Godrej Industries Limited

Q3 & 9MFY2012 Results Conference Call Transcript
February 6, 2012

Anoop Pujari: Good afternoon everyone, and thank you for joining us on Godrej Industries' Q3 & 9M FY2012 results conference call. We have with us Mr. Adi Godrej, Chairman of Godrej Industries, Mr. Nadir Godrej, Managing Director, Mr. Pirojsha Godrej, Executive Director of Godrej Properties, Mr. Balram Singh Yadav, Managing Director of Godrej Agrovet, Mr. Vivek Gambhir, Chief Strategy Officer and Mr. V Srinivasan, CFO & Company Secretary 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 and a disclaimer to this effect has been sent out in the conference call invite.

I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej: Good afternoon everyone. I welcome you to Godrej Industries conference call to discuss GIL's operating and financial results for the third quarter fiscal year 2011-12 and nine months ended December 2011. Strong operating performance across businesses, have marked the nine months ended December 31, 2011.

I would first like to discuss the key developments at Godrej Agrovet, which operates our agri-related businesses including animal feed, agri inputs and oil palm plantations. This has been yet another quarter of encouraging results as sales grew by 27% to Rs. 627 crore and PBIT increased by 48% as compared to the corresponding quarter last year. Revenues for the Oil palm segment, one of our key businesses in the agri space, almost doubled during the quarter as yield from mature plantations augmented by almost 64%. In the nine-month period, we have added 4,700 new hectares. Our focus remains on maximizing output from existing area under cultivation, enhancing operational efficiencies and adding hectares in a very systematic manner. This business has delivered high returns on investment in the past giving us the confidence of realizing better returns in the future.

Revenues in the animal feeds business grew substantially by 37% in this quarter as compared to the corresponding quarter last year primarily on account of higher volumes registered across categories and regions. Our

Agri-Inputs business reported a 23% improvement in revenues during this quarter over the corresponding quarter last year. This segment includes a variety of products like plant growth promoters, organic manure, and herbicides. ‘Zymegold’, an organic manure recorded 112% increase in volumes and volumes of ‘HBR’, a plant growth regulator grew by 34% during the quarter. Our latest venture in the agri. space is through Godrej Seeds and Genetics Limited (GSGL) and it is shaping up in line with the objectives set for the seeds business. We are extremely optimistic about the future of this business and firmly believe that our endeavor will contribute significantly to both the top-line and bottom-line in the years to come.

Moving on to our oleo-chemicals business - overall performance has been encouraging as the top-line witnessed a healthy growth of 23%. Contribution of exports to the total revenues has consistently enhanced over the past few quarters. During the quarter, exports which contribute ~44% of the total income stood at Rs. 147 crore marking an increase of 40% over the corresponding quarter last year. Given our clear focus on improving margin contribution of the chemicals business, we have been persistent in our efforts at augmenting revenues from high-margin specialty chemicals, which now stand at 35% of the total chemicals business revenue. Operating profits moved in line with the revenues and margins remained stable during the period under review. I am pleased to share with you that work at our new Oleochemicals facility at Ambernath is progressing well and the facility is expected to be commissioned as per schedule. The Board has approved a revised capex of ~Rs. 296 crore for the project to account of improved scope of the plants, additional expenses expected to be incurred for creating facilities in a low-lying land and to budget for inflation in material costs related to construction.

Let me now take you through the key highlights at Godrej Consumer Products, which represents our FMCG business. This quarter witnessed a healthy sales momentum as revenues were higher by 36% on the back of robust performance delivered in the domestic and international markets. Operating margins also expanded by 290 bps resulting from favourable category sales mix, integration led cost saving initiatives, efficient commodities sourcing and competitive and efficient advertising spends. The business has done extremely well on all the operating parameters driven by our six strategic pillars of growth which include - leading in the core categories, growing our international business systematically in line with our 3 by 3 strategy, driving innovation, building a best in class supply chain, creating a future ready sales organisation and fostering an agile and professional entrepreneurial culture. The quarter was marked with encouraging numbers across categories in India, with Home care registering enhanced sales of 30%, personal wash 31% and Hair Care 9%. International businesses also reported a significant improvement of 30% organic growth across the geographies during the quarter.

