



Godrej Industries Limited
Q1 FY2011 Earnings Conference Call
July 30, 2010

Moderator:

Ladies and gentlemen, good afternoon and welcome to the Godrej Industries Limited Conference Call. As a reminder, for the duration of this conference all participants' 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 the operator by pressing "*" and then "0" on your touchtone phone. 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 sir.

Anoop Poojari:

Thanks Melissa. Good afternoon everyone and thank you for joining us on the Godrej Industries Q1FY 2011 Results Conference Call. We have with us from the Company Mr. Adi Godrej, Chairman of Godrej Industries, Mr. Nadir Godrej, Managing Director, Mr. Vivek Gambhir, Chief Strategy Officer and Mr. V. Srinivasan, CFO and Company Secretary. We will begin the call with brief opening remarks from the management, following which we'll have the forum open for a question and answer session. Before we begin this call I would like to point out that some statements made in this call maybe 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:

Thank you and good afternoon everyone. Thank you for joining us today to discuss GILs operating and financial performance for the first quarter ended June 30, 2010. Let me begin this call by taking you through the key developments in our operating businesses and subsidiary.

As you maybe aware, we are focusing on our 'CREATE' strategy, which is paying us handsome dividends. As part of our CREATE strategy we focus on our four core businesses. The C in CREATE stands for consumer and chemicals, RE for real estate, A for Agri, the T for building an environment to achieve

transformation, driving ourselves to full potential, while the last E in CREATE stands for our incubating emergent businesses of the future. Our diversified portfolio in some of the key growth sectors of the economy has facilitated enhanced performance across businesses.

GCPL our main FMCG business has acquired the remaining 51% stake in Godrej Sara Lee Limited, making GCPL India's largest home grown, Home And Personal Care Company. In addition, GCPL has acquired 100% stake in the Issue Group, a leader in the Hair Color segment in Argentina and with strong presence in other Latin American countries. We have also acquired 100% stake in Argencos SA in Argentine Hair Care and Hair Color Company.

Our chemicals business has delivered strong positive growth on the back of continued efforts to improve efficiency and reduced costs. The Board has approved the new Oleochemicals manufacturing facility at Ambarnath, near Mumbai with an estimated capital outlay of about Rs. 230 crore. This plant is expected to be operational by financial year 2013. The focus in this business is on improving contribution from specialized products, including specialty fatty acids and surfactants, which command good margins.

Godrej Properties, our real estate subsidiary had been on a high performance spree with strong growth in top-line and bottom-line. One of the key highlights for the quarter was its entry into the National Capital Region with a residential project in Gurgaon. With this, GPL has extended its presence to 11 cities across India, further establishing itself as a national developer. I am confident that Godrej Properties would continue to deliver superior overall performance going forward. The Board has approved formation of Limited Liability Partnerships with Godrej Properties for joint development of property at Vikhroli. The LLPs will develop about 36.5 acres and the net profit will be shared 40:60 between Godrej Industries and Godrej Properties. Godrej Industries will thus effectively be beneficiary of 81.6% of the profits, 40% directly and 41.6% through its 69.4% shareholding in Godrej Properties. Godrej Properties would raise the necessary finances to develop this property.

Godrej Agroveter, our Agri business subsidiary, which covers animal feeds, agricultural inputs, oil palm plantation and poultry, has reported significant increase in profitability during the quarter. A range of new products are being developed in the animal feeds and agri input businesses, which will be launched in FY 2011-12.

Good monsoons have helped the oil palm business improve its performance. We have also begun the year on a positive note with the Gujarat Government allocating new acreages of oil palm cultivation. The oil palm business has an initial gestation period, but will grow very rapidly in the future as the plantations start yielding fruits. In addition, we have re-launched the 'Real Good' brand in new packaging and identity with a new advertising campaign that is based on a money back guarantee. This, we expect, will improve customer confidence and in-turn improve volumes.

Let me now briefly run you through our financial highlights. During the quarter, our consolidated total income increased by 30% to Rs. 1,011 crore from Rs. 780 crore during the same quarter last year. PBT increased by 615% to Rs. 44 crore from Rs. 6 crore and net profit was at Rs. 49 crore, up from Rs. 16 crore, an increase of 198%. The consolidated results demonstrate healthy financial contribution from both the operating and the investment businesses. We are confident that our unique and diverse business models, coupled with our 'CREATE' strategy would continue to provide us the momentum to deliver exceptional results. Thank you for the time and we would now be glad to take your suggestions and answer any questions that you would like to discuss.

