



Godrej Industries Limited

Q2 & H1 FY 2013 Conference Call Transcript

November 15, 2012

Moderator

Ladies and gentlemen, good day and welcome to the Godrej industries earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's conference call. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you Sir.

Anoop Poojari

Thank you for joining us on Godrej Industries Q2 & H1 FY 2013 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, Mr. Ravi Venkateswar – Head Finance and Corporate Services and Mr. Clement Pinto – Vice President Finance of the Company.

We will begin the call with brief opening remarks from the management following which we will open the forum for a question and answer session. Before we begin, I would like to point out that some statements made in today's call may be forward looking and a disclaimer to this effect has been included in the conference call invite sent out to you earlier. I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej

Good afternoon everyone. I welcome you to the Godrej Industries conference call to discuss the operating and financial results for the second quarter and half year ended September 30, 2012.

As you are all aware, Godrej Industries as a conglomerate represents a diverse range of businesses with a strong presence in some of the key growth sectors of the economy. I am pleased to share that we have performed well in most of our core businesses despite a challenging macro-economic environment.

Let me now take you through key highlights of our various businesses, starting with our agri-businesses represented by Godrej Agrovet. Godrej Agrovet has been reporting impressive growth over the last few quarters and we are happy to note that this quarter also witnessed encouraging performance with the top-line increasing by 40% to about Rs. 900 crore. This was primarily driven by the animal feeds, oil palm and agri. inputs segments. The animal feeds business constitutes the largest part of total revenues and has delivered firm growth of 55% on the back of strong performance in aqua feed and cattle feed segments. The rural economy is performing extremely well and we are operating on a well-laid foundation to

capitalize on the opportunity in this space. The manufacturing footprint of Godrej Agrovet also continued to grow with new feed mills being opened.

Moving on to the oil-palm business – sales were higher by 60% as the production increased from mature plantation and additional acreages were brought under cultivation. We remain extremely enthused about the future of this vertical and are expanding operations by adding areas under oil-palm cultivation and setting up localized crushing mills. During the quarter, a new mill at Chintampalli at Andhra Pradesh commenced operations. The agri-inputs segment also witnessed strong growth traction from some of the existing plant growth regulator products – HBR and Zymegold granules registered increased volumes of 70% and 40% respectively over the corresponding period of the previous year. We have a new products pipeline, developed to cater to a wider base, for being launched in the current fiscal.

This quarter has been challenging for ACI Godrej which was impacted by bird flu. The disease situation is now improving and the poultry breeding business is being re-populated. In our Godrej Tyson JV, overall revenues grew by 18% with sales volumes to quick service restaurants increasing by 8%.

With regards to our chemical business, revenues remained stable during the quarter. Profitability was impacted on account of a difficult global economic environment. We believe that these challenges are transitory and going forward in the medium term the business will improve in terms of performance and profitability.

I would now like to take you through the key highlights at Godrej Consumer Products, which represents our FMCG business. We continue to perform well on all the operational parameters and are realizing synergies from effective integrations in both our domestic and international businesses. Alongside, we have reported strong financial performance for the quarter with revenues up by 35% driven by strong growth witnessed across geographies. Our commitment to innovation to serve the evolving needs of consumer continues and we will invest more in brand building. We will continue our efforts at optimizing costs and improving efficiencies which would help Godrej Consumer Products in sustaining its growth momentum.

Moving on to our property business - Godrej Properties has had an encouraging first half as the Company delivered strong growth in bookings, revenues and profits, despite a challenging real estate and macro-economic environment. On the projects front, we received a staggering response for “Godrej Summit”, Gurgaon, where we managed to sell the entire launched area of over 1 million sq. ft. within 24 hours for a booking value of INR 600 crore. We continue to expand our business development portfolio with two new deals with ~3.69 million sq. ft. of saleable area added during the quarter. The quarter also witnessed positive operational cash flows and improved margins.

Over the last few years, we have been following a disciplined approach to doubling down on our core businesses to drive sustained and profitable growth. In line with this focused portfolio strategy, in September 2012, we divested our stake in the Godrej Hershey joint venture. We incurred a loss on this transaction of around Rs. 52 crore at the consolidated level and Rs. 145 crore at the standalone level. We will, however, not require to continue consolidating significant losses that the JV would have incurred. The first half 2013 our share of loss was about Rs. 26 crore. This decision is cash flow positive.

Let me now briefly run you through our financial highlights. During the quarter, our consolidated Total Income grew by 40% to Rs. 1,989 crore from Rs. 1,423 crore during the same quarter last year and Net Profit stood at Rs. 77 crore. For the half year ended 30th September 2012 Consolidated Total income stood at Rs. 3,822 crore, a growth of 39% and Net Profit stood at Rs. 118 crore.

