



Godrej Industries Limited Earnings Conference Call Transcript Aug 13, 2013

Moderator

Ladies and gentlemen, good day and welcome to the Godrej industries limited earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '**' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from 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 Q1 FY 14 results conference call. We have with us Mr. Adi Godrej - Chairman of Godrej industries, 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 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 in nature and 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

Good afternoon everyone. I welcome you all to Godrej Industries conference call to discuss the operating and financial results for the first quarter ended June 30, 2013.

Our results this quarter are reflective of our resilient business model which captures a diverse range of businesses in some of the key growth sectors of the economy. Overall performance has been heartening as some of the core operations registered sustained growth. Let me now briefly take you through the key developments during the quarter.

The agri businesses have begun the year on an encouraging note with the top-line improving by 27% on the back of excellent sales growth reported in all business segments. Animal Feeds segment delivered a growth of 24% driven by aqua feed and layer feed volumes. However, lower broiler placements and volatile chicken prices continued to impact broiler feed volumes. The Agri-Inputs segment also reported healthy numbers with the turnover improving by 47% during the quarter owing to higher sales volumes of 'Hitweed' and 'Zymegold', plant growth regulators. Top-line performance reported by the relatively higher margin Agri-Inputs segment and Animal Feeds segment along with improved contribution from Joint Ventures assisted Godrej Agrovet to enhance overall operating profits by 37% in the first quarter of 2014 as compared to the corresponding period in 2013.

The oil-palm segment registered improved revenues in spite of significantly lower oil prices as expanding fruit bearing acreages and a new mill commissioned at Chintampalli in Andhra Pradesh resulted in higher volumes. I am also pleased to share that we are establishing another oil mill in Mizoram, which is expected to commence operations by the third quarter of this financial year 2014.

During the quarter, our joint venture with Tyson recovered on account of stable feed costs and higher sales to quick service restaurants. We successfully introduced a new product – 'Chicken Kheema Paratha' during the quarter and have additional launches planned for this financial year. Despite a volatile external environment, ACI Godrej has started to deliver improved results as the impact of bird flu is diminishing. Our seeds venture, Godrej Seeds continues to expand its revenues and outreach to newer geographies. Overall the quarter was a reassuring period for Godrej Agrovet, reinforcing greater optimism for the future.

Coming to our property business, Godrej Properties registered healthy momentum in earnings and bookings despite the weak current market conditions in the real estate industry. In addition to more than doubling its profit growth for the quarter, Godrej Properties continued to lay the foundation for future growth through ongoing success in business development. The Company continued to build a robust development portfolio in high growth markets and added two new projects with 1.85 million sq. ft. of saleable area in Bangalore and NCR during the quarter. Also notable is the significant progress on several important launches that happened at the end of the previous financial year. At Godrej BKC, approximately 140,000 sq. ft. of space was sold in the first quarter. Another key launch during the previous quarter was at Godrej Garden City in Ahmedabad where we registered sales of approximately 240,000 sq. ft. As a growth-oriented organization, the Company has been building a team capable of delivering its large growth aspirations and I am glad to share with you that GPL was once again recognized as the best Company to work for in the real estate and construction sector in the Great Places to Work Survey. While the economic weakness in India continues to persist, we do believe the prospects for the real estate sector remain very bright. Our national presence, strong brand equity, and large number of new projects with attractive deal structures leave us in a good position to fully capitalize once there is an improvement in the economic environment.

At Godrej Consumer Products, our focus on sustaining and extending leadership in our core categories has enabled us to deliver robust operating performance this quarter with sales growing by 24%. Growth was healthy in both our India business and our international operations. The response to our innovations has been very encouraging and the performance is significantly ahead of our plans. We continue to back our innovations with strong marketing investments. We have also launched several operational excellence initiatives to further enhance our operational performance. We will continue investing judiciously for the longer term to improve our position, create competitive advantage and emerge stronger than ever before. Sustained focus on innovation, delivering in core categories, and stimulating growth in the key geographies, keep us on track for future progress.

Moving on to our oleo-chemicals division, the business continues to echo the impact of an adverse global economic environment and increasing input costs. While we remain cognizant of the extended period of challenges faced by the segment, we believe that the tide should turn and the business will again be in a position to deliver healthy performance in the latter quarters of this financial year.