Moderator:

Thank you sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Jharna Majumdar from Financial Technologies. Please go ahead.

Jharna Muzumdar:

What kind of revenue turnover are you eyeing in FY 2011 for Godrej Industries?

Adi Godrej:

It will be difficult for us to provide any guidance. We don't do it in any of our companies, but growth in all our businesses is very strong. So we expect a very strong continuation in the other three quarters of this year. But unfortunately, we do not provide guidance.

Jharna Muzumdar:

Okay, sir. Do you hope to maintain your margins at current level? Do you see input cost impacting your margins anyway?

Adi Godrej:

Well, I think our margins have improved very considerably in quarter one. As you see our profits have grown much ahead of sales. Margins are growing in most of our businesses. Overall margins I expect for GIL will be strong this year.

Jharna Muzumdar:

Okay, sir. Thanks

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

Manish Gandhi: Hello, sir. Good afternoon. My first question is regarding our stake in Avesthagen as of today what is the percentage of the stake that we hold in that company?

Adi Godrej: It's 5% approximately.

Manish Gandhi: Do we have any plans to offload in the IPO or after IPO because they are coming out with an IPO with an approximate market cap of Rs. 3,000 crore or Rs. 4,000 crore?

Adi Godrej: Well, we've heard so and we will take a look at all the opportunities. Either we will look at offloading our stake in due course either during the IPO or later. We have not yet had an opportunity to study the detail because we've not received the details of the IPO.

Manish Gandhi: Okay. My second question is regarding our Wadala factory land, when do you think we can get permission, I know it is very difficult to say, but do you think in one or two years we can get permission and start something there?

Adi Godrej: Yes, we are very hopeful of finalizing something soon and starting our development.

Manish Gandhi: And what is the comparative rate going on the nearby areas?

Adi Godrej: I don't know exactly, but I would imagine it would be of the order of Rs. 15,000 a square foot or so, but I am not exactly sure right now.

Manish Gandhi: Okay, and sir my third question I don't know whether it is related, in our poultry and poultry products like Real Good and Yummiez, we have grown by 24%, however as for Venky's reported result, they have grown 40% and Suguna is not a listed company, so is it right to compare?

Adi Godrej: Well you can't directly compare, because Venky's main business is to supply breeding chicks to farmers and they have some animal feeds and some poultry business. But their composition of portfolio is very different from ours.

Manish Gandhi: This 40% that I am taking about is only the poultry and poultry division of Venky's. It went up from Rs. 110 crore to Rs. 152 crore...

Adi Godrej: Yes, but that main poultry division is supplying day old chicks, both eggs and chicks.

Manish Gandhi: Okay so it is not strictly comparable right?

Adi Godrej: No, not at all.

Manish Gandhi: Okay thank you very much sir.

Moderator: The next question is from the line of Mukta Desai from Barclays. Please go ahead.

Mukta Desai: Good afternoon sir, I would like to know what the revenue and profits of Godrej Agrovvet were. And what is your outlook on Godrej Hershey, what is the plan ahead?

Adi Godrej: Godrej Hershey is continuing to introduce newer products from the Hershey's table. We have already introduced the Hershey Syrup. Our next set of products will be from their Chocolate portfolio, which we hope to do by the end of this financial year or early part of the next financial year and they continue to look at other products in the other portfolios, which is the confectionary, fruit juices, soya milk etc. The Q1 consolidated turnover of Godrej Agrovvet was Rs. 430 crore.

Mukta Desai: Okay and what was the bottom line.

Adi Godrej: The PBIT was Rs. 17 crore.

Mukta Desai: Okay thanks.

Moderator: Thank you, the next question is from the line of Mansi Sajeja from SBI Mutual Funds. Please go ahead.

Mansi Sajeja: For the JV or the LLP that you are forming with Godrej Properties what would be your investment in that?

Adi Godrej: Godrej industries will have to invest nothing into that LLP. All the investments will be made by Godrej Properties. Godrej Properties will do all the architecture, planning, construction and marketing. Godrej Industries will share 40% in the profit of the project. Godrej Properties will get 60% of the profit, which will be used towards its cost and its own profits from the joint venture.

Mansi Sajeja: So does this land belong to Godrej Industries?

