



Godrej Industries Limited

Q1 FY17 Earnings Conference Call Transcript
August 12, 2016

Moderator

Ladies and gentlemen, good afternoon and welcome to the Godrej Industries Limited Earnings Conference Call. As a reminder all participant 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

Thank you. Good Afternoon everyone and thank you for joining us on Godrej Industries Q1 FY 2017 earnings conference call. We have with us Mr. Adi Godrej – Chairman, Mr. Nadir Godrej – Managing Director, Mr. Pirojsha Godrej – Managing Director & CEO of Godrej Properties, Mr. Balram Singh Yadav – Managing Director of Godrej Agrovet, Mr. Clement Pinto – CFO, Mr Rajendra Khetawat- CFO Godrej Properties and Mr S.Varadaraj – CFO Godrej Agrovet.

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 first 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 Q1FY 17 Godrej Industries Limited recorded a healthy growth of 33% in consolidated Total Income.

I am also pleased to share that market value of Godrej Industries' investment in GCPL and GPL has increased by Rs.2,658 crore (18%) in Q1FY17. GIL's share price has increased by 38% CAGR since 2001.

After an excellent FY2016, Godrej Properties made a steady beginning in Q1 FY17. A couple of very important milestones were achieved in Q1FY17. Construction of both phases of flagship project 'The Trees' commenced and Godrej BKC received its occupancy certificate

We remain confident of monetizing the remaining inventory of Godrej BKC by the end of this year given the strong upturn in the commercial real estate market. Total Revenue for Q1FY17 stands at Rs.333 crore, a 45% increase over the corresponding period of previous year. EBITDA grew by 9% to Rs.71 crore and net profit increased by 9% to Rs.43 crore.

We expect to significantly ramp up the sales momentum in the coming quarters given our exciting launch pipeline. Our consistent sales growth over the last year reflects our outstanding brand, sales and design capabilities to deliver a wide range of apartments across the country that keeps pace with customer demands. We are well positioned for continued growth with our differentiated and scalable business models, high yield development portfolio, backed by a strong execution record.

Godrej Agrovet's Total Revenue in Q1FY17 grew by 50% through a healthy mix of organic and acquisitive growth and profits grew by 29% over Q1FY16.

Animal Feeds business had a steady performance in a challenging environment. Sales for Q1FY17 increased by 10% as compared to the corresponding quarter of the previous year.

Agri-Input business grew by 20% compared to the corresponding quarter of the previous year. This was mainly due to rise in domestic demand aided by monsoon revival. The business will continue to focus on building synergies this year with Astec LifeSciences.

The Oil Palm business clocked a 63% growth in revenue mainly driven by higher CPO/PKO prices. In Q1FY17 the price of Fresh Fruit Bunch (FFB) was remunerative for the farmers and it shall help in bringing sizeable area under Oil Palm Plantation.

GAVL's Joint Venture in Bangladesh- ACI Godrej continues to do well clocking a growth of 18% as compared to Q1FY16. Volume growth in Q1FY17 was significant with cattle feed growing at 58% and fish feed at 15%.

Strong Live bird prices enhanced the performance of Godrej Tyson. The business sustained the growth momentum by growing at 18% over the corresponding quarter of the previous year.

Creamline Dairy products business grew by 11% in Q1FY17 as compared to the corresponding quarter 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 monsoons I am confident that Godrej Agrovet will continue to do well across verticals and add value through the years to come.

Moving on to the performance of Godrej Consumer Products; In Q1FY17, the consolidated sales of business increased by 9%, and EBITDA by 20%, in constant currency terms. GCPL delivered this performance despite the sluggish business environment across many geographies that it is present in. GCPL's profits without exceptionals for Q1FY17 grew by 18% driven by judicious cost control and commodity tailwinds.

GCPL's India business growth was subdued during the quarter, however international business delivered a competitive sales growth of 18% and EBITDA growth of 29%. 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 and that our medium and long term growth prospects in India and our other emerging markets would remain robust.

Our Chemicals business performance was impacted in Q1FY17 due to planned shutdown for maintenance at our Valia (Gujarat) factory.

Revenue for Q1FY17 stood at Rs.280 crore and PBIT stood at Rs.16 crore.

Let me now briefly run through our financial highlights. During the quarter, consolidated Total Income stood at Rs.2,101 crore, a growth of 33% as compared to the corresponding period of the previous year. Consolidated PBIT for Q1FY17 stood at Rs.180 crore a growth 10% over the corresponding period of previous year. We are hopeful that the good monsoons in India should lead to a pick up in rural demand later this year. We should also see a boost to consumption in India, following the implementation of the Seventh Pay Commission and the passing of the Goods & Services Tax.

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 very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Farzan Madon from Axis Capital. Please go ahead.

