



Godrej Industries Limited

Q4 & FY15 Earnings Conference Call Transcript

May 29, 2015

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 would now like to 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 Q4 and FY 2015 earnings conference call. We have with us Mr. Adi Godrej – Chairman of Godrej Industries, Mr. Nadir Godrej – Managing Director, Mr. Pirojsha Godrej – Managing Director and CEO of Godrej Properties, Mr. Balram Singh Yadav – Managing Director of Godrej Agrovvet, Mr. Nitin Nabar, Executive Director and President (Chemicals), Mr. P. Ganesh – CFO of Godrej Industries and Mr. Clement Pinto – VP Finance of Godrej Industries Limited.

We would like to 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 invite sent out earlier. I would now like to invite Mr. Adi Godrej to make the initial remarks.

Adi Godrej Thank you. Good afternoon everyone. I welcome you to Godrej Industries conference call to discuss the operating and financial performance for Q4 and FY 2014-15. I shall take you through some of the key developments and operational highlights of each of our businesses followed by a summary of our financial results for the quarter and the full year.

I am pleased to share with you that the overall performance of Godrej Industries Limited for the year has been good with consolidated Net Profit growing by 23% and Total Income growing by 18%.

Godrej Agrovet has contributed well to the overall growth with Profit before Tax without exceptional item for the year growing by 14%. Despite a difficult 4th Quarter due to unseasonal rains, weak commodity prices and lower Rabi acreage, the agri business across verticals has done well this year. The animal feeds vertical which is the largest vertical in Godrej Agrovet did well in Q4 with volume sales in Cattle Feed and Layer Feed growing by 15% and 10% respectively. With the commissioning of the state-of-the-art facilities across different locations in the country and our focus on research, we believe that this vertical will continue to do well. In the Oil Palm business vertical, we will focus on developing additional revenue streams by enhancing the value of biomass generated. In the agri input business vertical our diverse product mix and an agile supply chain should help us deliver healthy results in the quarters to come.

Godrej Tyson continues to focus on building brand based business thereby strengthening our Real Good Chicken and Yummiez brands. Several innovative products will be launched under the Real Good Chicken and Yummiez brands, vegetarian as well as non-vegetarian. Our emerging business in the agri space viz. seeds has shown an impressive growth of 23% for this year. Our mainstay in this business will be on developing and strengthening our position in maize across the country. Our joint-venture in Bangladesh - ACI Godrej has shown a robust sales growth of 18% in Q4 and this has been aided by our focus on improving operational efficiencies.

With an agile team focus on continuously improving our operational efficiency and research and development in agri businesses, I am confident that Godrej Agrovet across verticals will continue to do well and add value through the years to come.

Moving on to the performance of Godrej Consumer Products I am happy to share that we delivered a 19% growth in Net Profit in the previous fiscal year. Our performance in the second half of fiscal year 2015 has been much better than that in the first half. On a Constant Currency basis sales during the second half grew by 14%, whereas Profit After Tax grew by 26%. Our FMCG business has shown a very strong performance both in India and in the international business backed by our continued focus on innovations and brand building and supported by marketing investments and enhancements in our go to market infrastructure. These initiatives, we believe, will help us grow ahead of market in our core categories.

Godrej Properties had a good quarter delivering a growth of 65% in Total Income. During the fiscal year we delivered a 54% growth in Total Income and a 20% growth in Net Profit. I am also happy to share that Godrej Properties recorded its highest ever annual residential sales, booking area of 3.6 million sq. ft. and booking value of Rs. 2398 crores. We remain excited about this business and are well poised to enhance our position in this sector given our national presence, strong brand equity and larger number of new projects in the pipeline.

Despite a very difficult year, the Chemicals business ended the current fiscal year with a 17% growth in PBIT. I am also happy to share that our Valia factory in Gujarat attained a distinction of being the first oleo chemical company to have attained the prestigious GreenCo Silver under the Green Company Rating System by CII. This ties up with our philosophy of growing our businesses profitably as well as sustainably.