Let me now briefly run you through our financial highlights. During the quarter, our consolidated total income improved by 6% to Rs. 1945 crore from Rs. 1834 crore during the same quarter last year and consolidated Net Profit grew by 28%.

Before I conclude I would like to say that there are economic challenges which are impacting higher GDP growth. In the immediate term, it is imperative to have effective policies that will help contain current account deficit and provide stability to the rupee. A sustained GDP program which takes into account the cumulative effect of global conditions and domestic linkages will further assist in harnessing economic growth.

At the Company level, while we adjust to the current operating environment, we remain confident of achieving long term objectives of inclusive sustainable profitable growth in line with our CREATE strategy. Our continuous effort and endeavor is to build our businesses in a way that the consolidated performance is insulated from short term uncertainties. This in turn, will ensure value accretion over the long run.

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 Amit Babbar of L&T Mutual Fund, please go ahead.

Amit Babbar You were actually planning launching a product on the rice herbicides market in competition to a popular brand called Nominee Gold; what would be the status on that?

Balram Singh Yadav That product is still under registration. We believe that we are in the last stages of registration and we are sure that within this quarter we will get the registration. But as you know this is a product used for rice and 90% of Indian rice is only Kharif. This product will only be useful to us some time next year.

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

Sumeet Rohra Just wanted to understand - what are the prospects on the chemical part of the business though I understand as you highlighted know the global uncertainties which has got revenues down. So what is the vision for the chemicals part because that is the one which is not doing very well right now. And also Nature's Basket we have grown, we have ramped up pretty well, we are at about 27 stores so if you can just also throw some highlight on what is your vision for Nature's Basket over the next 3 years?

Adi Godrej Well the chemicals business I expect in the 2nd half will do much better because our new plant in Ambarnath will be commissioned during the 3rd quarter. We will also save octroi in our operations in Ambarnath. It will have a higher capacity and it is a modern plant where cost of operations will be lower. So overall we expect to make up for lost ground in the 1st half during the 2nd half.

As far as Nature's Basket is concerned it is growing well, growth rates are running at 40% - 50%, same store sales are also growing and we expect it will become a very strong business over the next couple of years.

Moderator Thank you very much. We will take our next question from Kashyap Pujara of Axis Capital, please go ahead.

- Kashyap Pujara** Our question would largely pertain to the overall palm oil prices, I think internationally the prices have tapered off and also if I recall correctly I think the duty has also shrunk in the domestic market. So how would you read that having bearings on GAVL business - I did read that you know some domestic smaller refiners probably would be finding it more challenging right now in current times. So if you can just share some data points on that?
- Adi Godrej** Well first of all international palm oil prices in dollar terms are down. But because of the rupee depreciation the effect in rupee terms is much less. Our chemicals business benefits from lower palm oil derivative prices; when palm oil goes down usually the derivatives also go down.
- Balram Singh Yadav** As Mr. Godrej said that the prices have gone up in India because of the rupee depreciation and it is at least 10% higher than what they were about 4 months ago. That is point number 1. 2) As a percentage our profitability remains intact because our payment to the farmer is a percentage of the oil price. The fresh fruit bunches we get from the farmers are paid as a percentage of oil price, so our cost of fresh fruit bunches in the oil price remains constant because the payment percentage remains constant.
- Kashyap Pujara** Overall if you could just also give what is your broader outlook on the other businesses especially the animal feed as to what is the overall outlook that you are seeing in the current situation?
- Balram Singh Yadav** In the animal feed business 2 segments are growing very well: one is the layer feed segment which is the egg bird and the aqua feed segment, these segments are growing rapidly because the industry is also growing. In cattle field these are the lean months because of monsoon there is lot of greens and farmer switch over to greens. Broiler is one area where the population of broiler has gone down because the industry had taken a beating last year because of very low prices. But I think it is more than made up by our excellent performance of our chicken business: 'The Godrej Tyson Foods Limited' - that business has benefited greatly because of higher chicken prices in the 1st quarter. Overall I feel that animal feed will have a wonderful 2nd half, that is the time when most of the animal protein consumption is also skewed towards in this country and I believe that we will make up whatever the lost volumes are there in the 1st half, in the 2nd half.
- Adi Godrej** One must also remember that this has been a very good monsoon year, agricultural outputs will be high which will tremendously benefit at least 2 of our businesses - one is Godrej Agrovet generally and also the rural demand for Godrej Consumer Products.
- Moderator** Thank you. Our next question is from Manish Gandhi, he is an individual investor, please go ahead.
- Manish Gandhi** My 1st question is to Mr. Balram again taking this animal feed industry. Actually I am very happy q-o-q for the last so many years we are growing so rapidly. So I just want to understand is it that we are capturing from the unorganized players, market share or is it the industry is growing at such a high phase, what is happening actually I just want to know?
- Balram Singh Yadav** Both - but our market share in segments like Aqua, layer and broiler is growing because we are growing much faster than the market. That is happening but I would say that the market has grown very rapidly in Aqua feed and particular after this new species Vannamei has come; Vannamei is a shrimp and it has replaced the traditional shrimp and the intensity is 4 times; in the same pond you can grow 4 times numbers in Vannamei. So the feed industry has grown almost 45% CAGR in

