



Godrej Industries Limited

Q2 & H1 FY15 Earnings Conference Call Transcript

November 12, 2014

Moderator Ladies and gentlemen good day and welcome to the earnings conference call of Godrej Industries Limited. As a reminder all participants' 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 Good afternoon everyone and thank you for joining us on Godrej Industries' Q2 & H1 FY15 earnings conference call. We have with us Mr. Adi Godrej – Chairman of Godrej Industries; Mr. Nadir Godrej – Managing Director; Ms. Tanya Dubash – Executive Director & Chief Brand Officer; Mr. Pirojsha Godrej – Managing Director & CEO of Godrej Properties; Mr. Balram Singh Yadav – Managing Director of Godrej Agrovet; Mr. Nitin Nabar – Executive Director & 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 have the forum open for an interactive question and answer session. 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 included in the conference call invite e-mailed to you earlier. I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej Thanks Anoop. Good afternoon everyone I welcome you to Godrej Industries' conference call to discuss the operating and financial performance for the second quarter and half year ended September 30, 2014. I would take you through some of the key developments and operational highlights at each of our businesses followed by a summary of our financial results for the half year.

I am happy to report that our Agri business continues to do well despite a challenging environment in terms of volatile commodity prices and erratic weather conditions. The consolidated total income of Godrej Agrovet at Rs. 1,071 crore this quarter grew by 11% over the corresponding quarter last year. The consolidated net profit at Rs. 79 crore too grew by 11% over the corresponding quarter last year.

Our strategy of focusing on strengthening our presence in cattle and layer feeds whilst reducing salience of the volatile Boiler feed segment is yielding results. The sales of the animal feed vertical grew by 13% to Rs. 686 crore in this quarter as compared to the corresponding quarter last year. I am pleased to share that in line with our focus on augmenting the Company's market position in the Aqua feed segment, we commissioned the new facility for commercial production of shrimp and fish feed at Hanuman Junction in Andhra Pradesh.

In our oil palm vertical, good volumes combined with operational efficiencies during the quarter enabled us to deliver 24% growth in revenues as compared to the corresponding quarter last year and also helped the Agri business profit. During the quarter, the segment witnessed significant volatility in crude palm oil and palm kernel oil prices with the average sales price of palm oil lower by 10%. However, our committed team from the oil farm verticals was focused in performance delivery.

The Agri Inputs verticals performed well despite being faced with an erratic weather condition in the country. Our agile team and a strong supply chain helped the business deliver results with sales during the quarter growing by 18% over the corresponding quarter last year.

At Godrej Tyson our focus remains on building brand based business with several new products being launched under the 'Real Good Chicken' and 'Yummiez' brands. The future prospect of our Agri business remains robust and I am confident that we will continue to deliver good results.

Moving to the performance of Godrej Consumer Products Limited; we continued to outperform the market and our brands have further strengthened their leadership position. This was despite consumer demand remaining subdued in the second quarter of this fiscal making this one of the slowest years of growth in the FMCG industry in over a decade. Net profit of Godrej Consumer Products Limited grew strongly at 20% in this quarter. We believe that the Indian FMCG industry is now showing signs of recovery. It is our endeavor to sustain and extend leadership position across core categories and we are also continuing our pace of launching exciting new products. The medium and long term growth prospects in India in our

other emerging market remain robust. I am confident that with our clear strategic focus differentiated product portfolio, superior execution and top notch team we will continue to deliver industry leading results.

I am pleased with the performance of Godrej Properties Limited. Godrej Properties reported healthy financial performance during the quarter with net profit improving by 36%. The response to our new project launches across the country has been very heartening. We look forward to delivering an even stronger performance in the second half of this Fiscal year.

The Chemicals business recorded a 17% growth in revenues and a 10% growth in PBIT as compared to the corresponding period last year. I am happy to share the Valia factory in Gujarat won the FICCI award for efficiency in energy usage in the chemical sector. Such initiatives are part of our group and green vision of creating a more inclusive and greener India.

Let me now briefly run you through our financial highlights. During the half year, consolidated total income was higher at Rs. 4,755 crore, up 18% over the corresponding period last year. Consolidated net profit stood at Rs. 173 crore marking a growth of 18% over the corresponding period last year.