Let me now briefly run you through our financial highlights. During the quarter consolidated Total Income at Rs. 2,433 crores grew by 17% and consolidated Net Profit at Rs. 139 crores grew by 22% over the corresponding quarter of the previous year. For the fiscal year 2014-15 consolidated Total Income at Rs. 9,552 crores grew by 18% and consolidated Net Profit at Rs. 402 crores grew by 23%.

To conclude, our results have been encouraging despite a challenging macroeconomic environment. As the macroeconomic climate improves we are encouraged and confident of achieving our long-term objectives of inclusive, sustainable and profitable growth. I am confident there our disciplined strategies, prudent approach, agile executions, and our committed team will enable us to improve performance further and create further shareholder value.

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

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Farzan Madan from Axis Capital. Please go ahead.

Farzan Madan

Despite a weak macro, GIL has grown in line with its philosophy compounding a 20-25%, I would just like to know how has the Chemical business grown in volume terms year-on-year? Are we seeing increase in volumes especially with the start of Ambarnath? And secondly, the outlook on Palm Oil prices given that we are seeing some stress on Palm Trees in Malaysia?

Nitin Nabar Volume growth has been flat but with Ambarnath capacity ramping up we expect a growth in the coming quarter and your next question is on Palm Oil prices. What exactly you want to know?

Farzan Madan Where do you all see the Palm Oil prices heading? Is it heading north given that there is some stress on trees in Malaysia?

Adi Godrej Nadir, you want to answer that?

Nadir Godrej Yes I will answer that. There is some stress because of El Niño but seasonally Palm Oil production improves in the next few months and so we don't expect any large changes in Palm Oil prices either way.

Farzan Madan Yesterday I think you announced that there were some investment plans for Agrovet as well as for Properties and Agrovet could possibly be looking at certain acquisitions as well, so what exactly would this be, if you could just elaborate please?

Adi Godrej Somebody asked me about what our investment plans are so I did mention that. Godrej Properties of course continues to invest in new projects, its normal work so it will continue to do so and several new projects are likely to be taken up in this financial year. And Godrej Agrovet is also setting up new factories as it expands to meet the demand and I also mentioned that Godrej Agrovet would look at some inorganic expansion through acquisitions if the right opportunities come about.

Moderator The next question is from the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan I just want some guidance with respect to the volumes that you actually had in the Animal Feed business as in the Cattle, Aqua, and Poultry Feed for the quarter? And another question is on the Chemicals division wherein I just want to know as to which industries do you actually cater to and in what proportion? And the third and final question would be clarity on the Andhra Pradesh government which has actually tweak the Palm Oil prices, that is something I need clarity on.

Balram S Yadav Animal Feed volume last year grew by almost 6% that is in spite of a very bad year for fish and broiler. Cattle Feed, Layer Feed and Steer Feed registered growth upwards of 20% in volume. In Q4 there was low growth, we were at par with the Q4 last year because normally the last quarter the salience of broiler and fish feed is very high which did not grow as per our expectations.

Anand Krishnan Alright.

Balram S Yadav And on Oil Palm, yes there has been a change in the formula by Andhra Pradesh government where it has been revised from about 13.1% of that month's oil price to about 14% of that month's oil price. So what does it mean for us? That from about 16-17% PBT on sales in this business, we will drop to about 12-13% PBT on sales at dig oil prices.

Anand Krishnan The last question was on the Chemicals as in which industries do you cater to and in what proportion?

Nitin Nabar Chemicals we cater to the requirements of personal care, home care, plastics, rubbers, some speciality chemicals, and I would say that 60% is in the personal care and home care and rest is in the other categories.

Moderator Next question is from the line of Hardik Shah of Birla Sun Life Insurance. Please go ahead.