Adi Godrej: No the land belongs to Godrej & Boyce., So the LLP will pay a lease rent to Godrej & Boyce. And the profit after the lease rent will be shared in the ratio I mentioned. But I would like to draw your attention that because of the approximate 70% ownership GIL has in GPL, its beneficial interest in the LLP will be about 81%.

Mansi Sajeja: Yes sir we understood that from the presentation. What would be total CAPEX of Godrej Industries, including the Oleochemicals and everything for FY 2011?

Adi Godrej: The CAPEX will mainly be in the Oleochemicals plant. Of course if there is any other investment that the finance division makes that will be additional. There are no plans currently, but of course when there is a suitable opportunity and we think that is a value creation in the long run then we'll take a look at that.

Mansi Sajeja: Okay. Thank you so much

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Godrej Agrovet has achieved a revenue growth of 12% approximately, CAGR of 12% from FY 2009 to FY 2011. And in this quarter also the revenues grew by 13%. So is this a sustainable kind of a growth in coming years?

Adi Godrej: Yes, I think it's not only sustainable, but it could accelerate forward.

Kaustubh Pawaskar: And sir, in terms of margins, the operating margins are around 4%, so can we expect improvement in the margins?

Adi Godrej: Yes. Godrej Agrovet has improved its margin considerably over the last couple of years and I think all its developments point towards increasing margins because not only are its operations getting much more efficient, but it is getting into more of the value added segments in many of its businesses, including animal feeds and agri inputs.

Kaustubh Pawaskar: Okay. So what is the market demand for these products? Can you give us the market perspective for animal feeds and agri products?

Adi Godrej: The entire Godrej Agrovet portfolio except for its FMCG part, which is a joint venture with Tyson, is marketed in the rural areas. And as you know the rural economy has done extremely well over the last few years, driven by strong agricultural growth, especially in agricultural prices, even beyond volume and the

strong government spending in the rural areas. And the oil palm business has great opportunities for high growth because as you know India is very short of edible oils. We import a very large quantity of edible oils. In fact in my view, edible oil, I think, is the second largest import item in the Indian import bill after crude oil. So the opportunity to market the crude palm oil we produced from this division is tremendous. And the opportunity to increase palm oil cultivations in several states in which we'll operate is very strong. So we see a very strong growth potential from that business too.

Kaustubh Pawaskar:

Okay. What is the debt on the books for Godrej Agrovet?

Adi Godrej:

Godrej Agrovet has a small debt, but its debt equity ratio is well below 1:1. I think it's around 0.5 to 0.8 depending on whether you take standalone or consolidated numbers.

Kaustubh Pawaskar:

Okay. Thank you, sir.

Adi Godrej:

Thank you.

Moderator:

The next question is from the line of Jharna Muzumdar from Financial Technologies. Please go ahead.

Jharna Muzumdar:

Are you looking at any price hikes for FMCG products because the input cost is moving upwards, so are there any plans to revise your prices?

Adi Godrej:

Overall we're not seeing input cost increase in FMCG currently. So we do not have any plans for price hike currently in the FMCG sector. Input cost situation has been reasonably benign.

Jharna Muzumdar:

Are you looking at raising funds in the near future?

Adi Godrej:

We are not looking at any further fund raising for Godrej Consumer Products, unless we have further acquisitions. So any further acquisitions will need further fund raising. We are not otherwise, looking to any immediate fund raising.

Jharna Muzumdar:

But are you scouting for more acquisitions?

Adi Godrej:

If we get an opportunity for very strategic and highly accretive acquisitions, we will certainly look at them. But as you know we have completed five acquisitions in GCPL in the last quarter. Most of the ones that we were strongly looking at,

have been executed. So, I don't expect that the pace of acquisitions over the next few quarters will be anywhere near the earlier pace.

Jharna Muzumdar: Okay. What are your current cash reserves for Godrej Industries?

Adi Godrej: Godrej Industries has the debt to equity ratio of about 0.5.

Jharna Muzumdar: Okay, sir. Thank you.

Adi Godrej: Thank you.

Moderator: The next question is from the line of Samir Agarwal from ICICI Securities. Please go ahead.

Samir Agarwal: Does Godrej Industries or Godrej Agrovet hold any land parcel in Bombay and what is the quantum over there?