Coming to our properties business, as you may be aware, there has been a leadership change at Godrej Properties (GPL). The GPL Board has appointed Pirojsha Godrej as the Managing Director and Chief Executive Officer of GPL with effect from April 1st, 2012. Pirojsha has played an integral part in the growth of GPL since he first joined the Company in 2004 and the GPL Board is very confident that he will successfully lead the

Company through its next phase of growth. In addition, the GPL Board has appointed Mr. V. Srinivasan as an Executive Director at GPL with effect from April 1st, 2012. Srinivasan has played several leadership roles across various Godrej companies and the GPL Board believes that he will add tremendous value to GPL.

With regards to the operational highlights of Godrej Properties, the third quarter has been an eventful quarter for the Company during which three new deals were finalized including projects in Bengaluru, Pune and Mumbai. I am delighted that we concluded the landmark deal with our Group Company, Godrej & Boyce for all future development on the Vikhroli land parcel. This will prove to be highly value accretive deal, which will provide significant risk free cash flow for Godrej Properties. The first project under this structure, Godrej Platinum has already been successfully launched during the quarter. I am happy to report that despite a sluggish sales environment, we have been able to sell approximately 150,000 sq. ft., which is almost all the inventory that was launched. While 2011 has been a challenging year for the real estate sector; however at GPL, we continue to expect strong growth in FY2012 given our plans for new launches, and new business development deals. We are confident that we will capitalize on our 'Godrej' brand and proven business model to take advantage of the vast opportunities in the sector and deliver robust performance in the future.

Let me now briefly run you through our financial highlights. During the quarter, our consolidated total income grew by 41% to Rs. 1,520 crore from Rs. 1076 crore during the same quarter last year; PBDIT was higher by 34% at Rs. 126 crore and Net Profit stood at Rs. 85 crore, up from Rs. 61 crore, registering an increase of 39%. For the nine-month period, Consolidated Total income at Rs. 4,322 crore marked a growth of 36% and Net Profit at Rs. 249 crore improved by 35% over the corresponding period last year.

To conclude, I firmly believe that the future provides us with tremendous growth opportunities for our businesses. Guided by our strategy for growth – 'CREATE', we will continue to strengthen our positions 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 have.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Kaushik Poddar from KB Capital Market. Please go ahead.

Kaushik Poddar: See this is something I want you to clarify, where does your investment in Godrej Consumer feature in your segmental information and you have something on the finance and investment, about Rs. 1,535 crore is there as your capital employed, what exactly does it contain?

V.Srinivasan: Profits of Godrej Consumer Products is consolidated as share of profits from associates as a one line item in the results.

Kaushik Poddar: In the results, that is fine but I am talking about the segmental information where does it feature?

V.Srinivasan: No it doesn't feature in the segmental information.

Kaushik Poddar: But the profit before tax of Rs. 84.93 crore is the same as in the main body of the result.

V.Srinivasan: Yes basically because the share of profit from associates comes after PBT. If you see the results first page you will see the share of profit from associates is item number 14 and PBT is item number 11. We have given break up of only the PBT as required.

Kaushil Poddar: What is this investment?

V. Srinivasan: That is basically the carrying cost of investments that we have in various associate companies, the loans that we have given, those are the assets that reflect in Rs. 1,535 crore which you are talking about.

Adi Godrej: It includes the investment where we own 70% in Godrej properties and about 23% in Godrej Consumer Products and the other investments the company has in associate companies.

Kaushik Poddar: And also you have shown something as capital gains in point number 7-profit on sale of long term investment. What are those long term investments?

V.Srinivasan: We sold some shares that we hold in Godrej Properties; so, the profit on sale of these shares is reflected as profit on sale of long term investments.

