10% of the revenues from the development and none of the associated costs except for sales and marketing costs.

So to the extent of Godrej Industries, approximate 60% shareholding in Godrej Properties that is the way that Godrej Industries benefit from the broader Vikhroli development. It means it does not have a direct stake in that development. In the 'Trees' project, it is both direct and indirect which translates to 76%.

**Suhas Hari** And there will be no further change in the manner in which this is done? I guess this kind of arrangement will be for all future projects?

**Pirojsha Godrej** So, the broader arrangement with Godrej & Boyce is the Development Management Fee arrangement at 10%, which is what we envision to be for all future projects.

**Adi Godrej** On your second question, we agree that whilst the valuation and share price of Godrej Consumer Products and Godrej Properties has increased very considerably during the last 12 months, the price of Godrej Industries has not increased proportionally and I think perhaps the understanding of investors is not complete. So, we will make a special effort to educate investors on the value created in Godrej Industries.

**Suhas Hari** I am happy to know that you are at least thinking about it because there are holders of Godrej Industries as well because it is just been largely over the last one year before that I think it was probably not that much?

**Adi Godrej** Yes, there was a period earlier also when there was similar situation. So we will give it appropriate attention.

**Moderator** Thank you. Our next question is from Manish Gandhi, he is an individual investor. Please go ahead.

**Manish Gandhi** My first question is to Mr. Balram Yadav. I just want to know what are our plans for next two-three years in terms of CAPEX for our organic growth and are we generating sufficient cash flow for the same requirement?

**Balram Singh Yadav** We plan to invest close to about Rs. 400 crore in the next three years and major portion will be in Animal Feeds and followed by Agro-Chemicals. We have decided to set up an Agro-Chemical plant for Agri Input division in Dahej. We have been allotted land and we need to setup another 60 tons per hour oil mill in Andhra Pradesh. And I am very sure that our internal accruals should take care of that.

**Manish Gandhi** My second question is on Nature's Basket. Though we are growing in number of stores and very satisfactory topline; when do you see that we can make cash profit or if I put it another way, is there a time limit the top management has thought about

it say next two, three, four years if we do not make profit we might have some plan B of selling or something like that?

**Adi Godrej**

Well, Nature's Basket is doing very well. The older stores are doing well in terms of breaking even or profitability. It is the newer stores that take time. It is growing very rapidly. So obviously like in other modern retail operations, the breakeven period will depend on the rate of growth. But our sales are growing very well and even the same stores sales are growing well. We feel that Nature's Basket valuations are increasing quite considerably and of course we always look at opportunities to create value.

**Manish Gandhi**

My third question is to Pirojsha. The question is again on Vikhroli launches. I know it is very repetitive for you every time to answer the question and I can understand that again you are facing not getting permissions for either for fourth tower or the Trees residential launches. But I just want to know what is the problem in permissions and is there anything in the future because we have so much inventory. Can we do something, of course you might be doing, but is there something totally that we cannot do and it is all regulatory that is the question?

**Pirojsha Godrej**

Each project does have its unique set of challenges which some time can result in delays to approval. The good news is that there is no major problem either in the fourth Tower at Platinum or in the Trees or any other projects. So it is just a matter of time there was a slight delay in the Fourth Tower launch because of something related to aviation clearances that we made in which is now in place. So I expect that launch to happen in the next few months. Hopefully, this quarter, but certainly not later than Q1. In addition, the Trees launch should also happen soon thereafter. In the Trees we had to go through process of conversion of the land from industrial we have to move out the factory to complete Godrej One. So a lot of progress has been made on all of these counts. The tricky part we think of converting the land etc., is now behind us. So it is more a matter of routine approvals now and hopefully that project as I mentioned will also be launched in the first half of next financial year. We are doing lots of work on building capabilities on the regulatory approvals front. So for example, we were two or three people in the team that handled these matters a couple of years ago. Now, in Mumbai, the regulatory approval team is 40 to 45 people and the understanding of how to best expedite these approvals is much stronger than it was in the past. That is not to say that sometimes it takes a little bit of setbacks, we all know the current approval process is such and there is no way to perfectly plan for every eventuality. But, I am very confident that we have made huge progress from where we were and this year we have already done more launches and sales in any year in the Company's history and I am sure that statement will hold true for most of the coming years as well.



