



Godrej Industries Limited

Q2 FY17 Earnings Conference Call Transcript November 15, 2016

Moderator Good day ladies and gentlemen and welcome to Godrej Industries Limited earnings conference call. 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 this 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 Thank you. Good Afternoon everyone and thank you for joining us on Godrej Industries Q2 FY 2017 earnings conference call. We have with us Mr. Adi Godrej – Chairman, 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 and President (Chemicals), and Mr. Clement Pinto – CFO.

We would like to 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 the initial remarks.

Adi Godrej Thanks Anoop. Good Afternoon everyone. I welcome you to the Godrej Industries conference call to discuss the operating and financial performance for the second quarter of fiscal year 2017. I shall take you through some of the key developments and operational highlights of each of our businesses followed by a summary of our financial results.

I am pleased to share that in second quarter of fiscal year 2017 Godrej Industries Limited recorded a healthy growth of 56% in Consolidated Net Profit.

I am also pleased to share that in second quarter of fiscal year 2017 the market value of Godrej Industries' investment in GCPL and GPL has

increased by Rs.3,623 crore (27%, Y-O-Y) while Godrej Industries market capitalization increased by Rs. 2,773 crore (24%, Y-O-Y). GIL's share price has increased by 38% CAGR since 2001.

Godrej Properties got an excellent response to the launch of its new project in Thane, Godrej Emerald. This project was one of the fastest to launch projects we have ever seen in Mumbai and GPL registered robust sales despite challenging market conditions. It sold 269 apartments or over 300,000 square feet with a booking value of Rs. 259 crore within the quarter.

Total revenue for the second quarter stood at Rs. 368 crore, a decrease of 73% over the corresponding period of the previous year. EBITDA decreased by 63% to Rs 62 crore, and net profit decreased by 77% to Rs 23 crore. However, if we look at the same numbers excluding the large single buyer sale at Godrej BKC in second quarter of fiscal Year 2016, our reported numbers all grew significantly.

I am extremely happy to share with you that GPL was ranked 2nd in Asia & 5th globally by the Global Real Estate Sustainability Benchmark, which is an industry-driven organization that assesses Environmental, Social, and Governance performance of real estate companies globally.

We welcome the recent demonetization step the government has announced, which is another step towards increasing transparency in the real estate sector. We believe this step in addition to the Real Estate Regulation Act will help professionalize the sector and will be beneficial to companies with good governance standards.

Godrej Agrovet's Total Revenue in second quarter of fiscal year 2017 grew by 53% through a healthy mix of organic and acquisitive growth and PBT grew by 73% over second quarter of fiscal year 2016.

Oil Palm business had a robust revenue growth of 34% & 43% in the current quarter & first half of fiscal year 2017 respectively as compared to the corresponding periods of the previous year. In the current quarter the price of Fresh Fruit Bunch (FFB) continued to be remunerative for the farmers which shall help in bringing sizeable area under Oil Palm Plantation.

Agri-Input business for the quarter grew by 28% and for the first six months it grew by 23% as compared to the corresponding periods of the previous year. This was mainly due to rise in domestic demand aided by monsoon revival. Astec LifeSciences a subsidiary of GAVL showcased a great quarter by clocking revenue growth at 31% as compared to quarter 2 of fiscal year 2016 and 21% as compared to half year of previous fiscal.

Animal Feeds business had a steady performance despite headwinds in few categories. Sales for second quarter of fiscal year 2017 increased by 10% as compared to the corresponding quarter of the previous year.

GAVL's Joint Venture in Bangladesh- ACI Godrej continues to do well clocking a growth of 13% in second quarter of fiscal year 2017 as compared to corresponding period of previous year. Volume growth in current quarter was significant with cattle feed growing at 48% and fish feed at 20%.

Godrej Tyson had a steady performance for the quarter despite headwinds in terms of lower bird prices during festive season. For first half of the fiscal year 2017 revenues increased by 8% as compared to the corresponding period of the previous year.

Creamline Dairy products business grew by 8% & 10% in second quarter and first half of fiscal year 2017 respectively as compared to the corresponding periods of the previous year and this has been mainly driven by value added products. We will continue to focus on improving the mix of value added products in overall sales.

With an agile team, focus on continuously improving our operational efficiency and research and development in agri businesses and good monsoon I am confident that Godrej Agroveter will continue to do well across verticals and add value through the years to come.