Hardik Shah My question is relating to the consol debt. It has moved up by around Rs 1500 crores, could you just share some light on that as in the inventories have moved up more or less by around Rs 1000 crores so the incremental debt where has it gone?

Clement Pinto Basically it is largely in Godrej Properties followed by in Godrej Industries. In Properties we already mentioned the reason and in Godrej Industries it has been largely towards our CAPEX.

Hardik Shah Because even the cash in current investments are down year-on-year, that's why.

Clement Pinto You are talking about a surplus cash which was set aside.

Hardik Shah Yes.

Clement Pinto That was earlier set aside for CAPEX which we consumed during the year.

Hardik Shah So going forward FY16 what is the peak debt levels you would be comfortable at?

P. Ganesh Again as far as debt level is concerned it would be more appropriate to look at the individual companies for a debt equity ratio.

Hardik Shah Overall gearing-wise?

P. Ganesh When you look at Godrej Industries it is consolidated, while the debt comes in a consolidated format, as far as the equity is concerned what you are really looking at is only the Godrej Industries, so more appropriate debt equity ratio would actually be company by company. And across the board by and large we are within our comfort zone.

Hardik Shah Any further CAPEX plans for FY16?

Adi Godrej All our companies will naturally have their normal CAPEX plans.

Hardik Shah If you have to quantify that then?

Adi Godrej We don't quantify that because it varies from quarter-to-quarter depending upon the requirements of the company.

Moderator The next question is from the line of Amrut Kalantri, Individual Investor. Please go ahead.

Amrut Kalantri In the last few quarters we had some inter promoter transactions where we sold shares of Godrej Properties and we have announced that we will buy shares in Godrej Consumer. So I remember you had said in the past that you do a lot of these transactions as to mark-to-market to protect against future taxability changes. So but just as a retail minority shareholder, can you please guide us like what are the discussions at the management level when you take such decisions and if you can please help with that? And my second question was regarding the upcoming dilution at Godrej Properties. So just wanted to request if you can tell us what would be the instrument you would be using because if we do an IPP which we did a few years ago it's on the institutional investors who get a chance, so just a request if you can do a rights issue where even the minority retail shareholders can get a chance to participate. We can obviously buy it in the secondary market but it would be good if we can participate in the primary issuance.

Adi Godrej We have projected what is the increased value of all our investments in our various subsidiaries especially the listed ones; of course, there is a big value increase even in Godrej Agrovet because the current market value of Godrej Agrovet investment would be much higher than the book value. Now as there is no capital gains tax on sale of listed shares we take advantage of that to mark-to-market so that in case there is tax in future our stocks would be marked at a higher base on which such tax would be applicable. So this we have been doing for some time and we will continue to do so. It is only a small fraction of the increase in value that our investments have recorded during the year. Pirojsha, on Godrej Properties?

Pirojsha Godrej	Thanks for the advice and we are still exploring exactly actually what's the best route to do this for Godrej Properties will be but we appreciate the recommendation.
Amrut Kalantri	One last question not relating to the company but just wanted to ask Godrej Sir that we have been hearing about the GST rate at 27%, at 22%, if you could share with us what you think is a good number to have where it doesn't impact the economy as well but also takes care of the state's requirements.
Adi Godrej	I expect this rate will be somewhere between 20 and 22%, that is my personal expectation.
Moderator	The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
Bharat Seth	My question is more related to Godrej Properties. I would like Mr. Adi Godrej to say his vision for this Godrej Properties where we are growing at faster pace but profit is a bit slower pace which may be a temporary, so if you can elaborate little more for next 3 to 5 years on the vision for our Godrej Properties.
Adi Godrej	I think Pirojsha will be able to elaborate on this better.
Pirojsha Godrej	It's a very exciting period for Godrej properties. You rightly pointed out that over the last year revenues have grown faster than profit but we certainly think that is a temporary phenomenon that will last as we liquidate the assets we have in our commercial portfolio. And given the new structures of our newer projects which are primarily in the profit-sharing model also some in the development management fee model, we actually think margin expansion is all but certain to happen as these projects start hitting revenue recognition. So the aspiration to the company is very straightforward, continue to do what we are already doing but do it at a bigger scale and do it with a better margin profile.
Adi Godrej	My personal view is as GDP growth picks up and it will certainly pick up to reasonably high levels once GST is in place, the real estate market will also pick up and at that stage our profitability will improve very considerably.
Bharat Seth	One more question Pirojsha sir, if you can say we had a very good response in this Gurgaon launch and how is the response to the launch of this Chembur?
Pirojsha Godrej	Yes, it is going very well, of course we just announced the launch where we have had a little bit of advertising up this week So it's still very much early days but I think the response we expect will be very good, so we are confident this will be another

