

Godrej Industries Limited

Q1 FY15 Earnings Conference Call Transcript

August 12, 2014

Moderator Ladies and gentlemen, good day and welcome to the earnings conference call of Godrej Industries Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari Thank you. Good afternoon everyone and thank you for joining us on Godrej Industries Q1 FY2015 earnings conference call. We have with us Mr. Adi Godrej – Chairman of Godrej Industries, Mr. Nadir Godrej – Managing Director, 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 start, I would like to point out that some statements made in this call may be forward looking and a disclaimer to this effect has been included in the conference call invite sent out earlier. I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej Good afternoon everyone. I welcome you to the Godrej Industries conference call to discuss the operating and financial performance for the first quarter ended June 30, 2014. I will 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 quarter.

We are pleased to begin the new fiscal year on a bright note. At the consolidated level, we have performed well and our core businesses continued to deliver growth. In the first quarter, we reported sustain momentum in the Agri businesses despite delayed monsoon and registered a healthy topline and PBT growth of 16% and 25% respectively as compared to the corresponding quarter last year. The revival of the monsoon in July is positive and we are closely watching the progress and the strength of the monsoon. In the interim, we are channelizing our efforts towards strengthening operational efficiencies across Agri verticals to mitigate any adverse fallout of overheads. Overall, the outlook for the Agri business remains robust given encouraging business prospects in the solid execution framework.

In the Animal Feed segment – sales grew by 10% to Rs. 709 crore in the first quarter of this year as compared to the corresponding period last year despite a prolonged heat wave. I am pleased to share that in line with our emphasis on research and development, we launched a dedicated R&D centre on animal agriculture in Nashik.

In the Oil Palm segment, robust volumes combined with operational efficiency during the quarter enabled us to deliver 46% growth in topline as compared to the corresponding quarter last year. Our focus on improving the oil extraction ratio in the quality of fruit purchase has started yielding results.

Our Agri inputs business continues to perform strongly and has delivered a growth of 30% in revenue. This strong performance is backed by our strong product recall in the market for our in-house R&D developed products. Overall, while the short-term outlook of this vertical is dependent of the normalized weather conditions, the long-term outlook is extremely buoyant with our focus on R&D and on developing innovative products.

At Godrej Tyson, our strategy is to focus on building a brand based business. In line with this strategy, we continued to expand our product portfolio. During the quarter, we launched several new products under the 'Real Good Chicken' and 'Yummiez' brands.

Our other JV – ACI Godrej was impacted by volatility in input prices and adverse weather conditions in Bangladesh. This resulted in a 9% decline in sales during the quarter.

The latest addition to our Agri portfolio, Godrej Seeds maintained its growth momentum. During the quarter, the topline of Godrej Seeds almost doubled to Rs. 45 crore as compared to the corresponding quarter last year. We continue to strengthen our R&D and build on our sales and distribution capabilities which will enable us to tap the immense opportunities in the seeds sector in India.

Godrej Consumer Products continues to perform satisfactorily in a tough operating environment while the Indian Household and Personal Care sector witnessed a significant slowdown in growth. GCPL continued to outperform the Indian market by growing at nearly two times of the Household and Personal Care sector growth in this quarter. At 17% constant currency sales growth, GCPL's international business performance was very strong despite the macroeconomic challenges in International geographies. We are, however, beginning to see improved consumer sentiment on the ground and are hopeful that this will start translating to better consumer demand in the quarters ahead. The GCPL team is working hard on new market activation program and several exciting innovations to prepare for an upturn in market sentiments and growth.

Godrej Properties reported a healthy financial performance during the quarter with revenues and net profit growing by 49% and 16% respectively. I am pleased to share the Godrej Properties is doing well in the residential space, with good growth both, in value and volumes. With improving market sentiments and a strong foundation in place, I believe that Godrej Properties is well positioned to deliver sustained growth in the coming year.

The Oleo-Chemicals business has started the present fiscal year on a bright note, with an increase in revenue of 21% and a PBIT increase of 124% as compared to the corresponding period last year. The Chemicals business was helped by the improved macroeconomic environment, a stable union Government and an improved global situation. The recently announced Union Budget had positive news for the Chemicals business with customs duty on key raw material becoming nil against 7.5% earlier. The Chemicals business also benefited from various operational efficiency projects and by the full quarter operations at the new Ambarnath facility. I am happy to share that the Valia factory in Gujarat commissioned a briquette boiler in May 2014. This is a green initiative that will also reduce energy cost substantially.