the last 3 years in the Aqua Feed segment. Unfortunately I told you last time also that we are sold out because we do not have capacity in this segment. We have grown to whatever extent we could but we are waiting for fresh capacities to be commissioned this year and we believe that next year will be a very rapid growth year for Aqua Feed also. So I believe that we will definitely grow in all this segments either at par or more than the category.

Adi Godrej

I think another thing that is helping Godrej Agrovet in many of its segments not just animal feed but the very strong R&D efforts which are creating products which are very well differentiated. So I think that will continue to help Godrej Agrovet's progress.

Manish Gandhi

What is your view on may be on a longer term 5 years – 10 years down the line shifting the industry from unorganized to organized? What is the percentage right now and what you foresee for the future?

Balram Singh Yadav

In layer, aqua and broiler I think when we loosely define the organized industry that is anything which is produced in a factory I would say 90% of the market is already organized or it is full of very small players and I think consolidation of this industry will happen on a 5 to 10 years horizon. As far as cattle is concerned the scope is huge because theoretical potential is 65 million tons and India produces 6 million tons of cattle feed and almost 65% - 70% of that is in the co-operative segment. So I believe category conversion from raw-materials to compound feed will continue to happen for next 10-15-20 years and this will present a great growth opportunity to us.

Manish Gandhi

I have one question for Mr. Pirojsha Godrej, I just want to know about this new real estate regulation bill which is going to come. So how it is, what is your view? How it is going to affect Godrej Property and the industry and the pricing scenario, please can you explain it?

Pirojsha Godrej

The key implication of the new bill as we understand is, currently of course it yet has to become law and we think it will take 1 or 2 years for that to happen but the key implication is that developers will only be able to launch projects after all approvals are finally in place. There are also some restrictions on fungibility of capital between projects and 70% of the capital you raise from customers being kept in escrow for the construction of that particular project. I think particularly the 1st one where it will become an offence to launch any project before the final commencement certificate is received will have a very major impact on the sector as a whole because I think 90% of developers the way it works today is that they buy the land, they start doing some pre-sales prior to approvals being in place to recover their land cost and then have an official launch post the approval. That earlier stage of sales now would not be possible under this model which in turn will make financing land acquisition much more difficult. So I think the impact for Godrej Properties we think is much less as in any case we are launching our projects after all approvals if at all it might delay launches by 2-3 months for us in some particular project but I do not think that will have any major impact. But I do think that it will fundamentally change the sector because of this lack of ability to purchase as much land and lack of ability to use customer sales from one project to finance land in another. So I think we might see in fact things like joint venture model becoming more prevalent which will benefit us given our experience and expertise in that model. But you know frankly how some of this plays out is yet to be seen. We think overall it is a good thing for the sector to bring more professionalism, higher standards of ethics but a danger is that if it becomes another bureaucratic loophole for developers to come through and therefore creates a delay. But on balance we are reasonably happy with the new regulation.

Manish Gandhi I just have one last question for Mr. Adi Godrej. Sir I am very happy with the way Nature's Basket is forming up but I am confused where it fits in Godrej Industries, I do not know, I cannot just figure it out?