successful launch. This is in the same location where last year we had an extremely successful launch as well so I think that further enhances our confidence.

Bharat Seth

Do you see any kind of some improvement in regulatory movement in particularly Mumbai, in Maharashtra?

Pirojsha Godrej

Frankly not yet, I think there is a lot of talk of improvement. I think the government clearly has plans to improve things and the BMC has issued some circulars about ease of doing business; the Chief Minister has spoken about this, so I think we are quite optimistic that things will improve going forward but I wouldn't say we have seen any major difference so far.

Moderator

The next question is from the line of Parul Inamdar, Individual Investor. Please go ahead.

Parul Inamdar

My question is regarding the Godrej Properties announcement that was done around a month back regarding the share swap about the Vikhroli land. There are a few more other subsidiaries which have such kind of land. Do we see such kind of an announcement happening for those properties as well in the future?

Pirojsha Godrej

That is something that we will take a decision on a case by case basis. For this particular project we think this was in the mutual interest of both Godrej Industries and Godrej Properties and was the appropriate decision for this project. I think similarly each project will be a little bit different and as and when the structure and intent for these projects becomes clearer I think that would be the right time to identify the appropriate structure between Godrej Industries and Godrej Properties.

Moderator

Next question is from the line of Amrut Kalantri, Individual Investor. Please go ahead.

Amrut Kalantri

My question is for Pirojsha. We recently saw you featured on the cover page of Forbes magazine so congratulations on that. In the same edition there was also a piece on the commercial real estate market where they talked about how investor interest is growing rapidly and there is Blackstone and Brookfield and a lot of lot of global institutional investors coming and investing in the commercial side but we seem to be clearly struggling with our BKC project. So I just wanted to understand from you why do you think we are struggling especially we have such a premium project in a great location and we have the brand but even in a few quarters ago we actually recorded a loss when we sold. So if you can please explain to us like what is the current issue with the commercial market, how does the economics play out and when do you think it will actually pick up?

Pirojsha Godrej

Yes certainly, I think what is important to note is the difference between an under construction commercial development and a completed and leased commercial development. You mentioned Blackstone's activities in the sector, there are several other international and domestic investors that are very excited about commercial real estate at the moment, but those investments are largely focused on completed assets which have been leased and we have always said that we actually think that the timing of Godrej BKC is going to be an excellent for us because as that project is nearing completion already the commercial market is looking much better and when we think that project will complete, which is about 10 to 12 months from today, we think the market will be even better. So I won't really say that the project is struggling as such, it has been a very capital intensive project for various reasons to do with how the original structure that was intended didn't quite pan out but the project itself is not struggling at all, the execution is very much on track, the demand on the project is actually quite good. We have sold over a 100,000 sq. ft. in the project in the last couple of quarters. We have a very interesting discussion currently underway so we fully expect to see good traction in the project over the next year or two. And the fact that the investment climate around commercial real estate is improving, is a very strong benefit for this project because clearly this is we think the most desirable and large-scale asset in commercial real estate market in Mumbai really. So I think it is quite exciting from that perspective. And certainly as it completes there will be more than enough opportunities for us to find investors who are interested in purchasing the asset. So we feel fairly good about the timing in current positioning of the project.