Let me now briefly run you through our financial highlights:

During the quarter, consolidated total income stood at Rs. 2,394 crore, a growth of 23% as compared to the corresponding period last year. Consolidated net profit stood at Rs. 78 crore grew by 46% during the quarter as compared to the corresponding period in the previous year.

Our overall performance has been encouraging and we are confident of achieving our long-term objectives of inclusive, sustainable, and profitable growth. I am confident that our disciplined strategy, prudent approach, focus on agile execution and our committed team 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 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.

Farzan Madon The monsoons have been quite erratic this year. How resilient is Godrej Agrovet in a span of 2-3 year block? Can we still assume a 20-25% growth rate with an ROCE of 30-40% and negative working capital or are we going to alter these terms in negotiating with suppliers?

Adi Godrej No, I think a good monsoon will certainly be better for Godrej Agrovet than a monsoon which is little deficient. However, Godrej Agrovet has several businesses and its performance will continue to be good despite the vagaries of the monsoon. We expect considerable/accelerated growth over the next few years. The main reason being a lot of money is being invested in research, development and innovation and as a result we expect all our verticals in Godrej Agrovet to do well over the years to come.

Balram Singh Yadav I think as Mr. Godrej has already said that we have several businesses. Some do very well in deficient monsoon also, particularly our Animal Feed business which is almost two-third of our business. We believe that we will be able to continue the momentum, the way we have delivered growth in past.

Farzan Madon My second question is with respect to the Palm Oil Plantations. I assume that currently around 35-40% have matured over 7 years. I just wanted to roughly know that figure?

Balram Singh Yadav It is about 40% as of now.

Farzan Madon When they will mature, over the next 3-5 years would it be like an annuity? Annuity stream in terms of revenue as well as margin.

Balram Singh Yadav Yes. But one thing you have to keep in mind that you will have to look at our annual growth rates. It is Agriculture and the preponements/ postponements of fruiting keeps on happening because of interplay of lot of geographical factors like heat, monsoon, water deficiency, humidity etc. So just look at our annual growth rates and I think that you can take as annuity.

Farzan Madon My next question is with respect to innovation. Innovation has been the core for Godrej over generations. From being the first in Oleo-Chemicals much before Hindustan Lever came in, to Dr. Burjor actually formulating Cinthol. What is the Ambernath facility capable of, in terms of the length of the chemicals, the fatty acids? Also what are we innovating and what are the new molecules in the pipeline or product extensions that we are looking at in Agri Inputs?

Nitin Nabar At Ambernath factory, we will be continuing to make the fatty acid, glycerin and the surfactant portfolio and other innovations will happen at our Valia factory which is in our expansion plans in future.

Farzan Madon How much of volume growth can we see from Ambernath? Will it be around 10-15%?

Nitin Nabar About 15-20%.

Farzan Madon And are we seeing that in Q1 FY14-15

Nitin Nabar In phased manner.

Moderator Thank you. The next question is from the line of Sumeet Rohra from Silver Stallion.

Sumeet Rohra My first question is with respect to the Chemicals business. We have seen a very healthy growth in the PBIT. Is this more because of the export contribution? What lies ahead in terms of FY15 and FY16 for the Chemicals business? Balram, a fantastic set of results from Godrej Agrovet. Could you also just give a sense on the oil palm business as we have seen a very strong set of results in this quarter? Is this due to more of a seasonal factor or do you expect very strong performance on the oil palm as well? Could you also provide a quick update on the BPT land of Godrej Industries of 7 acres? Have you got any clearance of approval in them?

Nitin Nabar On Chemicals, I would say that this performance is because of good exports and also domestic performance. In export, we grew by about 44% and in domestic we grew by about 15%. The good PBIT is also because of full quarter running of Ambernath factory as Mr. Godrej mentioned in his opening speech.

Sumeet Rohra In the Chemicals business, what is the kind of margin we can achieve in FY15 and FY16?

Adi Godrej Margins will vary depending on the market conditions. So it will be very difficult to predict margins for the future.

Sumeet Rohra But do you feel that the growth of the Chemicals business' on track?

Adi Godrej Chemicals business will definitely grow because the Ambernath move has been completed now. Ambernath has more capacity and we are also expanding at Valia.