Moving on to the performance of Godrej Consumer Products; Despite a sluggish environment, GCPL delivered a reasonably robust performance during the last quarter. We continue to deliver ahead of the market and profitable growth. GCPL's consolidated constant currency sales grew at 15%, with EBIDTA in constant currency terms growing at 17%. Its India business delivered a strong sales growth of 7%, driven by a healthy volume growth of 9%. Consolidated reported Net Profit for the quarter increased by 44%.

As we look ahead, we remain confident of a stronger performance in the second half of the year compared to the first half. As consumer demand picks up, we believe that GCPL is well positioned to continue to outperform the industry.

Our Chemicals business revenues for second quarter of fiscal year 2017 increased by 8% as compared to the corresponding quarter of previous year. However, PBIT for the quarter was impacted due to higher raw material prices relative to corresponding quarter of previous year. I am happy to share that our Valia Plant was awarded the 'Energy Efficient Unit for second time in a row at CII National Awards for Excellence in Energy Management 2016

Let me now briefly run through our financial highlights. During the quarter, consolidated Total Income stood at Rs.2,295 crore and consolidated net profit stood at Rs.82 crore, a growth 56% over the corresponding period of previous year. For half year of this fiscal Total Income stood at Rs.4,421 crore and consolidated net profit stood at Rs.144 crore a growth 26% over the corresponding period of previous year.

Going forward we expect consumer demand to gradually improve, particularly in rural India. Multiple tailwinds such as a good monsoon, MSP increase and pension scheme benefits will lead to better growth in India in the quarters ahead.

To conclude, we remain encouraged and 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 improve performance further and create greater shareholder value.

Moderator Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Anand Krishnan from Kotak Infina. Please go ahead.

Anand Krishnan I wanted to understand more about your Chemicals business. Last concall you had actually mentioned that the margins in Chemical business has actually gone down because of a planned shut-down in your facility. But if I were to just see your raw material prices the crude prices which were actually the same, if we compare it sequentially or on a Y-O-Y basis even then the margins are similar to what you actually did in the Q1 quarter. What exactly explains the same?

Nitin Nabar The planned shut-down was in the first quarter of the financial year and now the margins are in the region of about 5-6%. Last quarter particularly were impacted due to very high raw material price.

Anand Krishnan In the sequential quarter Q1 you said that it was a plant shutdown so the margins in that quarter were 5.5% and the raw material prices if I were to see in Q1 FY 17 or Q2 FY 17 and Q2 FY 16 the raw material prices were actually the same so that is what I am not able to understand as to even though the raw material prices were the same the margins have actually been the same as compared to Q1.

Nitin Nabar What I said was in Q2 the raw material prices were very high. Shutdown was in the first quarter and where our sales revenue was lower.

Anand Krishnan The sales revenue was lower but the margins got affected because of raw material prices. But raw material prices are the same is what I figured out

through crude prices because that is your base raw material is what I understand.

Nitin Nabar Our raw material is vegetable oil. Those prices were very high in the second part.

Anand Krishnan Second question is with respect to your Animal Feeds business. If you were to just give me a break up of what was the actual Animal Feeds business in India and the Animal Feeds business in Bangladesh that would actually be helpful.

Balram Singh Yadav The Indian business in first half is close to about Rs. 1300 crore and the Bangladesh business is close to about Rs. 300 crore.

Anand Krishnan Are the margins in both the countries the same?

Balram Singh Yadav Bangladesh business has better margins.

Anand Krishnan What would be the ballpark margins if you could just help me with that, Sir?

Balram Singh Yadav Bangladesh will be about 5-6% PBT of sales and Indian business is about 2% lower. Having said that I must also tell you that this year has not been very good year for the animal protein business, i.e., second half of last year and the first half of this year, but there is an improvement in the last few months so we believe that margins will improve in future.

Anand Krishnan What is the growth rate that you are actually seeing in the business in India and Bangladesh as such?

Balram Singh Yadav Bangladesh business grew 13%; Indian business grew 10%, topline.

Moderator The next question is from the line of Abhijeet Akella from IIFL. Please go ahead.

Abhijeet Akella A few questions on Agrovvet, the veg oil segment EBIT that we have given it has doubled year over year from Rs. 25 crore to Rs. 50 crore. Would it be possible to just get a sense for how much of that is the traded component versus your actual Oil Palm business?

Clement Pinto Bulk of it is the non-traded component; it's largely from the Agrovvet Oil Palm business.

Balram Singh Yadav So in Agrovvet there are two important things that happened, one is, the oil prices are very high, the CPO and the CPCO prices were high, about 20% higher than last year. And second thing is that there is lot of efficiency

improvement which has happened in our business on two counts, one is oil recovery and utilization of byproducts.