- Manish Gandhi** Definitely I am not just judging that. Of course you have done a great job in launching so many projects and selling. One more observation, I do not know what happened with the tower 4? Is there a Trees residential we are planning to, as per my understanding you are launching residential in two phases, right? So is there we can do launch in one phase so we do not face a problem like the tower 4 I suppose it is a same society or something like that just want to know?
- Pirojsha Godrej** I have not fully understood that question, Manish. But the Trees is obviously quite a different project. The first phase itself will be half a million square feet so that is almost the size of all three towers in Platinum put together. But I am not sure I understood your question fully.
- Manish Gandhi** Yes, the question was like if you would have applied for the permission of all the four towers of Platinum at the same time so what problem we are facing in the fourth tower; so suppose in future if we launch first half of our residential like half a million square feet rather than launching one million square feet I just wanted to know?
- Pirojsha Godrej** No, it is a valid point at the same time obviously to get all the approvals there are sometimes large investments required. So it does not make sense necessarily to do the whole thing at once. Also the rules keep changing. The FSI has increased for example in the case of Godrej Platinum. So we think it can also be beneficial. So, clearly we have to balance out the risk of any delay with down side of additional investment upfront.
- Moderator** Thank you. Our next question is from Atul Mehra of Motilal Oswal. Please go ahead.
- Atul Mehra** Just a couple of questions on the Agri business front. If you can broadly highlight the kind of innovation pipeline we would have in the maize business as well as on the rice front and just a broad strategy on whether we will be focusing more on the varietal front or hybrid rice over the next two years in the seeds portfolio?
- Balram Singh Yadav** Our R&D initiatives are in all our businesses. In Animal Feeds, we have achieved a lot and lot of work has already in progress in our new R&D center we have set up in Nashik. But we have reached a stage where all low-hanging fruits which required incremental investments have been taken and now whatever we are working on would require substantial investments. So these benefits will be realized not on quarterly basis but may be once in two years or once in four to five quarters. As far as Agri Input is concerned, we are working on several molecules as well as several combinations of existing molecules which should give us a good sales growth in the next two to three years.

As far as our Seeds business is concerned, we are working on hybrid maize and our first variety is likely to be commercialized in Kharif 2016. We have worked on varietal rice just to understand the rice market but we are also working on hybrid rice but hybrid rice will take time and it will be only in 2018 or 2019 that we will see some varieties of hybrid rice from our research and development effort. We have already launched bajra last year on trial basis and we need to improve it further. We will sell when improved variety on trial basis this year but I believe in Kharif 2016, we will be able to launch a competitive bajra variety in the bajra market.

R&D initiatives in oil palm are largely focused on yield improvement and oil recovery improvements.

As far as Godrej Tyson is concerned, entire effort is on new product development and that is why you see that every quarter we are able to launch new variants of 'Yummiez'.

**Atul Mehra**

Just to take the maize business further, if you can just also broadly highlight in terms of what is our share from single cross and two way cross maize as well as what are the key markets where we are getting more dominant in terms of market share and which are the markets that we are tapping next in terms of market share gain?

**Balram Singh Yadav**

The answer to question one is WIP so I would not like to disclose much of that. For your second question, we are extremely strong and are fourth Company in Maharashtra and we are in the top 10 in Andhra Pradesh but we are nowhere in the biggest corn market of the country which is Bihar. We have still not established our varieties in Bihar. So I think it will take time but we are working on different varieties suitable for different agro climatic conditions of the country.

**Atul Mehra**

One final question in terms of the seeds portfolio; is cotton going to be on radar for us anywhere over the next two to three years?

**Balram Singh Yadav**

No, cotton I think is a very crowded market and that is not our focus.

**Moderator**

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

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

---

*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.*