To conclude, with the improving macro-economic environment, we are feeling more encouraged and confident of achieving our long term objectives of inclusive sustainable and profitable growth. Our disciplined strategy; prudent approach and focus on agile execution will enable us to deliver healthy results and create shareholder value going forward. 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 Madon from Axis Capital. Please go ahead.

Farzan Madon

I would just like to know about the Chemicals division. The Chemical division has reported slightly muted margin. Is it because the Ambernath plant is yet to stabilize or is it facing any technical problems really in the short term like a month or two. Could you give us details as to how is it fairing in terms of production in volume terms?

Nitin Nabar

The Ambernath plant is fully operational now there are no problems. The plant started on time. This lower margin is due to the shortfall in commodity prices.

Farzan Madon Now my second question is regarding Agrovat. It has really been doing well and this year despite adversities and a bad monsoon we have grown at around 12% to 15%. Can we expect this division to continue to show 25% to 30% growth like it has done before in the longer term of around three years?

Balram Singh Yadav I do not promise a 25% to 30% growth, but I can definitely say that good double digit growth is possible not only for next three years but for next five years also.

Moderator Thank you. We have the next question from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra I got a couple of questions. One is a follow up on the chemicals. Now the matter of fact is that internationally prices of commodities have come off; so is that going to keep the chemicals part under pressure or since we have already expanded in to specialty chemicals, we will see our margins coming back on track from next quarter onwards? Secondly, our Agrovat has done beautifully well Balram, and once again many, many congratulations on that. But in that just wanted to quickly touch base with you on the Bangladesh JV where there have been a slight de-growth. I wanted to basically have your sense on the Bangladesh JV and the Godrej Tyson because those are the only two verticals in the Agrovat space which have been little bit of flattish. And Sir, this is just my suggestion, of course our Nature's Basket business has been doing remarkably well and we have now gone to 32 stores, so is there any thought process that we can expand that in terms of number of stores because it is doing very well for us, sir?

Nitin Nabar So on the chemical side, the drop in commodity prices have affected us but our focused effort on growing the specialty part is on and we are in fact expanding capacity on the rapeseed oil based product. So that will help us in future but that is a little long term.

Balram Singh Yadav Sumeet, first on Bangladesh. Bangladesh is showing a de-growth because of very poor broiler market there which is existing in India as well as several places in the world because of the cycles of over production and under production. However, our profitability has done very well which is not being seen in the numbers as last year we had a major currency benefit because of rupee depreciation. This year if we remove that currency benefit, our profitability in the first half of the year has grown close to about 28%. We believe that Bangladesh will do very well in future because this condition will not remain like that. Secondly, we are investing in a state-of-the-art floating fish feed plant in a place called Rajshahi in Bangladesh. It is a very big capacity because Bangladesh has a very big fish growing industry and we believe

that floating fish feed has a very bright future. We also believe that we will be able to utilize this capacity in the next three to four years which means that we have to grow that business close to about 20% CAGR for the next three, four years.

On Godrej Tyson, again Tyson is part of the broiler industry which is not doing well, but we have been able to maintain our topline and bottom-line at very similar levels as last year. Brand sales and Yummiez sales have shown improved profitability that is very heartening because last year, some amount of our profit came from commodity which is not the case this year. So, both these businesses are slowly moving in the right direction and probably you will see very good growth in future.

Tanya Dubash

On Nature's Basket, as you pointed out we now have 32 stores across 5 cities. We have strong growth plans in place. I am not sure all of you are aware, but the business had a bit of a problem in the last few months because of the FSSAI rule which now seem to be easing. But you will be happy to know that we had a very, very good October. Actually, the problems caused by FSSAI made us grow our private label business which is a high margin business. Now, we also source from India much more than we did and hence we are now in a far stronger position. We will continue to grow our private label business and fill rate from international products are improving significantly. We had a great Diwali. Our gifting plans and the hampers that we do are growing by leaps and bounds and we have a very strong focus now on growing our e-commerce business and making ourselves unique by trying to develop a strategy around online-channel. So we will see some strong growth.

Moderator

Thank you. We have the next question from the line of Manish Gandhi who is an individual investor. Please go ahead.

