



Godrej Industries Limited

Q1 FY2013 Results Conference Call Transcript

August 14, 2012

Anoop Poojari

Good evening everyone and thank you for joining us on Godrej Industries Q1 FY2013 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 and Mr. Ravi Venkateswar, Head - Finance and Corporate Services 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 evening everyone. I welcome you to Godrej Industries conference call to discuss GIL's operating and financial results for the first quarter of the fiscal year 2013. To begin with, I would like share with you that in a challenging operating environment, through our multi-faceted business model, GIL has continued to deliver strong results.. We are one of the most trusted brands in the country today and have stood the test of time, meeting challenges of shifting industry and end-consumer preferences. Our strong management team, a focused and dynamic approach to managing the business and our focus on value creation has enabled us to maintain a strong growth trajectory.

At the heart of our approach is a steadfast focus on our four core businesses as articulated in our CREATE strategy. These four core businesses are Agri, Consumer, Real Estate and Chemicals. We believe that these four core businesses provide us with tremendous growth opportunities. We have significant competitive advantages in these businesses and we will continue to direct our resources and energy to drive these businesses to full potential.

Let me now take you through key highlights of our various businesses, starting with our agri-businesses. This quarter has been challenging at Godrej Agrovet due to unfavorable climatic conditions and rising input costs. However, a resilient business portfolio and a strong suite of innovative agri products enabled us to achieve a growth of 22% in revenues. Animal feeds business is the key contributor to the overall top-line and continues to report healthy increase in revenues. The current quarter revenues increased 24% registering volumes growth of 13%. With additional capacity coming online and new innovative products that will be

launched in the upcoming quarters, this business is poised well for sustaining its momentum.

The oil-palm business also registered a 20% growth in revenue during the quarter under review.

During the quarter, the agri-inputs business registered strong growth of 34% in sales driven by strong volumes delivered by Zymgold Granule, a bio-stimulant product and Hitweed, a cotton herbicide. We are consciously expanding our brands and product portfolio to cater to the diverse needs of cultivators and thereby expanding reach.

Our joint-ventures with ACI Bangladesh and Tyson foods reported subdued numbers during the quarter under review, with bird flu outbreak leading to de-growth in ACI Godrej and high input costs impacting Godrej Tyson's profitability. We are optimistic that these unfavorable market trends will reverse course going forward. Our teams are also working hard to improve the performance of the JV's and improve margins.

Moving on to our Chemicals business –this business segment continued to deliver steady performance with revenues registering a growth of 25% and PBIT growth of 21%. The chemicals business largely remained unaffected by the difficult domestic macro-economic environment primarily on account of diversified product applications across sectors including personal care, home care, tyre industry and specialized applications. We continue to maintain our leadership position in the domestic market while expanding exports. Here, I am pleased to share that the Company is now entitled to be a Star Trading House, the second highest status, based on our export performance over the last four years. Our constant endeavor has been to improve the revenue mix by increasing the contribution from specialty chemicals and we have been able to achieve this successfully to an extent. Our unique manufacturing process and strong customer relations have remained key to our healthy performance in the chemicals business.

I would now like to discuss key developments at Godrej Consumer Products Ltd. where GIL holds around 21.2% equity stake. If we look at our domestic business, this has been yet another quarter of very strong sales growth and market share gains for most of the categories that we participate in. Our international business, guided by our 3x3 strategy of being in three core categories and in emerging geographies in Asia, Africa and Latin America, has also displayed strong growth traction. Guided by our strategy to accelerate the pace of innovation and to strengthen our brand portfolio, we launched and re-launched products across categories. While the operating environment continues to be difficult, the Company has been able to deliver on both operational and financial parameters.

Moving on to our property business; Godrej Properties had a good start to the year and reported strong growth in bookings, revenues, and profits during the quarter. We concluded several new agreements for residential projects in high growth cities like Mumbai and Kolkata; adding approximately 4 million sq. ft. of saleable area, which will ensure sustained growth going forward. The focus for new projects has been entirely on residential projects in high growth cities and on favorable deal structures that will enhance our margin profile. Another important development for the quarter was the creation of a Rs. 770 crore residential real estate development platform. This platform will allow us to access opportunities for land parcels with significant capital requirements in our focus markets without having to burden our balance sheet. The initial commitments will be in the ratio of 29:71 by GPL and the global investor consortium respectively which is led by APG. GPL will be the exclusive development manager of the projects to be pursued by the platform for

which it will receive a significant development management fee / brand fee in addition to its share of profits.

We also launched two residential projects in Mumbai & Pune and have received positive response at healthy price realizations. We have a robust launch calendar this fiscal year and expect these launches to assist us in delivering sustained bookings growth through the year. Despite a challenging environment in the real estate sector, we are confident that we will successfully leverage our 'Godrej' brand and proven business model to take advantage of the opportunities in the sector and deliver healthy performance in the future.