Adi Godrej: This was the sale made to an associate company Godrej & Boyce.

Kaushik Poddar: Okay but what are these investments? I mean liquid investments or I couldn't get it?

V. Srinivasan: These are strategic investments and therefore as required by the Accounting Standards, though this is a business segment for Godrej industries, we have to show them as exceptional items. That is why it has been separately disclosed.

Moderator: Thank you. The next question is from Arjun Khanna from Principle Mutual Fund. Please go ahead.

Arjun Khanna: My first question is in terms of capex that was announced. Is this only for the Ambernath plant which was earlier Rs. 230 crore that's gone up to Rs. 294 crore or does this include Valia?

V.Srinivasan: That is only Ambernath.

Arjun Khanna: So there has been an increase in outlay for Ambernath?

V.Srinivasan: Yes.

Arjun Khanna: My second question is in terms for Godrej Agrovet. In terms of hectares, we added roughly 2,200 this quarter. Is this something that we could do for next quarter also given that our increase in acreage actually comes through in the second half of the fiscal?

Balram Yadav: We may exceed this number in the next quarter.

Arjun Khanna Of 2,200 hectares also?

Balram Yadav: Yes.

Arjun Khanna: Sure, just to understand the maturity profile of the fresh fruit bunches**,** given that we know the profile for the end of the year, how do we see this in terms of volume increase for next year?

Balram Yadav: As of now, out of 43,000 hectares about 5,600 hectares are matured, that is above 7 years.

Arjun Khanna: Sure.

Balram Yadav: And about 14,000 are between 4 and 7. So we believe that the trend which you saw this year will continue in the next year also.

Arjun Khanna: Sure that's heartening to hear. In terms of Godrej our joint venture with Tyson, could you give us some sense in terms of our capex outlay because I understand from the past couple of conference calls you are running at full capacity, has there been any capacity augmentation there?

Balram Yadav: Nearly 4 million dollars has already been spent in augmenting capacity in both the plants. This is only Phase-I, we will increase the capacity from 50,000 birds to 80,000 birds per day in both the plants from May onwards.

Arjun Khanna: Sure and my last question is in terms of our Godrej Hershey's business. I see from the capital employed that really hasn't increased; we haven't quite launched even the chocolates, any comments?

Adi Godrej: We have launched 2 Hershey's product, which is the syrups and the milk mix. The other projects are under consideration, it is under study and as the competitive situation in chocolate is quite strong we thought it's best to time the launch correctly.

Moderator: Thank you. The next question is from Manish Gandhi an individual investor. Please go ahead.

Manish Gandhi: Excellent set of numbers especially from Godrej Agrovet. I just have a few questions on Godrej Agrovet. Is it going to be possible to give 9 months separate PBIT for palm oil and animal feed?

V.Srinivasan: Animal feed is in the segment results; we have given the PBIT for 9 months-is about Rs. 64 crore.

Manish Gandhi: Okay, yes.

V.Srinivasan: That is separately given as a segment.

Manish Gandhi: And palm oil can you just give it?

V.Srinivasan: That's a part of veg oils.

Manish Gandhi: Okay, one more thing on animal feed- I just want to have basic color on that because this year we have grown by 35%, 40% every quarter right? So is it sustainable or what has changed like this in animal feed- this kind of numbers I am really surprised?

Adi Godrej: Efficiency of the team has improved a lot and I am answering this because Balram might be little modest about that. The team has done exceedingly well. They have performed strongly, of course the Agri situation in the Country has improved quite considerably.

Balram Yadav: The animal protein industry is also growing. Broiler, consistently for last 3 years is growing more than 10% in volume, however, layer and milk is at 4 and 5%. Our growth is coming from geographical expansion. If you see (as I told you Manish earlier) that most of the animal protein growth is also taking place in Eastern India, where we have come up with several capacities and some are under construction. Secondly the volume growth is about 17-18% and value growth is because of our high-end products. The salience of high value R&D products is rising which is riding through the value growth.