Manish Gandhi

My first question is to Mr. Pirojsha. Hi Pirojsha, finally this forest land de-notification has happened. So, do we see signing any new JVs with Godrej & Boyce in next few months and launching the same in the next two to three years?

Pirojsha Godrej

Godrej & Boyce of course had some land that was affected by the forest case matter. The clearing of this issue will certainly help us speeding up the development on that land. I am hesitant to put the exact timelines but certainly that is something we are discussing strongly with Godrej & Boyce. I think within two to three years' timeframe we should certainly be able to have a project in at least part of that area.

Manish Gandhi

One more question to Pirojsha. In Godrej Properties' conference call you were answering about the equity raising question and you said that definitely not in current

year. So I am a bit confused. If not in the in current year do you see in the next two, three years a chance of equity raising? Because I see in the next two, three years we can easily sell BKC and Chandigarh so I am just confused just I want to clear that?

Pirojsha Godrej

So Manish, I think I was responding to a specific question on whether we have any near term equity raising plans to which I said we certainly do not and definitely not for rest of this year. I also think I clarified that our goal is to raise the capital that we need for our growth through monetizing our commercial portfolio. But I cannot with any great degree of accuracy say whether two years from now we may or may not need to look at raising equities. It would obviously depend on our success at monetizing the commercial portfolio and also looking at how many growth opportunities are presenting themselves. So I think we have no immediate plans I think for raising any kind of equities.

Manish Gandhi

My next question is to Mr. Adi Godrej. Sir, just want to know that if we are going to list Godrej Agrovet in next few years and if so, are we going to dilute Godrej Industries' stake in the Company? Sir, you can appreciate why I am asking the question you might feel it repeatedly because this is a very valuable equity and we are a group which has always respected equity in past. So, your thoughts on the same for diluting our stake in that Company?

Adi Godrej

First of all there is a possibility that we might list Godrej Agrovet in the next few years. Secondly, it is not determined yet how we will list it. Most likely it will be raising new capital; but it is too early to tell in which manner we would list it. Under the current regulations, we can list Godrej Agrovet with a 10% issue because it is a large sized business. But we have not determined exactly how we will go about it and that, if at all, will be done closer to the time of actual listing as and when it may be.

Manish Gandhi

And one more thing because we have recently increased our equity in Godrej Consumers and sold some shares in Godrej Properties. I know that it is something that we might do in future also; but is there any plan that we want to reduce our stake in Godrej Properties to say 50%?

Adi Godrej

No, whatever sale of Godrej Properties' shares and purchase of Godrej Consumer Products shares is done within the group. It is relatively very small and we are taking advantage of marking to market whenever feasible without any tax burden. So it is basically much more prudent currently since this income is not taxable that to do it as and when in the unlikely event there is future taxation on such sales.

Moderator Thank you. The next question is from the line of Sanjukta Majumdar from SKS Capital & Research. Please go ahead.

Amitabh Sonthalia This is Sanjukta's colleague, Amitabh. Sir, on slide 27 of your presentation you have listed the value of investments for our equity share in case of Godrej Consumer and Properties which is well known because they are separately listed businesses and Godrej Industries is a promoter holding Company for those investments. So any case those are separate listed entities so no point asking anything about those companies that is well known in the market and among the investors. About your unlisted businesses what I was just trying to get is if we look at Godrej Industries and of course value of your listed investments is known and the market assigns a certain holding Company discount to those investments of anywhere between 50% to 75%, how would you value the other investments and is there some way we could get an indication of management's internal assessments of the valuation let us say your Godrej Agrovet stake or the Godrej Vikhroli investments or your Nature's Basket investments, etc.?

Adi Godrej Well, it would not be appropriate to put out valuations unless it is for a listed Company because that can vary depending upon who is valuing it. But the Godrej Agrovet investments to my mind would be worth around Rs. 2,000 crore and other investments are very valuable especially the LLP part of Godrej Industries' stake. So generally our calculations show that if you break down the value of the assets in Godrej Industries there is considerably higher than the market cap of Godrej Industries currently.