Abhijeet Akella But the high oil prices you can't retain that because as per the formula you have to pass it through, is that correct?

Balram Singh Yadav But you must remember that we pass almost 80% of the oil price but our fixed cost is constant, they are in absolute number, so profitability improves as the price goes up.

Abhijeet Akella So have we seen a meaningful improvement this year in the Oil Palm margin?

Balram Singh Yadav Of course, there is a substantial improvement in first half over last year and profitability has almost doubled.

Abhijeet Akella Just to understand one last thing on this point, the Veg Oil segment revenue is disclosed as Rs. 280 crore whereas your Oil Palm revenue is given as Rs. 220 crore. So can I assume that the remaining Rs. 60 crore is basically the trading business?

Clement Pinto We have two other smaller businesses under the Vegoils segment, one is our trading business and the other is our edible oil business.

Abhijeet Akella Just ballpark, what would the margins from those businesses be?

Nitin Nabar The edible oil business which is housed in GIL has a revenue of about Rs. 30 crore.

Abhijeet Akella And trading business would be?

Nadir Godrej Trading business depends on how we trade.

Abhijeet Akella But low single digit margin is fair to assume perhaps?

Nadir Godrej Right. Trading business depends on how things go; sometimes you can lose money also.

Abhijeet Akella One more thing on the JV disclosure, you have kindly given us the revenues for Godrej Tyson and ACI Godrej. Can we assume that the profit margins in both these businesses has remained fairly stable compared to what they have been in the past?

Balram Singh Yadav In both these business H2 is always better than H1 so we will see a bit of improvement in margins in the coming months.

Abhijeet Akella But 2Q was largely stable, right?

Balram Singh Yadav Yes.

Abhijeet Akella On the Punjab CAPEX that you have talked about in the presentation could you give us some color on how large that is, how much capacity that can add to the Tyson business?

Balram Singh Yadav In Punjab the investment is largely on value-added products. We plan to set up in Phase-1, one line to manufacture vegetable products and the capacity of the line is 1 ton per hour, that is about 12 tons per day and investment will be close to about Rs. 40-45 crore at today's cost. So the project is likely to be completed in about 10 months' time.

Abhijeet Akella What kind of asset turnover can it do at peak utilization?

Balram Singh Yadav Normally these kinds of businesses have asset turnover between 4 and 5.

Abhijeet Akella If you could give us a tax rate guidance for both the standalone and the consolidated entities. Second, on the Chemical segment one more question, last year we had done 8% EBIT margin in the full year FY 16, this year it is down to about 5.3% so what would you say is a reasonable assumption to make for FY 17?

Nitin Nabar Last year was exceptionally good. We normally talk in terms of about 5-6-7% margin.

Clement Pinto Regarding tax rate, in GIL standalone - we are under NIL MAT tax situation currently and for the consolidated entity - the tax rate which is applicable for each companies on a standalone basis will get consolidated.

Moderator The next question is from the line of Anirudha Joshi from ICICI Securities. Please go ahead.

Anirudha Joshi On the Godrej Agrovet, can you divide the revenue breakup in three segments, Cattle, Poultry and Aqua, the Animal Feeds business? And what was the growth in the corresponding business?

Balram Singh Yadav This is something which I don't have right now but can be given offline.

Anirudha Joshi What was the volume value breakup? What was the price hike which you would have taken from Q2 FY 16 to Q2 FY 17?

Balram Singh Yadav Q2 FY 17 was about 4-5% higher than Q2 FY 16 largely because of high corn prices.

Anirudha Joshi Obviously it is very difficult to predict at this stage, but what is the impact of this cancellation of Rs. 500 and Rs. 1000 notes? Secondly, the GST will also

get rolled out, so what is the tax neutral rate for us and what is the expectation in terms of the GST rate?

Adi Godrej For both your questions, for the first one, it's too early to tell the effect of the demonetization. And on the GST rates it will vary a lot from business to business and it's still not finally clear what the exact applicable rates will be. I think that information will be available in 2-3 weeks' time.

Anirudha Joshi Lastly, any update you would like to share regarding Godrej Agrovet IPO?

Adi Godrej No, it's something that is certainly not in the very near future and we will inform the market whenever a decision is taken.

Moderator The next question is from the line of Abhijeet Akella from IIFL. Please go ahead.

Abhijet Akella The profit from finance and investments it has swung from a Rs. 9 crore EBIT loss last year in 2Q to a Rs. 21 crore profit. Could you just help us understand what the swing factors were within that?

