



Godrej Industries Limited
Q2 & H1 FY2011 Earnings Conference Call
November 01, 2010

Moderator: Ladies and gentlemen, good day and welcome to the Godrej Industries Limited Conference Call. As a reminder, for the duration of this presentation all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of Citigate Dewe Rogerson, thank you, and over to you Mr. Poojari.

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on the Godrej Industries Q2 & H1 FY2011 Results Conference Call. We have with us Mr. Adi Godrej, Chairman of Godrej Industries, Mr. Nadir Godrej, Managing Director and Mr. V. Srinivasan, CFO and Company Secretary of the Company. We will begin the call with brief opening remarks from the management, following which we will have the forum open for a question and answer session. Before we begin, I would like to point out that some statements made in today's call maybe forward-looking and a disclaimer to this effect has been sent out in the conference call invite emailed to you earlier. 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 Godrej Industries' operating and financial performance for the second quarter and a half-year ending September 30, 2010. Let me begin this call by taking you through the key developments in our various businesses. As you are aware, concerted efforts in line with our "CREATE" strategy has helped the company leverage its position as a well-diversified business with presence in some of the key growth sectors of the economy creating wealth for its stakeholders. As part of our CREATE strategy we focus on our four core businesses. The **C** in **CREATE** stands for **C**onsumer and **C**hemicals, the **RE** for **R**eal **E**state, the **A** for **A**gri, building an environment to achieve **T**ransformation which is a **T** in

CREATE and guiding ourselves to full potential while incubating **Emergent** businesses (which is the last **E** in **CREATE**) of the future.

Our FMCG business represented by GCPL where we have approximately 22% equity holding, in a strategic move aimed at consolidating its market position, announced the approval for the scheme of amalgamation of Godrej Household Products Limited making GCPL the largest home grown Home and Personal Care Company in India. Also, I am happy to share with you that NDTV Profit awarded GCPL the NDTV Profit Business Leadership Award 2010 in the consumer products vertical.

Moving to our oleo chemicals business, we have done well despite a once in two or three year cost of Rs. 4 crore for maintenance in Q2 of this year, our first half EBIT growth was 14%. Our business witnessed improved export demand as well as strong domestic demand translating to enhanced topline performance during the current quarter. Going forward the shift in favour of specialty chemicals is expected to enhance margins. During the previous quarter, the Board had approved the new oleo chemical manufacturing facility at Ambarnath with an estimated capital outlay of about Rs. 230 crore. We have acquired close to 20 acres of land at MIDC in Additional Ambarnath to set up the state-of-the-art manufacturing facility with a focus on specialized products including specialty fatty acids and surfactants.

Coming to our properties business, Godrej Properties, where we have 69.4% equity holding, is expected to see sustained opportunities in the real estate sector in the years to come and Godrej Properties is well positioned to take advantage of these opportunities. In Q2, we launched Godrej Avalon, a residential project in Mangalore. The launch of this project showcases our strength in being able to develop properties nationally. Another major highlight was our recent announcement of a residential project in Chembur, Mumbai. Like the majority of our projects, this development will also be a joint venture wherein Godrej Properties will share 50% of the revenue. In the last week of October, one of the key developments at GPL was the launch of our residential project “Godrej Frontier” in the National Capital Region with plans to develop approximately 1.05 million square feet. We are also making progress towards launching new projects in Chennai, Hyderabad and Kochi in the next 5 months. Plan for developing the 36.5-acre land in Vikhroli are in progress, with the construction expected to begin towards the end of financial year 2011. I am happy to share that one of our premier projects - Planet Godrej, in Mahalakshmi, Mumbai was awarded Mumbai Seven Star rating by CRISIL, the highest rating for any real estate projects in India.

I would now like to take you through the key highlights at Godrej Agrovet, which operates our Agri-related businesses. Agrovet has delivered strong performance during the quarter on the back of higher realization. The oil palm business witnessed healthy growth as more acreages of the plantations, started yielding combined with rising crude palm oil prices. In addition, the government has allocated new territories for oil palm cultivation- 10, 000 hectares in Bharuch and Narmada in Gujarat and 5,000 hectares in Bargad in Orissa. This business takes time to mature and grow but has the potential to create immense value over the long-term. The animal feed segment reported strong volume growth driven by increasing demand seen in existing products like Aqua feed, for inland shrimp and fish cultivation coupled with new product launches like Floating Fish Feed. As you may be aware, we are branding our animal feed products to stand out in the generic market, which we believe will make tangible contribution in the future. In the agri inputs business, successful maize seed sales and cotton herbicide “Hitweed” translated to improved numbers during the quarter.