Amrut Kalantri

Just to compare with the residential plan where you said you generally keep 10% of your residential portfolio once after completion so that you can get high realizations, so how much do you think you will keep in Godrej BKC after completion to get high realizations or you expect to sell most of it during construction or just immediately after construction?

Pirojsha Godrej

I think residential and commercial again are very different. A commercial project is typically most of it is sold or leased nearer completion given that office buyers and officer users want to invest once the project is nearing completion as opposed to residential buyers who are quite happy to come in at an early stage. So that is true of all developers in the country, not just ours or not just this project. But certainly we expect to have a significant amount of inventory available post the construction of this project and that is the inventory upon which we are likely to command the best valuation.

Moderator

Next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra My question is on Godrej Agrovet, and Balram if you can just help me understand I am just seeing the presentation - slide 13 and you all say that on an overall perspective GAVL has grown up by 14%, the growth in PBT now before exceptional item of Rs 35 crores, so is this Rs 35 crores provided for the full year or is this Rs 35 crores only provided in Q4? And secondly, I wanted to ask you, what is the outlook now for Godrej Agrovet because we have done exceptionally well over the last couple of years, so how do you basically see this year spanning? And then, there is also something on the agri business it says that the Oil Palm business is a formula tweak by the government of Andhra Pradesh. So what is that, if you can explain please, Balram?

P. Ganesh I will first come in on the Exceptional Income, the Exceptional Income of Rs 35 crore is for Q4 and also for the full year.

Balram Singh Yadav You asked me about the Oil Palm formula, earlier we used to pay 13.2% of that months oil price to the farmers for the fruit bunches, so it has been revised to 14%.

Sumeet Rohra And how do you see your shaping up for Godrej Agrovet?

Balram Singh Yadav This year is a very important year because monsoon is a must because we did not have a very good monsoon last year and that is what we are hoping for. In case we have average monsoon also there is so much of base in the rural areas that people will invest on productivity. That is what we see everywhere, I think all the agri companies are reporting very good attendance in their development programs like farmers meetings etc. because all the freebies like MGNREGA and continuous MSP increases have been, I would say, slowed down by the government. So we believe that farmers will invest very good money on agrochemicals, fertilizers, etc., and other technologies if the monsoons are average.

Sumeet Rohra So we will definitely maintain our growth rates as we have been doing in the past because now our size and scale has become very big so we can still grow the way we have grown?

Adi Godrej We can still grow if the situation is good.

Nadir Godrej I would like to comment on that, we have a lot of investments in R&D and that should fuel our future growth as well.

Sumeet Rohra One more thing is that, so are we looking to grow organically or the other way via acquisition?

Adi Godrej	Both.
Sumeet Rohra	So we are open to both. One more thing on the IPO, so is Godrej Agrovet looking for the IPO in this financial year?
Adi Godrej	We have no definite plans for it. If required we will look at it. If we require funds for expansion whether it is organic or inorganic then at that stage we will certainly consider IPO as one alternative to raise funds.
Moderator	Next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.
Sunny Agarwal	My question pertains to Chemical division. What is the outlook on Chemical division in terms of domestic market and export market especially in the light of home and personal care segment slowing down due to the weak consumer sentiments in the rural areas and as well you can explain what is the demand situation as far as our export market is concerned?
Nitin Nabar	So first of all our sales revenue is divided, we do about 35 to 38% exports and balance is in domestic. And we see a good growth and good pickup in the demand in personal care sector and even industrial application. So I expect things to be better.
Adi Godrej	I might just mention that the FMCG sector rural growth has been over the last few quarters faster than the urban growth. So I think there is a wrong impression that rural growth in FMCG has slowed down.
Moderator	As there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing comments. Over to you Sir.
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. Thank you for joining us and you may now disconnect your lines.

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