Amitabh Sonthalia What is your view of the nature of Godrej Industries as a Company. How would you like that to be viewed because as you are aware, in India we have holding companies of large industrial houses such as yours which essentially are holding companies which serves the promoter interest but not necessarily interest of a minority investor of long term holdings in your group companies listed ones especially and which is why market assigns a big discount to those investments like you have let us say Rs. 10,000 crore listed Company investment between Godrej Consumer and Properties, but that automatically gets a discount of 50% to 75%. So if as an analyst or an investor we are going to value Godrej Industries, we straightaway assign that Rs. 10,000 crore would be valued at less than 5 because that will never be encashed from a Godrej Industries' minority investor perspective. So that is a separate debate. But coming to your other investments Sir, such as the Godrej Vikhroli LLP which you mentioned could you throw some more light on the structure of that investment and whether Godrej Industries holds any land through that directly or is it just an operating partnership. So how will Godrej Industries'

shareholders benefit from the activities of that LLP and over time how will that create value for Godrej Industries' share holders?

Pirojsha Godrej So that is quite clear. The Vikhroli land of 35 acres is being developed under the name of 'The Trees' by an LLP that is 60% owned by Godrej Properties and 40% owned by Godrej Industries directly. So 40% of the value created through this project directly flows in through Godrej Industries and the remaining 60% flows in directly through its shareholding in Godrej Properties.

Adi Godrej The other thing I would like to clarify is that most of these investments that Godrej Industries holds unlike many other holding companies is in listed Company. So it is very easy to tell the valuation. Even Godrej Agrovet shares are worth a lot because only about two years ago a major deal was done with Temasek and so people know the valuation of that holding. The third thing I would like to point out that Godrej Industries' value is much higher than sometimes realized at the current point of time because in the past we used to lease out a lot of our buildings as part of our estate management program which had to be stopped because of the development of 'The Trees' and the benefit from the Trees will come after a couple of years. So in between, the operational result are lower relatively speaking than earlier or will be later. So I think this has to be borne in mind.

Amitabh Sonthalia So this part I am not quite familiar with so I will take it offline and hopefully try and understand the benefit of 'The Trees' accruing after couple of years that you are talking about a little better. I would not take too much of the time on the call for that.

Moderator Thank you. We have the next question from the line of Amrut Kalantri who is an individual investor. Please go ahead.

Amrut Kalantri My question is to Mr. Adi Godrej. You just mentioned about the Temasek deal, so I just wanted clarification on that. Have we guaranteed them an exit or an IRR and exit by NI or IPO or buyback or bringing any other investor within a certain timeline so if you can please clarify on that?

Adi Godrej There is no guarantee of returns in that deal. The only assurance we had provided is that after a period of three years from the initial investment, if Temasek wishes to have the Company listed we would cooperate in that listing.

Amrut Kalantri So basically that means one year from now if Temasek wants, we basically would be going ahead with IPO plans?

Adi Godrej Yes, little more than one year from now.

Amrut Kalantri My second question is regarding the impact of GST. You have been a very vocal supporter of GST and have mentioned several times that it will add 2% points to our GDP directly as and when it gets activated. So I just wanted to know whether you have done any impact analysis on all our group companies in terms of whether there would be an immediate impact on by higher revenue growth or even a margin expansion by 100, 200, 300 basis points?

Adi Godrej It is very difficult to have a direct impact analysis done for our companies but our companies mainly being consumer product companies will benefit tremendously from GST implementation, as you have rightly said like 2% points other things being equal to the GDP growth that itself will be very valuable to our companies. But in the case of companies like Godrej Consumer Products and others, it will save a lot of logistics and operational costs that will be extremely beneficial. So we see a tremendous improvement in valuation of our companies' post-GST implementation.

Amrut Kalantri Sir, just one last follow up question. So if I understand it correctly, I think the more impact will be on margin expansion because of costs savings rather than a higher revenue growth number would that be correct?

Adi Godrej No, we would see higher revenue growth also because if the GDP growth of the country is high, it would certainly mean that consumption will increase and sales growth of most Indian companies in the consumer product field would increase.

Moderator Thank you. We have the next question from the line of Laxmi Narayanan from Catamaran. Please go ahead.

Laxmi Narayanan I have couple of questions. The first question is pertaining to the Agri Inputs. Now I was just trying to understand where we actually sell some of the herbicides, etc. where exactly in the segment of information that is actually captured and what kind of revenues and the profitability we have for the first half year?