Nadir Godrej: Yes, we have a very strong R & D effort in animal feed and expect that going forward also there would be a lot progress made in improved feeds which will drive the growth.

Manish Gandhi: There is no doubt about what Mr. Adi Godrej said about the modesty of Mr. Balram and the team and I am extremely happy the way they are doing, like in last 2-3 years from Rs. 34 crore PBIT last year Rs. 69 crore and this year already Rs. 120 crore so of course this is 100% jump last 2-3 years. Next 2-3 years can we expect 30-40-50% for the PBIT?

Adi Godrej: We do not provide guidance but I can say that this business is expected to continue to do very well in to the future.

Manish Gandhi: I am asking you because I think market is really not understanding what we are doing in this agri. front and I think nobody is talking about Agrovet, this is amazingly growing.

Adi Godrej: I am glad you brought it up and we agree with you that Agrovet has tremendous potential and it creates tremendous value for Godrej Industries.

Moderator: Thank you. The next question is from Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Just wanted to understand, what I believe that palm oil in first half gives around 70-80% of the business and second half around 20%. Is my understanding correct?

Balram Yadav: Not 70-80% but about 65% in first half and about 35% in second half.

Bharat Sheth: If we see this quarterly numbers, veg oil, which includes palm oil, of course and it is traded also, has given a fantastic number so can you elaborate on that. What change has happened on this veg oil because otherwise on traded product margin is very low?

V. Srinivasan: In the veg oil segment we also include the trading operations in vegetable oils which is mainly done by our overseas subsidiary Godrej International. That also comes in to this segment only. So as far as oil palm is concerned, this is off season and so the performance of that business would be relatively lower as compared to Q2 performance.

Bharat Sheth: But if we look at our y-o-y traditionally trading business margin was around 1.3-1.4 PBIT level whereas in this quarter it has gone to 5.3. So what change is there that, I mean, the margin have shot up like this?

V. Srinivasan: No, the margin is mainly of the oil palm business. Trading operation margin level would remain the same but the absolute number would have slightly gone up as compared to the previous year's quarter. And this year as Balram was mentioning the FFB arrivals also has been higher. So even though it is an off season as compared to last year's off season this would have been much higher. We should bear that in mind.

Adi Godrej: The higher margin is entirely because of the oil palm business. The trading business margin remains around the same. The number you mentioned earlier around the same level as before.

Bharat Sheth: On chemical side, if we look at the stand alone numbers, we have incurred at PBT level if you remove this gain on the sale of long term investment- we have incurred a marginal loss whereas here if we see segmental we really don't see much dip. So can you just explain?

V. Srinivasan: You r removing just the profit out of the PBT number is not correct because you have not allocated any cost for that profit. So therefore we have given operating profit by segment. there you can see chemical segment has made a good operating profit. In fact PBIT margin is over 8%.

Bharat Sheth: Yes, I understand. But on standalone level if you see PBIT level.

V. Srinivasan: Yes, standalone only. . Standalone PBIT margin for chemical business is 8.3%.

Bharat Sheth: But how come because EBITDA margin itself is around 1% on standalone basis, if we really remove these other operating income and non-operating income.

V. Srinivasan: So you are just removing the income part. There will be overheads also which are to be allocated to earning of those incomes. You should refer to Page # 3 which gives you the segment information for the business wise results if you are talking for chemicals business.

Adi Godrej: If you need any further clarification we can do it offline.

Bharat Sheth: Okay and you are talking of launching drip irrigation so any progress on that?

Balram Yadav: We are still in the process of finalizing technical partner and we believe that it will take us a few months more. The issue in drip irrigation is that technology is changing at a very rapid pace and we want a partner to be technologically very sound. So that is what is taking time. We are likely to close in next few months and we will inform you all once it is done.

Moderator: Thank you. Ladies and gentlemen the next question is from Deepak Arora from Quest Investments. Please go ahead.