Adi Godrej: Well Godrej Industries owns residential property for its guesthouse in Juhu and Godrej Agrovet I don't think owns any land in Bombay. Godrej Industries also has leasehold land in Wadala from the Bombay Port Trust, which after getting permission from the Port Trust which we expect soon, we are planning to develop.

Samir Agarwal: And what is the total area of that land, sir?

Adi Godrej: In Wadala it is about 6 to 7 acres.

Samir Agarwal: Are you getting into any similar kind of agreement that we entered with Godrej Properties recently for other parcel of land?

Adi Godrej: Sure. We will look at that for example if the Wadala land is to be developed we might have a similar agreement. Godrej Agrovet has a lot of developable land in other cities such as Hyderabad, Bangalore etc. So, over a medium term, we will enter into such agreements and even Godrej Properties may have such agreements with Godrej & Boyce, which is another group company. Godrej Properties has signed MOUs with Godrej & Boyce, Godrej Industries and Godrej Agrovet to jointly develop lands.

Samir Agarwal: Whatever property Godrej & Boyce owns, whenever it gets into a developing stage, will it be routed through Godrej Industries or it will directly be done through Godrej Properties.

Adi Godrej: It won't be routed through Godrej Industries. In the Vikhroli development, because that was leased to Godrej Industries, it was done with Godrej Industries. Where Godrej & Boyce has no connection with Godrej Industries in its lands all over the country, it will be a direct joint venture between Godrej Properties and Godrej & Boyce.

Samir Agarwal: Right now. This was the only parcel of land in Vikhroli that Godrej Industries was having?

Adi Godrej: That's right.

Samir Agarwal: Does it have more land at Vikhroli?

Adi Godrej: No.

Samir Agarwal: Okay, sir. Thanks a ton.

Moderator: The next question is from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera: Sir, Could you elaborate on how many years of lease do we have on both these properties at Wadala as well as for Vikhroli property?

Adi Godrej: The Wadala property is a question where the lease is renewed from time-to-time with the BPT and so it goes on the general BPT policy. Currently, we are awaiting the renewal of the lease and the development rights. In Vikhroli, the lease with Godrej & Boyce has been renewed for 99 years.

Sachin Kasera: Okay. And sir can you share what exactly is going to be lease rental that will have to be paid by the LLP which is going to develop the Vikhroli property because that could have major effect on the profitability of the project?

Adi Godrej: It's a reasonably low lease rental and it's very small compared to the earning capacity of the LLP's project.

Sachin Kasera: Okay. It seems there is also going to be a residential part of the property, which you are going to sell?

Adi Godrej: The property development will have a considerable residential component, maybe about half a million square feet, we have not exactly finalized it. It will also have a retail component, including high-street retailing. It will have a hotel around

300,000 square feet and a considerable part of it would be commercial and office space.

Sachin Kasera: Okay and sir in terms of some of the residential portion, will the LLP continue, because the lease is for 99 years? So when we are going to sell the residential portion is it going to be again on 99 year lease?

Adi Godrej: We have not yet finalized how much of it will be sold, how much will be leased. But the lease of the land will continue to be 99 years.

Sachin Kasera: No, I am just trying to ask whether the lease will have to be continued to be paid by the LLP or the person who buys the property.

Adi Godrej: Yes, I think we have to work out details. That is a matter of details. Because obviously if you ask the residential buyer to pay the lease then the selling price would have to be a little lower or vice versa.

Sachin Kasera: Okay. And just one question regarding the tax structure for this LLP sir, is it going to be full tax pay or will you get certain tax benefits in this?

V. Srinivasan: There will be tax benefit. The profit that will be distributed by the LLP will be tax free in the hands of the receiving company that is Godrej Properties and Godrej Industries. The LLP will pay tax on its income in the normal course.

Sachin Kasera: Okay, so we will receive the profit after paying full tax by the LLP?

V. Srinivasan: It won't be double taxation, and there is no distribution tax for profit distributed by the LLP.

Sachin Kasera: Surely sir, I got it.

Adi Godrej: But it is 1-point tax.

Sachin Kasera: And sir on the Wadala property you mentioned the lease currently has come up for renewals. So is the old lease is close to expiry date?

Adi Godrej: No, no it had – it's a complicated legal situation. I cannot elaborate it. Several companies have BPT leases, but we expect it to be sorted out very soon.

Sachin Kasera: And is there or was there any manufacturing activity going on that land before sale?