Balram Yadav Singh As far as oil palm is concerned, this quarter, the growth is very high because of seasonal factors. But if you pass me annually, I think a 20% of top line growth and a 25% of bottom-line growth is very much likely.

Adi Godrej We will look to develop the BPT land. BPT has not yet formulated its policies as to what it wishes to do at this land. There are many other people who have BPT lands. Now as the new Government is placed, I expect BPT will come out with the policy. As soon the policy comes in, we will look to develop the Wadala land, probably in a joint venture with Godrej Properties.

Sumeet Rohra Is there some new TDR policy which has come today or something sir?

Pirojsha Godrej I have not seen anything on this yet. I am not aware.

Moderator The next question is from the line of Hardik Shah from Birla Sun Life Insurance.

Hardik Shah What is the CAPEX for FY15 and FY16?

Adi Godrej We do not have any definite CAPEX. CAPEX will also depend on the demand for each of the businesses. Each of the businesses will meet demand, but you must understand that CAPEX in our businesses is relatively small.

Hardik Shah Are there any particular cost push you are seeing in any segments?

Adi Godrej No. In fact our cost will go down because as I had mentioned, the import duty on major raw materials would come down. Even International commodity prices are

coming down. So we do not see any major cost push in any of our businesses in the near future. Of course there is always cost going up and down, but nothing major.

Hardik Shah

What are the consolidated gross debt and net debt numbers?

Clement Pinto

The gross debt is Rs.4,300 and net debt I do not have it readily, but it should be about Rs. 3,500 at the consolidated level.

Hardik Shah

So, currently what is the kind of gearing you are comfortable??

Adi Godrej

We would like to normally have gearing well under 1:1. We do not look at just debt-to-equity which you would be calling gearing. We would like to keep it as low as possible, but we pay a lot of attention to debt to market value, which in our view is very low.

Moderator

The next question is from the line of Amrit Kalandri who is an individual investor.

Amrit Kalandri

My question is to Mr. Adi Godrej regarding Godrej Properties. I think a couple of years back you had mentioned, that just the value of the Vikhroli development area which the Godrej Properties have will eventually have would be more than the current market value of Godrej Properties, but analysts are not realizing this. Now there has been some time and I am sure you keep speaking to analysts and institutional investors. What is the sense that you are getting from them? Are they not realizing the true value of the Vikhroli project that we have and plus the other pan India presence that we have is almost free.

You have also mentioned in the past that Godrej Properties will be the biggest wealth creator for the Godrej Group. In the past few years, the stock has not performed. As you have executed so many projects, has there been any structural change that you think have come where probably Godrej Properties would not be the biggest wealth creator in the group? This is because Godrej Consumers is growing rapidly and now Godrej Agrovet is coming up. So what is your view on these two things?

Adi Godrej

Well, I still feel the long-term value of the Vikhroli joint venture with Godrej & Boyce will be very high for Godrej Properties. Of course it will spread over several years. Secondly, I still do feel that in the long run, Godrej Properties could be a very large business for our group. It could be perhaps even the largest business in the group mainly because the category size is very large unlike Godrej Consumer Products, where the category size becomes a limitation. But you are right, Godrej Consumer

Products also has grown very strongly. The good news is Godrej Industries has a stake in both the companies.

- Moderator** Thank you. The next question is from the line of Farzan Madon from Axis Capital.
- Farzan Madon** My question is with respect to Properties. When do we see the residential portion of the Project Trees getting launched?
- Pirojsha Godrej** This project has already been launched and the 1st Phase of Godrej One is a commercial building. That project is now nearing completion and we expect moving to that building over the next few months. We hope to launch the residential portion of the project by Q4.
- Farzan Madon** In terms of Aqua Feed, what is the capacity that we have and the future for Aqua Feed because I believe you have set up a capacity which is around 15-20% of India's capacity.
- Balram Singh Yadav** Yes. As far as fish feed is concerned, we have a capacity of 60,000 tonnes per annum. As far as shrimp feed is concerned, the new and the old capacity together adds up to about 65,000 to 70,000 tonnes per annum depending on which product we are taking.
- Farzan Madon** The margins would be in the range of 8-10%?
- Balram Singh Yadav** Yes. That is the margin we are operating on right now.
- Moderator** As there are no questions from the participants, I now hand the conference over 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.
- Moderator** Thank you very much members of the management. On behalf of Godrej Industries that concludes this conference call.

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