Deepak Arora: I had a little follow up on when you were discussing this thing with Bharat from my company. What I notice is that your other expenses are pretty sizable and there is a sharp increase. If you just look at December '10 versus December '11, is it what is contributing to somewhat of a lower PBIT which is coming probably in your unallocated expenses. Am I right in that?

V.Srinivasan: Essentially this is a group holding company in some sense. We do have corporate overheads which cannot be allocated to any particular business so that comes under unallocable expenses.

Deepak Arora: That's where it seems at least there is fairly sharp increase in absolute terms. If you just look at December '10 it was Rs. 60 crore. It goes up to almost Rs. 79 crore in this quarter. It seems to be a progressive increase over the last 2-3 quarters.

V.Srinivasan: Some of the expenditures which we incur here are the master brand building expenditure for example. That helps all the businesses in the group and those are significant amounts that we incur which is very good from the group perspective. So it is not appropriate to load that cost on to any particular business and therefore these kind of expenditures come under unallocable expense.

Adi Godrej: That leads to the valuation of Godrej Industries holding in subsidiaries and associated companies like Godrej Properties, Godrej Agrovet and Godrej Consumer Products including the two listed companies, going up very considerably. The market value of these investments is today much higher than the book value of these investments.

Deepak Arora: Would it then be fair to assume that there has been a fair amount of advertising and branding expenses which are getting reflected even for the quarter or for the nine months till December.

Adi Godrej: Yes some amount.

Deepak Arora: One other query on the chemicals, Mr. Srinivasan pointed out that margins at the PBIT level in chemicals are 8.3% which is absolutely fine. But somewhere it does seem to be a shade lower than what they were in the last quarter or even let’s say for the full year of March ‘11. Am I right in my assessment?

V.Srinivasan: As compared to Q3, Q2 operating margins were about 10% plus. Now it is 8.3%. You should consider in such businesses which are also dependent on the commodity price movement a range rather than a particular number. So we have been earlier in the 6 to 7% range. We have migrated to 8 to 10% range now with an addition of all the specialty products that we have. So anywhere between 8% and 10% is good margin in this business.

Adi Godrej: Performance of the chemicals business should be judged on an annual basis.

Deepak Arora: Yes. That I understand. I was just looking at March ‘11 versus even nine months so it looks absolutely flat but on q-o-q basis there was some variation. I was just trying to get a sense as to whether there has been some sharp movement in cost one way or the other. But nothing serious there, right?

Adi Godrej: No.

Deepak Arora: You mentioned something on the capex at Ambernath going up from about Rs. 230 odd crore to Rs. 290 crore. Is it due to change of scope or is it a cost escalation, now?

V. Srinivasan: It is both, scope also has improved. We have improved the plant capacity to reduce the cost of manufacture and since we have got a parcel of land which needed to be leveled a little bit more than what we had estimated there was an additional cost there. But quite a lot of it was also because of the inflation which would be upwards of 15-20% on an average. We had estimated these costs somewhere late in 2009 and right now we are in early 2012 so obviously the costs have gone up significantly.

Deepak Arora: But in terms of capacity, what you had planned earlier, there is not a significant change in terms of the final output.

Balram Yadav: There would be about 5% increase. We were earlier saying about 20% to 30%. Now you can take 25 to 35% increase in capacity.

Moderator: Thank you. The next question is from Vinay Shah from Reliance Mutual Fund. Please go ahead.

Vinay Shah: Can you share the overall capex number across all divisions?

V.Srinivasan: For this quarter?

Vinay Shah: For this quarter and next fiscal.

V.Srinivasan: For this quarter the overall capex across our businesses is about Rs. 50 crore. About Rs. 10 to 15 crore was in our chemical business where we are putting up this new project. Agrovet spent about Rs. 25 to 30 crore. There was some amount in Nature's Basket and some amount in Godrej Hershey as well.

Vinay Shah: And in FY13 what is the projected capex.