With good monsoons providing adequate impetus to this segment, agri businesses are well positioned for a tremendous year ahead. Godrej Agrovet Limited was honoured with the SAP ACE Awards 2010 in best run business category on its successful implementation of SAP with the Farm Management System.

I am delighted to share with you that within 3 years of the company’s initiatives to re-vitalize the ‘Godrej’ brand we have achieved the new historic high and now rank 27 in Economic Times, Brand equity Most Trusted Brands Survey 2010. Five of our groups’ brands featured on this list, the highest for any Indian Group.

Let me now briefly run you through our financial highlights. During the quarter, our consolidated total income increased by 17% to Rs. 1,083 crore from Rs. 927 crore in the corresponding quarter last year and net profit stood at Rs. 75 crore up from Rs. 67 crore reporting an increase of 13% over the corresponding quarter of the previous year. For the half-year ended September 30, 2010, the net profit is at Rs. 124 crore up 49% over the previous half-year.

With a combination of strong operating businesses and a well-diversified business portfolio across key growth sector of the economy, we are confident of creating value for our stakeholders going forward as in the past.

Thank you for your time and we will now be glad to take your suggestions and answer any question that you would like to discuss.

Moderator: Thank you very much sir. The first question is from the line of Kushal Sanghrajka of HDFC Securities. Please go ahead.

Kushal Sanghrajka: My first question is related to the chemicals business. I see that there is a significant drop in the profit margins this quarter and partly drop in profit in absolute numbers as well. What is the reason for that and what kind of outlook do you have going ahead?

Adi Godrej: I mentioned in my talk that this quarter, in the July-September quarter, we had a Rs. 4 crore maintenance expenditure which is incurred once in two to three years which we of course write off in the quarter itself. Were it not for this expenditure, the growth would have been very normal. Despite this unusual expenditure, the first half EBIT rose by 14% and we expect the quarters going forward will continue the momentum of growth in this business. The business fundamentals are excellent.

Kushal Sanghrajka: Okay, just another thing in the chemicals is that surfactants had a fairly small growth this quarter. Is there any specific reason for that or is that how we expect the industry to be going?

V. Srinivasan: We have got approvals from MNC clients for surfactants and those volumes have yet to actually come in. Once those come in the volume growth will be better.

Adi Godrej: The overall chemical business growth is very good.

Kushal Sanghrajka: Okay. My next question is to do with the beverages and foods segment. This quarter again we have reported a higher loss than we have previously. Anyways this was a loss-making segment, why is it that losses have increased now?

Adi Godrej: Because we are investing a lot of expenditure into future growth. So, for example we are planning a chocolate launch, which requires a lot of market research and expenditure on providing the facility. So these are investments into the future.

Kushal Sanghrajka: And when can we expect this chocolate launch?

Adi Godrej: Sometime in the next financial year.

Kushal Sanghrajka: Finally, my last question is to do with the Godrej Consumer Holding. I see that we have diluted some part of our holding, about 1.4%, any specific reason and can we expect such kind of dilution going forward as well?

Adi Godrej: Most of the dilution is because Godrej Consumer Products had a QIP issue in May of this year. That accounted for over a percentage point of the dilution and a small bit of stock was sold in the market.

Kushal Sanghrajka: But going forward we are not looking forward to actually selling more into the market unless in extreme cases, will it be?

Adi Godrej: Well, that depends. Godrej Industries has to look to its cash flow. It has a huge investment in its portfolio. We would judge it from time-to-time. We are very bullish on the Godrej Consumer Products' results; we announced the results on Saturday. Sales for the quarter were up around 66% and profit was up around 41%. So we are very bullish on the future of Godrej Consumer Products but the Godrej Industries Board will have to take its own view, it has invested a lot of money in Godrej Consumer Products and it will take its view, but obviously, even if we do have sale it will be very minor.

Kushal Sanghrajka: Fair enough. So at the end of the day we would still want to have controlling stake?

Adi Godrej: Absolutely.

Kushal Sanghrajka: Thanks sir.

Moderator: Thank you. Mr. Sanghrajka. Our next question is from the line of Porinju Veliyath of Equity Intelligence India Pvt. Ltd. Please go ahead.

Porinju Veliyath: I am sorry that my question is not confined to the quarterly numbers. I just heard some media reports that Godrej Agrovet may come with an IPO, later in the future sometime.

Adi Godrej: Well, we have no immediate plans for listing of Godrej Agrovet. At some time in the future, of course, there is always a possibility. There is no immediate plan. Godrej Agrovet as a business, which is doing exceedingly well but it does not require much capital for its continued organic growth. If unless there is a major inorganic opportunity we would not need much additional capital, so it would not make sense to have an IPO unless there is a big inorganic opportunity.