Clement Pinto Because of the new accounting standard under IFRS we had to factor into account the MTM gain and loss. So in the previous year we had the MTM loss on a non-group investment. Later in the previous year, we sold this investment at a good profit. For the current quarter, we had positive revenue in this segment with no MTM loss impacting us.

Abhijet Akella So this is a kind of stable run rate to work with going forward?

Clement Pinto No, the finance segment will vary quarter-on-quarter.

Abhijet Akella Just a couple of quick questions on Agrovet again. One is, on Creamline I think this quarter we have seen a slight moderation in the profit margins compared to what we saw in the June quarter. Also the value added products percentage seems to have declined a little bit, so if you could just explain a little bit about that and also what your outlook is for FY 17 for both VAP and the profit margins.

Balram Singh Yadav There is a drop in quarter 2 from 6.2% PBT in quarter 1, we came to 5% and that is largely because of Ice Cream segment which was quite big in quarter 1. So that explains the drop in profitability in Q2. Quarter 2 normally is the steady state profitability for the rest of the year also.

Abhijet Akella By year end what kind of value-added percentage would you hope to be at?

Balram Singh Yadav We were at 21% last year. We went to about 29% in quarter 1 and we have come down to 25% in quarter 2. There are a lot of initiatives which are on in

terms of branding and introduction of new products. We believe that we will end up anything between 26-27% salience of value added in our total turnover in FY 17.

Abhijeet Akella

On the agri inputs business in which it seems as if we have done extremely well compared to what the rest of the market has done both Godrej's own agri inputs as well as Astec LifeSciences. So are there any specific growth drivers in terms of products that have driven this performance and also what's your outlook for the year in terms of profitability in each of these businesses?

Balram Singh Yadav

Agri input definitely did well because of good monsoon. Last year our main product Hitweed which is the cotton herbicide almost bombed because of lack of water, so this year we had a very good year for our cotton herbicides. So that explains the first half for agri input. We believe that we will be able to maintain the same percentage of profit on sales what we have been doing for the last several years. As far as Astec LifeSciences I think there is lot of improvement in general hygiene of the company, in our raw material cost, in our payment terms so that is reflecting in profitability. The contract manufacturing business is quite remunerative for us. It has gone up. And the salience of exports from 36% has gone up to 41% even though realization of export sales we would have changed because of IndAS. So we believe that as exports rise as a total percentage of total sales our profitability will improve further.

Abhijeet Akella

Just one last question on Animal Feeds, we have been hearing about the pressures on the broiler feed segment for some time. But you have also spoken about shrimp this quarter now, so what happened there? You have also mentioned in your presentation about some sales initiatives you are taking to drive growth so if you could talk a little bit on that please?

Balram Singh Yadav

Two three things I want to say, one is, shrimp is not because of any structural change in the market, etc., the only thing is because of disease the shrimp got harvested a little early, we could have definitely surpassed the tonnages of last year and this shrimp stayed in ponds for another 3 weeks which it normally does. So I think that explains shrimp. But the other part of shrimp is that whenever we have seen early harvesting we have seen early start to the second season. So we believe that the last quarter of FY 17 will be good for shrimp business because there will be early start for the shrimp season for the next year. Broiler feed I think there is a big structural change happening in the market. As the market becomes integrated, in the open market for feed sellers is reducing. Whatever initiatives we are taking is to be able to make sense to the small integrators who are institutional customers. In a layman term our B2C business is changing into B2B business and we have to adapt to it and there I think we have taken a little bit of time because we need to change lot of things including our distribution as well as

payment terms, etc. We believe that we will be able to start on a growth path in broiler feed in next few quarters.

Abhijeet Akella For the Animal Feeds segment overall, all three put together, do you think it will sort of remain around this 10% growth mark going forward or do you think it's possible that growth can accelerate?

Balram Singh Yadav It is a mixed bag. I think in Cattle Feed we have close to 15% volume growth. In Fish Feed we have double digit growth. In Layer Feed we are growing. It is only Shrimp and Broiler where there is a challenge. Now one thing you all should also understand is that Godrej Agrovet is what it is because of our portfolio. Our businesses are seasonal and cyclical, I think some will do well, some will not do well. But you see the overall picture will always be very good. Last year we had a very bad monsoon for two years but still we could hold on because Animal Feeds business was doing well. So you will always have these cyclical and seasonal issues but I don't think that a long-term growth of this company of a decent double-digit in mid-teens is going to be affected because of the seasonality and cyclical.

Moderator Ladies and gentlemen, that was the last question. I would now like to 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. Ladies and gentlemen, on behalf of Godrej Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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