To conclude, we will continue to strengthen our position in our core businesses while fostering an inspiring place to work and creating shared value for all our stakeholders.

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

- Moderator** Ladies and gentleman we will now begin the question and answer session. The first question is from Kushal Sanghrajka from HDFC Securities, please go-ahead.
- Kushal Sanghrajka** My 1st question is to do with the stand-alone business. Other than the Rs. 50 crores loss reported in the Godrej-Hershey investment, why has there been such a large hit at the bottom line?
- Adi Godrej** May be you did not follow what I said. The Godrej-Hershey loss recorded at the consolidated level was Rs. 52 crores. Stand-alone level the loss was Rs. 145 crores.
- Clement Pinto** Yes, I will explain that. At stand-alone level the loss was higher and at consolidated level the loss was lower because we have already in the past taken our share of the JV loss from time to time. So the consolidated loss would be substantially lower to the extent of our share already taken into account.
- Kushal Sanghrajka** My other question is to do with the chemical business. I think PBIT margins have fallen quite a bit this quarter. Can you explain a bit more on that and where do you see it going ahead in the next few quarters?
- Nadir Godrej** With the global situation being as it is there are some challenges on the export front and it will continue for a little while but we are constantly working on increasing the specialty portfolio within our sales and as the share of specialties grow we will be able to weather this situation.
- Kushal Sanghrajka** So this quarter would you say that the exports have been a little tough and at the same time have you experienced adverse situation on your raw-material front or how has it worked out?
- Nadir Godrej** Raw-materials has come down significantly and temporarily we may have higher raw-material. But we expect the raw-material situation to stabilize now and prices if anything are going up from the bottoms that were reached.
- Adi Godrej** And the domestic business continues to do well.
- Kushal Sanghrajka** In terms of your percentage of sales coming from the specialty chemicals, is there an approximate percentage that you can give us?
- Ravi Venkateswar** 37% comes from specialty chemicals.
- Kushal Sanghrajka** My last question is to do with the few articles that have been in the papers, I am sure you have got multiple questions on that. Is there any validity to those and when can we see anything going forward?

Adi Godrej What articles are you referring to?

Kushal Sanghrajka The articles of Godrej-Agrovet's possible listing or possible divestment?

Adi Godrej As a matter of policy we do not comment on speculative reports.

Kushal Sanghrajka So there is nothing happening as of now?

Adi Godrej I did not say that.

Moderator The next question is from Sumeet Rohra from Silver Stallion, please go-ahead.

Sumeet Rohra I was seeing the numbers of Godrej Agrovet are extremely stellar. Can you just give a view on the chemical business on how you foresee it from here and secondly I wanted to also ask you that are there any update on the Wadala land which is at BPT Trust or the 7 acres of something of that sort which we have?

Adi Godrej No update on the Wadala land but we will continue to pursue the possible development of the Wadala land. On the chemical business as Nadir explained the global slowdown has affected the business. It is a cyclical business. We have had slowdowns in the past. So currently the international business is in a slowdown mode but as soon as the global economy improves we think we will continue to do well. Our domestic business continues to do well.

Sumeet Rohra The reason I asked is because Godrej Properties is doing extremely well so as Godrej Consumer and so as Godrej Agrovet. So I just wanted to take your view on the chemical part?

Adi Godrej Chemicals business is not doing as well as it did 2-3 quarters ago but we expect that we should get out of this cyclical situation soon.

Moderator The next question is from Parul Inamdar an individual investor, please go ahead.

Parul Inamdar We just wanted some clarification regarding the changes and the impending proceedings going on regarding the palm oil prices. Are there any developments over there?

Balram Yadav The palm oil prices have definitely come down but since the formula allows the FFB prices to be priced as per the palm oil price so the cost of FFB has also come down.

Moderator The next question is from Arjun Khanna from Principal Mutual Fund, please go ahead.

Arjun Khanna In terms of the oil palm business, what percentage of our hectares are actually producing right now?

Balram Yadav We really have total of 45,000 hectares - about 11,000 hectares are matured which is more than 7 years and about 13,000 hectares are between 4 and 7 years which are called juvenile. So you can say about 11,000 are producing at capacity which is about 18-19 tons per hectare of fruit bunches per annum and about 17,000-18,000 are producing between 3-8 tons per hectare.

Arjun Khanna In terms of expansion, have we planted any in the last few seasons?

Balram Yadav Yes, in the 1st half we did close to about 3,000 hectares.

Arjun Khanna This is slightly on a lower run rate than what we have had.

Balram Yadav Most of the plantation particularly in Andhra Pradesh and Tamil Nadu which are our main areas of expansion happens during the north-east monsoon, which is December, January and February.