Adi Godrej Actually it was a business started by Godrej Agrovet originally, Godrej Agrovet was supplying a lot of items to rural areas, we worked on procuring items from rural areas especially fresh fruit and vegetable but when the import was liberalized into India and a lot of fruits, vegetables and other gourmet fruits got imported we changed the strategy in Nature's Basket and when we changed the strategy we spun it off into a separate company. So it is a wholly owned subsidiary of Godrej Industries.

Manish Gandhi But I have been following Godrej Group since so many years and we have also divested and we had that Adhaar also, so retail was not the key area for us. So is there any change in the perception or something like that though I know it started 5 years back?

Adi Godrej That time it was not a key area when any of the retail businesses would compete with our customers but we do not supply much from our companies to Nature's Basket and it does not compete with our customer.

Moderator Thank you. We will take our next question from Amit Anwani of K C Securities, please go ahead.

Amit Anwani My question was relating to Godrej Properties Limited. You mentioned during the quarter there were two project launches summing up to 1.85 million square feet of saleable area. So any update on how was the sales booking during Q1 and how the markets in NCR and Bangalore are panning out for project bookings?

Pirojsha Godrej Yes actually just to clarify that numbers that was mentioned was not the new launches but new project addition, we have entered into new joint venture partnership, we will start of course work on the design and approvals and we will launch the project probably some time next financial year.

Amit Anwani So how much is the economic interest for Godrej Properties in this?

Pirojsha Godrej In the Bangalore project which is a 1 million square feet project we are doing in the development management fee model, we will see the 11% of the top-line of the project and we won't make any investments in it. So the project in Delhi is our first project under our newly created residential investment platform where we partner with some international investors. So our stake is 25% in the platform which in turn has a 52% stake in the project.

Amit Anwani So both the projects are joint development projects and redevelopment projects?

Pirojsha Godrej Not re-development projects, one is the development management key project, the other is a residential platform project but both are partnership projects.

Amit Anwani Can you focus more on how the collections are panning out from the ongoing projects and the cash flow status presently at Godrej Properties?

Pirojsha Godrej On both fronts we think we are very much on track, what was very credible - if you look at it over the last 5 or 6 quarter we have added over 10 new projects to our portfolio while maintaining our net debt levels at a consistent level. Last quarter we were slight negative cash flow because we bought out an old PE partner investment because it is a good thing to the company in the long run. So broadly

speaking things are on track, bookings for the first quarter are up by 15%, collections have also remained strong, some of the very critical new projects launches we had at the end of March, both in BKC and our township project in Ahmedabad we are seeing strong sales. In Ahmedabad we had our best quarter sales in the last 9 quarters. In Godrej BKC we have now sold at the end of last quarter almost 20% in the project. Our hope was to sell 20-25% in the first 12 twelve months within the launch. We have almost done that within the first 4 months. Things are on track, we of course look forward to getting some of the new launches we have planned for this year and those would be very important.

Amit Anwani

Can you mention the new launches which are in pipeline for Q2?

Pirojsha Godrej

I would not like to speak on a q-o-q basis as they are all linked to regulatory approvals and exactly when those coming in we never fully know but for the full financial year we have several new project launches in Mumbai including some important redevelopment projects that we added last year I mean Chembur, Ghatkopar and elsewhere. We also hope to have new phase launches in several of our projects across the country. In total we have about 15 launches of either new projects or new phases planned for the year of which four happened in the 1st quarter.

Amit Anwani

What is happening right now in terms of FDI relaxation for real estate sector which is may be in favor of mid-to-small developers so would you feel that it will be helpful to Godrej Properties or Godrej Properties is seeking any kind of FDI going forward in any of its joint development projects?

Pirojsha Godrej

Well I think you are referring to, I just read one news article on this yesterday it was nothing.

Amit Anwani

Yes sir I mean it is just a proposal.

Pirojsha Godrej

So that will be a beneficial thing for the sector and essentially the article I read said that they will reduce the minimum size of a project to make it FDI compliant and I think that will be beneficial for the sector. For us we do have some projects under that threshold and we do look at projects under that threshold. Typically, the current threshold does not work which is about 0.5 million square feet, does not work for City Center kind of projects which tend to be smaller by and large and you know for our residential investment platform also this would allow us to look at another set of opportunity but I do not think that it will have a major impact for us in one way or other.