V.Srinivasan: In Godrej Industries as a standalone company bulk of the capex would be for the new plant which is coming up at Ambernath. Apart from that, Godrej Agrovet also has plans to expand capacities in animal feeds and oil palm plantation businesses. It should happen over the next 2 years.

Vinay Shah: Can you share the quantum of this?

V.Srinivasan: As far as the Ambernath project goes- we have already shared the numbers over the next two years of what we will incur. As far as the other projects are concerned we will let you know from time-to-time.

Vinay Shah: Okay and what will be the investment requirement across all the business segments?

V.Srinivasan: Yes, that's what, the capex we will let you know as and when it is finalized.

Vinay Shah: And what would be the gross consolidated debt as on December 11?

V.Srinivasan: As of December 11 consolidated debt would be about Rs. 2,700 crore.

Vinay Shah: So in terms of getting debt-to-equity, it could be may be more than 1.

V.Srinivasan: Just marginally more than 1.

Vinay Shah: So as a matter of policy on steady state basis where do we see this remaining.

V.Srinivasan: Yes significant amount of debt has increased in our property business. We are taking steps to bring that down significantly over the next two quarters. So once that happens overall debt-equity ratio also in GIL will come down. Though 1:1 is not a bad ratio at all.

Adi Godrej: Going forward we expect the consolidated debt equity ratio to come down from the present 1:1 level.

Vinay Shah: Okay and if you can also throw some light on the working capital movement q-o-q?

V.Srinivasan: We don't have those numbers readily available right now but what I can say is we are tightly controlling working capital in all our businesses. If you can see in the animal feed segment in our results we have shown overall negative capital employed. Similarly in the oleochemical business also we have been working on reducing the working capital and those initiatives have done well.

Moderator: Thank you. The next question is from Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra: I just wanted then to just ask you one thing, is there an update on the BPT lands with 7 acres at Wadala and generally is the environment improving for real estate approval?

Adi Godrej: We are still awaiting the BPT permission to develop that land. BPT has to take the overall decisions across all its lessees. So until BPT finally decides we won't know.

Moderator: Thank you. The next question is from Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: In terms of turnover, given the current rates for chemicals, what kind of turnover we could expect from the new unit at Ambernath?

V. Srinivasan: As I said the capacity is growing by about 25 to 35%. So that's the overall increase in the turnover. If you see for example last year the chemicals turnover was around Rs. 1,200 crore. So you will have to take care of the finished goods price inflation if there are any changes in that. On volume basis the capacity is increasing by 25 to 35% depending on the product mix.

Arjun Khanna: My only concern was if you look at the additional revenues say Rs. 420 crore and given where our margins are would it have any effect on our returns on capital employed? It doesn't really seem to have a good pay back?

V. Srinivasan: No we have evaluated this project carefully and the IRR levels are comfortable with the capex proposed.

Arjun Khanna: I will probably take this question offline.

Adi Godrej: The IRR is good for this new factory. And our starting this new factory will help us develop our Vikhroli property better.

Arjun Khanna: And Valia expansion, has that been shelved?

V. Srinivasan: No.

Arjun Khanna: Because in your capex numbers for the next year I didn't hear any….

V. Srinivasan: No they are around the same levels.

Arjun Khanna: Okay.

V. Srinivasan: There is no significant escalation or change in those numbers and therefore we haven't announced anything separately.

Nadir Godrej: And the fractionation plant at Valia is expected to start up next month.

Arjun Khanna: Just in terms of the debt levels on GIL balance sheet excluding the consolidation part say from GCPL and GPL, what would that number be?

V.Srinivasan: Currently it is about Rs. 470 crore as of end December.

Arjun Khanna: And would that include Godrej Agrovet? Any debt on that balance sheet?

V.Srinivasan: Their debt is separate. That would be about Rs. 130 crore.

Arjun Khanna: Rs. 130 crore would be 75% or that would be 100%?

V.Srinivasan: 100%.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the conference back to the management for their 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.