Arjun Khanna Is there any target for the 2nd half?

Balram Yadav I think we believe that annually we will be close to about 7,000-8,000 hectares this year also.

Arjun Khanna In the Agri. business could you give us the sense of the volatility in the prices of raw-materials especially in terms of soya and everything else - how is that affecting the business?

Balram Yadav So in animal feed business as you can see our topline grew 55% and the volumes grew 15% and most of it can be explained by inflation. So now the raw-material prices are coming down, so this is a cyclical thing, it happens every year. Where we are hurt badly is the chicken business, where the raw-materials prices rose and the cost of producing chicken rose, we were not able to pass on everything to the consumer so that business took a hit because of higher feed cost and also higher raw material prices.

Arjun Khanna So when the reverse happens, given that we turn our inventory so many times, so we should not be really taking inventory losses again? Is that the correct understanding?

Balram Yadav We know this game very well. It happens every year. Now the prices have started falling and we are hand to mouth. We are running at 5-6 days of inventory.

Arjun Khanna My final question is In terms of the Temasek deal that was being talked about. Just a broad understanding, given that we are well capitalized, what would be the thought process in diluting it all, if at all?

Adi Godrej We are not planning to have any dilution in Godrej Industries. I do not want to comment on future developments. As and when developments take place we are suppose to first inform the stock exchange.

Moderator The next question is from Deepak Rohra from Quest Investment Advisor, please go ahead.

Deepak Rohra I wanted to check something which has been mentioned in the presentation and the agri. business especially for this oil palm, which talks about the revised FFB pricing formula in Andhra Pradesh. So could you give us some sense of what is happening there?

Balram Yadav So in Andhra Pradesh there is a VAT on the oil of 4% and earlier the payment was made at 12.83% of the oil price net of Vat and Government threw a circular, instead of net price they said that the payment will have to be made on the gross price. So that is hurting us because the courts have not given the stay and they have asked the Government to reconsider the decision. And the matter is under litigation and the Government is also trying to sort out this matter along with the industry association. So we believe that in the next 2-3 months this matter will be solved.

Deepak Rohra This is restricted right now only to the Andhra Pradesh, it is not to any other state?

Balram Yadav No, it is not to any other state. Unfortunately debate happens at Andhra Pradesh has the largest acreages of oil palm and most of the palm oil is also produced in Andhra Pradesh, so the other states will follow suit sooner or later.

Deepak Rohra So they are basically watching, how it unfolds in Andhra Pradesh before.

Balram Yadav They have to manage lot of other things like: How serious they are in promoting oil palm in their state, etc., that is why formulas are different in different states. In Andhra Pradesh we pay 12.83%, in some states we pay 12%. So it depends on the state policy also and how much support they want to give to oil palm.

Deepak Rohra One query on Hershey's deal, you mentioned that it cash flow positive over all. Would it be possible to get some sense of how do you look at it, how is the growth?

Adi Godrej The point is that we got paid by Hershey, although we had to take a loss because our book value of the investment was much higher, so cash-flow positive in the sense that GIL got cash in this transaction.

Deepak Rohra So it was valued at a significant premium to what you are holding it in your books. Is that correct?

Adi Godrej No, it was valued at a discount to what our book value was but that value gets paid in cash, so our cash position improves, although we had to take a Rs. 145 crore loss at the standalone level and Rs. 52 crore at the consolidated level.

Moderator The next question is from Parul Inamdar, an individual investor, please go ahead.

Parul Inamdar Just wanted a further bit of clarification on the Andhra Pradesh pricing. Assuming that the 4% VAT continues to be applied on the gross price and not on the net price, what would be the possible impact on the Company's business?

Balram Yadav At the gross profit level it is about 2.5%.

Adi Godrej It is not a major impact however we feel it is not valid and therefore we have challenged it in the court. The court has asked the Government to reconsider.

Moderator The next question is from Sudhanshu Bhuwalka from Macquarie Capital, please go ahead.

Sudhanshu B. Just a question on the Godrej Industries-Hershey's JV. Have you all disclosed the cash consideration you received from Hershey's, and if so what is it?

Adi Godrej No, we have a confidentiality agreement and we may not be able to disclose that. But I can tell you that we have to take a Rs. 145 crore loss relative to our book value at the standalone level. That was a one-time loss and as I mentioned it will save consolidated losses very considerably in the future because of the loss making company and from a strategic point of view also we felt this was a good time to exit the business. This is a one-time loss and if you notice the numbers except for this one-time loss we have done extremely well in the quarter, both at the top-line and bottom line level.

Moderator As there are no further questions from the participants I now hand the conference over 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. Thank you once again for taking the time to join us on this call.

Moderator Thank you gentleman of the management. On behalf of Godrej Industries that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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