Clement Pinto It is captured in the 'Others' segment.

Laxmi Narayanan So the entire close to Rs. 174 crore of revenues is coming under that, right?

Clement Pinto That is part of the others category, yes that is right.

Laxmi Narayanan And then coming to the palm plantation part which you have talked about the revenue is captured under vegetable oils, right?

Clement Pinto That is right.

Laxmi Narayanan And how does it work; I mean who owns the plantation. Is it more like a sugarcane where it is mandated from the Government that is a farmer grows sugarcane?

Balram Singh Yadav Very similar. We do not own the plantations land. We own the oil mills and the farmers grow the crop and grow the plantation and bring the fruit to us.

Laxmi Narayanan What is our edge in the business given that the profitability of edible oil in general is very low and why do we think that is going to be a strong pillar for growth for us?

Balram Singh Yadav First of all the profitability is assured by the business model which government has put in place. We pay a percentage of that month's oil price of the crude price which leaves us about 25% contribution. The other edge is that we have worked with the farmers and do not look at it as an oil business but look it as an agri business. We work with farmers to increase yields and increase oil yields because we pay on the weight of the fruit and not on the oil basis so any improvement in oil is a direct injunction in our bottom-line.

Other than that, the plants are very efficient. We use biomass to produce our own electricity; we produce about 4 MW of electricity right now in Andhra Pradesh and we are looking at opportunities of utilizing a huge amount of biomass which is still unutilized by doing various other things like bracketing or producing more power because efficiency improvement directly impacts our bottom-line. So that is the edge we have.

Laxmi Narayanan Sir, on the animal feed I understand we have three sets of businesses; one for poultry, one for shrimp and one for the other. Now among that what is the broad breakup of business between these three things and which you think is something where we will definitely have a stronger edge; which means that it requires some kind of a unique selling model or it is much more advanced to sell a particular type of animal feed?

Balram Singh Yadav Animal protein is growing all round and we believe that all segments will do well. But there are certain segments which will do better than the others. Particularly, broiler and fish are very subject to market conditions and the output prices. There we see lot of volatility and lot of cyclicalities during the year. But cattle, shrimp and layer feed which is the feed for the eggs are quite steady businesses and we are growing at a very, very handsome pace in these three segments.

Adi Godrej And we are doing a lot of R&D especially at our new R&D center through continuous improvement.

Laxmi Narayanan Which of the three things are most lucrative either from a market reach or from penetration or a profitability point of view whichever way you look at it?

Balram Singh Yadav Aqua feed.

Laxmi Narayanan Sir, and the last thing on the Tyson JV. What kind of revenues are we expecting to close by FY15 and how much is 'Yummiez' part of that? If you can just help me understand that?

Balram Singh Yadav In FY15, we will do a little over Rs. 400 crore and 'Yummiez' will be close to about anything between Rs. 65 crore to Rs. 70 crore in that.

Moderator Thank you. We have the next question from the line of Amrut Kalantri who is an individual investor. Please go ahead.

Amrut Kalantri This question is again to Mr. Adi Godrej. Sir, my question is regarding our dividend policy and capital allocation policy. Now I had asked this question a few quarters earlier in the Godrej Properties' conference call but since then, the dividend distribution tax rate has been further increased to 20.6%. Now you have mentioned many times in the past that the only hindrance to Godrej Properties' growth would be capital. So I just wanted to get your view on would not it make better capital allocation for us if you preserve that capital and use it for growth instead of paying it out as dividend because we are paying a very high dividend distribution tax as well on that?

Adi Godrej It is a good point and we are following that policy in that the dividend payout percentage is not very high and we are allocating a lot of capital to businesses that can utilize that capital well for strong growth. So we will continue that policy and there is always good to have some dividend because many small shareholders particularly are dependent on dividend and to the extent that we can pass through the dividends we avoid the dividend distribution tax also.

Amrut Kalantri Sir, one small technical question may be the CFO can help this. So if Godrej Properties pays Godrej Industries the dividend and Godrej Industries then pays us the dividend so there is no double dividend distribution tax in this?

Clement Pinto That is right.

Moderator Thank you. As there are no further questions from participants, I would now like to hand the conference over to the management for their closing remarks. 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. Thank you for joining us and you may now disconnect your lines.

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