Adi Godrej: There is still continued manufacturing activity, but if we get permission for redevelopment, that manufacturing activity will be looked into. It could be transferred somewhere else or we will take a look at it.

Sachin Kasera: Okay. But could you elaborate what is overall size of that Wadala land that is on lease?

Adi Godrej: Yes, I just mentioned earlier it's about 6 to 7 acres.

Sachin Kasera: Okay, thank you very much.

Adi Godrej: Thank you.

Moderator: The next question is from the line of Koshal Sanghrajka from HDFC Securities. Please go ahead.

Koshal Sanghrajka: Good evening sir, congratulation on your results. I wanted to actually know you said at Wadala you currently have manufacturing going on.

Adi Godrej: Yes.

Koshal Sanghrajka: What are we manufacturing there?

Adi Godrej: Vegetable oils.

Koshal Sanghrajka: So that would that be a part of the Agrovat?

Adi Godrej: No, it is a division of Godrej Industries.

Koshal Sanghrajka: Of Godrej Industries itself.

Adi Godrej: It does contract manufacturing for others, including Godrej Hershey

Koshal Sanghrajka: Okay, sir that was the only question I had, thank you so much.

Moderator: Thank you. The next question is from the line of Samir Agarwal from ICICI Securities. Please go ahead.

Samir Agarwal: Can you just explain us the economics of this palm plantation sir and where do you see the business going forward in the next five years sir?

Adi Godrej: We think the economics are very good. It has great scope for expansion because the demand for palm oil in India is huge, even if Indian production develops extremely well, India will have to continue to import vegetable oils. The economics are strong because, for the farmers, this is one of the best crops they can get into. There are very few crops, which give equivalent returns. So, we see this is a strong growth potential.

Samir Agarwal: Sir, I believe this year the turnover was close to Rs. 64 crore. In the next five years can you see it closer to say Rs. 500 crore?

Adi Godrej: Well, I can't project it exactly in terms of years, into the future. It takes three years before a palm tree starts bearing fruit.

Nadir Godrej: This is Nadir Godrej, we have about 12,000 hectares yielding, 37,000 hectares are already planted and we have a potential area, which totals 200,000 hectares and 10000 hectares added every year.

Samir Agarwal: Okay. I just want to get a sense - five years down the line what kind of revenue can we generate from this area sir?

Nadir Godrej: I don't have that figure right now, but it starts yielding four years after planting and the full yield is achieved in the eighth-year.

Adi Godrej: I don't know the exact revenue projection five years down the road. The team would. So, maybe off-line, we can give you some idea.

Samir Agarwal: Okay sir, thanks.

Moderator: The next question is a follow-up from the line of Jharna Muzumdar from Financial Technologies. Please go ahead.

Jharna Muzumdar: Sir, what is your current EBITDA margin for this quarter?

Adi Godrej: See, we have to look at it. These are consolidated results. So EBITDA margins are not fully depicting the business, so for example in the subsidiaries top line is fully captured. Bottom line you have to deduct for minority interest. So also the big value creation in any quarter in Godrej Industries is the improvement in its investment value in the publicly listed Godrej Properties and Godrej Consumer Products, which doesn't get captured in the EBITDA margin. So being a conglomerate business the EBITDA margins would not be the right way of looking at this business. But the EBITDA margins during the quarter improved

dramatically from the EBITDA margins of the same quarter of the previous year. As you can see that the EBITDA has grown very significantly relative to the sales growth. So EBITDA grew 80%, whereas sales grew 30%.

Jharna Muzumdar:

Okay. And as you said on the commodity prices, do you see it hardening in the near future?

Adi Godrej:

Well, it depends on what commodity you are talking about. We are not seeing much hardening of vegetable oils or crude oil, and these are the two commodities which affect us the most in our FMCG businesses.

In non-FMCG businesses, commodity prices are usually passed on to the customers. So commodity prices do not affect margins, but strong growth in the EBITDA margin in this quarter was because there was very strong demand from our customers relative to our capacities and obviously when the top line grows by 30%, the overheads and other costs do not grow that much. So EBITDA margins improved quite dramatically.

Jharna Muzumdar:

Okay, thanks

Moderator:

Thank you. As we have no further questions, I would like to hand the floor back to Mr. Adi Godrej for closing comments. Please go ahead.

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 in this call.

Moderator:

Thank you gentlemen of the management. 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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