I am happy to share that the Company successfully concluded the Institutional Placement Program (IPP) for Rs. 370.5 crore which was oversubscribed by 1.67 times, thereby reaffirming the faith of the investor community in Godrej. The Public holding in GIL, post this issue is 25% (in line with SEBI's minimum public holding norms).

Let me now briefly run you through our financial highlights. During the quarter, our consolidated total income improved by 39% to Rs. 1833 crore from Rs. 1321 crore during the same quarter last year; consolidated PBT (other than exceptional items) grew by 31% and consolidated Net Profit (other than exceptional items) grew by 38% .

To conclude, we will remain focused on our "CREATE" approach that allows us to represent the India growth story and harness opportunities in a diverse array of businesses. This growth centric strategy has enabled us to 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 have.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Manish Gandhi, who is an Individual Investor. Please go ahead.

Manish Gandhi

I just wanted to ask - I know about this regulatory thing and that we have a diluted stake in Godrej Industries. But when we were talking in past also, last two to three quarters back, when it was Rs. 210 or 205, even you were of the view that it is undervalued. So, I just could not figure out what was the rationale behind selling it at such a discounted price. Can you please explain this to me, it will be helpful?

Adi Godrej

First of all, we have not sold any shares. We have asked for investment into the company and clearly, we are supposed to do this by a certain timeframe and we felt it might be much better in the current situation to do it earlier than later, because we do not know how global economic factors might play out. Secondly, in the present circumstances, we thought it would be good to be cash rich and be able to invest in opportunities as they come along, that is why we selected this time.

Manish Gandhi

Actually, as a minority shareholder, we would have been happy, if you could have come out by way of right or something?

Adi Godrej

But rights would not dilute the shareholding.

Manish Gandhi Then management could have opted not to subscribe fully and we could have done it.

Adi Godrej Yes, but when it hovers around 80%, it is difficult not to subscribe and yet get added for subscription.

Manish Gandhi And one more question to Mr. Balram Yadav. Can you just throw some light on the different segments of Agrovet, Mr. Godrej just said that we had some margin problem in few of the segments; can you just explain in detail and going forward what can happen? Bangladesh, I can understand.

Balram Yadav One thing which you would have seen in animal feeds is that we have a 24% top line growth because there was a huge escalation of raw material prices particularly soya meal and corn because of the global situation. Now on one hand, the sales of animal feed has increased in value, but on the other hand, our Godrej Tyson business where it is the input, so the cost escalation has hit our margins in the Godrej Tyson business, because whatever the increases have happened in terms of cost, a similar price increase is not possible to take immediately in the chicken prices, because dynamics of both the industries is different. So this explains the growth in animal feeds and the lower margin in the Godrej Tyson business. In oil palm, we had a slower start as compared to last year because of a little bit of delay in monsoon in the areas where we are operating, particularly Andhra Pradesh. So our expectation of say first quarter for the FFB and oil production were much higher, but unfortunately because of delayed monsoon, the whole season is delayed by two-three weeks and we planned to catch up in this quarter and the next quarter. So we believe that it might be delayed by two-three weeks and if you look at agricultural business quarter to quarter, you will ask me these questions that why this quarter is different from the last one, but for us, it is just a delay of two-three weeks in the deal.

Manish Gandhi Pirojsha, can you just tell me what is happening on BKC thing and are there any chances that we can convert it to the residential thing?

Pirojsha Godrej The plans for BKC are on track. With the advanced stages of finalizing the design we expect to start construction as soon as the monsoon is over. We do not expect to convert this to a residential. There is some talk of potentially some rules in BKC changing, but at most, it may partially change the composition, but currently the plans continue to be for a commercial development.

Manish Gandhi And any planning of launching anything in Godrej Trees Project, any new launches in this current year?

Pirojsha Godrej Godrej One, of course our commercial office building is proceeding very well. We have completed the structure of the building last month and I think that is scheduled to complete on target early next year. The plan has always been to first complete Godrej One, move our existing facilities into that building and that will allow us to then clear up the other land required for future launches. So I do not think we expect any future launches in the Trees this financial year, but certainly we do expect some in the next financial year. Meanwhile we do have another project at Vikhroli called Godrej Platinum, which is under the development management model with Godrej & Boyce and that project is also proceeding very nicely. We have almost sold out the first two towers of the project that have been launched. Prices have increased by about 25% from the launch in October despite flat market conditions. We expect to launch the third tower in that project in the coming months.

Moderator Our next question is from Grishma Shah of Envision Capital. Please go ahead.

Grishma Shah I just wanted to know, the chemical business has seen a strong growth and that we have seen across various chemical companies this quarter. Would you help us understand why has that been so?

Nadir Godrej Chemical demand has been quite good both in India and overseas and we continue to expect things to go in the same way.

Adi Godrej Our business is Oleochemicals and I do not think we should necessarily compare it with other types of chemicals. Although, coincidentally it might be that we have grown well and they might have grown well. But generally India is competitive and we have been quite competitive and successful in this business over the last several quarters.