Amit Anwani

My next question was related to Godrej Industries standalone numbers. There was an exceptional item of Rs. 25 crores during the quarter. So if you could just elaborate what are the items in that?

Pirojsha Godrej

That is the same thing where Godrej Properties has taken over the prime right for the Godrej name as it pertains to the real estate sector - that is the compensation to Godrej Industries.

Amit Anwani

The next question is for the chemicals business which has remained muted during the quarter. So what we are looking forward for the 9 months in the chemicals business?

Nitin Nabar

As Mr. Godrej mentioned that we were impacted due to this global economic situation but I expect that our 2nd half of the year will be much better with startup of our Ambarnath factory where we will have the octroi savings and also efficiency

	improvement because of technology upgradation so second half will be much better.
Moderator	Thank you. Our next question is a follow up from Kashyap Pujara of Axis capital, please go ahead.
Kashyap Pujara	Actually I wanted some color on the chemical business - if I look at this quarter's numbers while you have very candidly put across in the presentation that it has been impactful because of overall higher cost of natural gas, etc., but on a broader side wanted to ask you whether we have seen volume de-growth this quarter. Because the revenue per se has dipped and also the 2 nd part of the question would be about the capital employed because that has actually moved up YoY though not so much sequentially. So if you can just give me some understanding on that?
Adi Godrej	Well 2 things: one is because of the global vegetable oil prices falling so price of oleochemicals has come down so most of that is the effect of price not volume. Volumes have not declined. Secondly, the capital employed has gone up because during the period a lot of investment has been made in Ambarnath. So that will come in to operation in the 3 rd quarter.
Kashyap Pujara	Basically I just wanted to understand that it is related to the capex of Ambarnath and not that the overall working capital cycle is higher?
Adi Godrej	Working capital is lower.
Kashyap Pujara	So it will continue maintaining 200- 250 days of creditor days broadly on this side and operate on a negative working capital?
Adi Godrej	It is down, we are very much in control of the working capital, this is an entirely capital expenditure.
Moderator	Thank you. Our next question is from Nikhil Agarwal of New Berry Advisors, please go ahead.
Nikhil Agarwal	During the last analyst meet on June 11 th you mentioned we received around 70% of the approval for the real estate and the next 30% is received in the following year?
Pirojsha Godrej	No I think what I said was, in the last year out of the launches we had planned we were able to do 70% of the launches due to regulatory approvals delaying the other 30% and those projects will be launched this year as regulatory approvals are at ease.
Nikhil Agarwal	Yes.
Pirojsha Godrej	Right. You know our launch guidance for the year includes our best estimates of our ability to get these approvals on the likely timeline. Unfortunately it is not a process that is very predictable or probably within our control. So these launch timelines do move as the approval as the time line for the project launch. So that is what I was referring to last year.
Nikhil Agarwal	What about the rights issue which you were planning in the 2 nd quarter?
Pirojsha Godrej	That is very much on track and we hope to conclude the exercise in a quarter.

Nikhil Agarwal	Means any further plan means - what is probably the issue price and in which month it will be?
Pirojsha Godrej	The issue price is Rs. 325 per share, we hope to complete the exercise in September.
Moderator	Thank you. Our next question is from Anita Rangan of HSBC, please go ahead.
Anita Rangan	Basically I wanted to know like if the capex in Ambarnath is complete because last year there was a significant amount of capital expenditure in the cash flow like about close to Rs. 470 crore. So how much of this is pending this year?
Clement Pinto	Another Rs. 100 crore odd is pending this year.
Anita Rangan	And also I wanted to understand like the cash balance in the balance sheet had gone up significantly last year to Rs. 450 crore, so what is the strategy behind maintaining such high cash balance?
Clement Pinto	These were from our IPP issue, we had kept money aside which we are going to use only for specific purposes, and one of these purposes is for the rights of Godrej Properties.
Moderator	As there are no further questions from the participants I would now like to 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.
Moderator	Thank you members of the management. Ladies and gentlemen on behalf of Godrej Industries Limited that concludes this conference.

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.