Porinju Veliyath: Another thing. Now, Godrej Industries, except for certain businesses, is slowly becoming more of a holding company. For a holding Company, even though normally in the stock market there is a lot of discount, but an honest and capable management like Adi Godrej and Godrej Group, it does not really bother me as a

fund manager. But sir, there could be something very innovative, where other than becoming a holding company, the shareholders maybe issued shares of the particular businesses, the company holds over a period of time in the future. Something could be happening there to really fully unlock the value in Godrej Industries?

Adi Godrej:

We will always look at possibilities to unlock value. I might remind you that about nine years ago, the company was called Godrej Soaps and at that time we demerged the FMCG business into what is today known as Godrej Consumer Products which created a lot of value for shareholders. Even if you look at Godrej Industries, from the day it was formed about nine years ago, the share price without taking into account any of the dilutions etc., has increased by a compounded annual growth rate of 60% plus per annum. This is without taking the dividends into account. So I think we have delivered very strong shareholder value creation. We will look to continue to do that and would certainly look at all opportunities of any restructuring adding to shareholder value creation.

Porinju Veliyath:

I have really experienced Sir, individually, that almost that 60% CAGR over these last nine to ten years. I should really thank you on behalf of my investors too. Thank you very much.

Moderator:

Thank you. Our next question is from the line of Gaurang Kakkad of Religare Securities Ltd. Please go ahead.

Gaurang Kakkad:

If you could throw some light on what are the plans for Godrej Hershey going forward, in terms of launches of Hershey's product portfolio in India?

Adi Godrej:

Well, Godrej Hershey has already launched the Hershey Syrup in India, which is made in our Mandideep factory. There are strong plans to launch other products especially chocolates from the Hershey portfolio, so that work is going on.

Gaurang Kakkad:

Any timeframe?

Adi Godrej:

I think timeframe - it is difficult to tell. The market research and planning for manufacturing is going through, but I expect it will be launched sometime in the next financial year.

Gaurang Kakkad:

What would be the guidance on losses for the Hershey's business?

Adi Godrej:

Sorry we do not provide any guidance on any of the component businesses or for Godrej Industries.

Gaurang Kakkad: Sir, in terms of the chemicals business, if you could provide some market share data for both oleo chemicals as well as surfactants as to who would be the other players and how your market shares have moved, just to get a rough idea?

V. Srinivasan: In the case of surfactants, there is no organized data on market share but we are a prominent player in India. In the case of long chain fatty alcohol category, we have a market share internationally of about 12% or so. So we have a significant market share, both in India and abroad in various categories.

Nadir Godrej: In fatty alcohols we are specializing in the long-chain fatty alcohol in which we have a good market share. We do not sell much Lauryl alcohol, as such all the Lauryl alcohol we produce is sulfonated.

Gaurang Kakkad: Who would be the other key players, national players?

Nadir Godrej: In India, the only player in fatty alcohol is VVF and they are also players in fatty acids and there are few other smaller players in fatty acids.

Gaurang Kakkad: So, largely it would be regional competition, is what my sense is?

Adi Godrej: Yes, Malaysia and Indonesia have lots of producers of fatty alcohol and fatty acids.

Gaurang Kakkad: Thanks a lot.

Moderator: Thank you Mr. Kakkad. We have a follow-up question from the line of Kushal Sanghrajka of HDFC Securities. Please go ahead.

Kushal Sanghrajka: Sir, a couple of questions to do with Godrej Agrovet. Firstly, can you give us a little highlight on how the integrated poultry business was and secondly, can you update us on what the palm oil hectareage standing is currently and when can we expect further increase in revenue from palm oil?

Nadir Godrej: Godrej Tyson has turned profitable now and Tyson has brought in a lot of improvements in processing efficiency and also in marketing. In the case of palm oil business, we have about 40,000 hectares planted now and we continue to plant 5,000 – 8,000 hectares a year. The last year was difficult because palm oil prices were low, but currently palm oil prices are extremely encouraging and farmers are showing a lot of enthusiasm for further planting and we expect palm oil prices to be firm in the next few years because of great demand from China.

Kushal Sanghrajka: Thank you Sir.

Moderator: Thank you Mr. Sanghrajka. There are no further questions from participants and I hand the conference over to Mr. Adi Godrej to add 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 Mr. Godrej. Thank you members of the management team. Ladies and gentlemen, on behalf of Godrej Industries Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.

This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.