Grishma Shah Any particular industry which is driving the growth for the chemical business?

Nadir Godrej For our business, the big user industry is personal care and that of course is doing very well, so that helps.

Vivek Gambhir If I can add a couple comments here - a lot of the chemicals that we provide are used as input into things such as deodorants, toothpaste and skin care application. You can look at it globally in FMCG, some of the more premium FMCG products have been showing a lot of growth and along with the growth in premium products, we have seen very robust growth for our input chemicals.

Grishma Shah But those would be your specialty chemicals which would have found application?

Vivek Gambhir That is correct. If you look at the salience of specialty chemicals that has been steadily increasing over time as well.

Grishma Shah Yes, but the balance portfolio overall also has seen good growth.

Adi Godrej Some of the earlier products, not specialty products, also go into cosmetics and toiletries.

Nadir Godrej Because it is the making of specialty chemicals for personal care.

Grishma Shah And the other question is, can you also now tell us which state are you currently selling your seeds?

Balram Singh Yadav The major seed sales was corn in the last season and most of these seeds were sold in State of Maharashtra, almost 90%.

Grishma Shah And you also said that you are launching R&D product programs etc. So how much are you going to spend on R&D going ahead?

Balram Singh Yadav Last year, we spent close to about 10% of our PBT and I think that this year we will maintain the same percentage.

Grishma Shah PBT of overall Godrej Industries?

Balram Singh Yadav No, Godrej Agrovet.

Grishma Shah As per the media articles what we read in newspaper, would you like to comment on the Hershey JV please?

Adi Godrej I would not like to comment on speculative reports. But Godrej Industries has passed a resolution at the last board meeting held on Saturday that we will look at all opportunities to restructure Godrej Hershey and so we will go forward. It is not a business we are very happy with the results of and we will look to restructure.

Grishma Shah And the last question on the agricultural input, I understand that we are pretty small and we have just one major product here. But could you give a sense how the entire industry is shaping up in terms of the agro-chem if at all?

Balram Singh Yadav Agricultural input - this year we have grown almost 37% top line in the first quarter and of course the industry had a slow start. But we are very encouraged by rains in the last few weeks in particularly Haryana, Punjab, Rajasthan and Gujarat, the areas which were deficient. So we believe that at one time, we thought, say a month ago that this will be an average year, but we believe that it will be a good year for agricultural business.

Grishma Shah Overall including, if one had an entire product portfolio say insecticide, herbicide, everything, do you think it would be a good average year to be?

Balram Singh Yadav If you are talking from the industry point of view - in case the rains continue like this and there is adequate soil moisture, we are going to have a very good Rabi and I think this will hold for the industry also that it will be a good year.

Moderator Our next question is from Mahesh Matani, he is an investor. Please go ahead.

Mahesh Matani Actually I wanted to ask our rationale behind investing in Godrej consumer and Godrej Properties - additional 150 crore?

Adi Godrej We have passed an enabling resolution because in the event when some of the companies offer a rights issue or in the event there is an opportunity to buy some shares from one of the promoter companies, then we should be enabled to do so. It's only an enabling resolution.

Mahesh Mitani But my main concern is that right now Godrej Consumer has become such a large company and in an event of fund requirement, Godrej Consumer would be able to raise money from the market. So instead of deploying our capital in Godrej Consumer, we might as well invest in other businesses.

Adi Godrej Yes it is possible. Say if Godrej Consumer Board decides to have a rights issue, we have the option to pass it. We can study what are the options. But in case we feel, it is worthwhile our investing, we should have an enabling resolution because if you do not have an enabling resolution then by the time you pass it in the board and you get a shareholders' approval, it takes far too long.

Moderator Thank you very much. Our next question is from the Jasdeep Walia of Kotak Securities Ltd. Please go ahead.

Jasdeep Walia Could you elaborate on why the margins in the animal feed business seem to be under pressure in percentage terms. Because if I see the PBIT of that division has broadly grown little bit lower than the volume growth in that business. So is it because that the soft commodity prices were higher, so margins were under pressure and going forward the margins would increase?

Balram Yadav The margins are a little lower than the volume growth primarily because of a huge escalation in the commodity prices and it is not always possible to pass on all the cost increases immediately to the consumer. So there is a time lag in some

products, about a week and some products about two to three weeks depending upon the output prices, that is, chicken, egg and milk. But going forward, we have got all; that is point number one. Point number two, the margin is increasing and you will see as the quarter passes, the margins will improve further.

Jasdeep Walia Also if you could talk about that trend in contribution margins per ton in the business, year-on-year?

Balram Yadav If you are talking about quarter-on-quarter?

Jasdeep Walia Yeah last year and this year basically?

Balram Yadav Last year to this year, there is a little bit of improvement. But I think the major improvements you will see in the coming quarters.

Moderator Thank you very much. As there are no further questions from the participants, I would now like to hand the floor back to 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 very much sir. Ladies and gentlemen, on behalf of Godrej Industries Limited that concludes this conference call.

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