Farzan Madon The way I look at it, is the current market cap of GCPL and Godrej Properties is around 120% of the market cap of GIL, so it implies that Agrovat and Chemicals and the rest of the business is available free to a shareholder. I would just like to delve a little bit deeper into Agrovat. My question to Mr. Nadir Godrej is in one of your statement you had made Rs 10,000 crore is no gag, 10,000 crore is in the bag. So would this imply that are we reaching a turnover of 10,000 crore by 2020?

Nadir Godrej There was no time horizon for that number that was an internal communication and was probably meant to encourage everybody but that being said, Godrej Agrovat is quite capable of a high double-digit growth rate for the next few years and acquisitions will always contribute to further growth as well.

Farzan Madon Profit margins are currently 5%; I guess that should improve with your R&D, etc., going ahead?

Balram Singh Yadav Yes, with R&D and other initiatives but the profit margin will also improve with the improvement in salience of high margin businesses.

Moderator We have the next question from the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan The first question was with respect to your Chemicals division. You just mentioned in your presentation that you had a planned shutdown for the same. So was it not similarly done in the previous year?

Clement Pinto No, it wasn't done in the previous year. Normally this happens between the time period of 15 months to 18 months, so nothing was there in the last quarter nor in the last financial year.

Anand Krishnan With respect to your capacity utilization in the Animal Feed business in India and Bangladesh what would be the capacity utilization that you are currently running at?

Balram Singh Yadav So in Animal Feed India business we are at about 60% capacity utilization and we have commissioned a very big plant in Bangladesh, and the capacity utilization in the last quarter was 80% but it has now come down to 55% . This plant will manufacture Floating Fish Feed and we believe we will have very fast growth in the next three to five years through this plant.

Adi Godrej You must also realize and this Animal Feed we can't have a very high capacity utilization because of seasonality, so we need adequate capacity for the high offtake season.

Nadir Godrej In addition to capital cost of capacity is not very high and we sometimes use excess capacity because it's cheaper for us to do that than to generate electricity at very high prices.

Anand Krishnan In the quarter your margins in your Animal Feed business has also gone down and in the presentation you had actually put down one reason as increase in maize cost which is actually one of the raw materials for that. So what is it that we need to actually track to keep a tab on what could be your margin impact in case the raw material cost goes up or down?

Balram Singh Yadav Normally if there is a pass through, whatever raw material cost increase is there it is passed on to the customers but last few months have not been very good for the animal protein industry and that is why this pass through has suffered a little and that has hit our margins but we believe that Q2 to Q4 things are going to improve because normally Q3 and Q4 are the season for us. So I think by the end of the year we will get to our planned margin.

Anand Krishnan In your opening remarks you had also said that the Cattle Feed business volume has grown by 58%, the Fish Feed has actually grown by 15%.

Balram Singh Yadav This is about Bangladesh.

Anand Krishnan Okay. Basically because I was just seeing the numbers in totality wherein it's just grown by around 10%, so I was just trying to figure out the variance between the two. Lastly, with respect to your Nature's Basket what sorts of investments have you actually budgeted for that and what would be the store economics for the same.

- Adi Godrej** We have not budgeted any fixed investment. We are going by the operations and demand. We are expanding capacity. We are also expanding same stores sales and we expect that with the picking up of the economy, with GST passed and with the other good signs on the economy and GDP growth likely to accelerate we think Nature's Basket has a very good future over the next few years.
- Anand Krishnan** What are the current economics of your store for Nature's Basket?
- Adi Godrej** The earlier stores which have been operating for a few years are doing well, new stores, of course, make losses in the beginning but that's the nature of business and we keep investing for growth.
- Anand Krishnan** I wanted to put up one last question was with respect to your Veg Oil business. The margins have actually improved drastically. One would be basically because of your increase in FFB prices, so is there anything that would have actually helped you gain better margins in this business, any operational efficiency or something like that?
- Clement Pinto** You are right, the good profit came from the Oil Palm business but also sitting in that segment is our trading business even that did very well during the quarter.
- Anand Krishnan** The margins in the trading business have gone up is it?
- Clement Pinto** Yes, that's right.
- Moderator** We have the next question from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand** If you could give us some indication on the CAPEX in Agrovet, standalone as well as in Creamline and Astec for the coming two years, ballpark numbers for CAPEX?
- Balram Singh Yadav** I would say that there are several growth initiatives which we have undertaken in all our companies including the two acquisitions we made and in two years including the current financial year we will invest close to between Rs 300-350 crore in Godrej Agrovet consolidated business.
- Abhishek Anand** Sure. Also at the time of Astec acquisition as well as in the presentation we have mentioned synergies coming through so do we have any rough targets

in what area are we trying to derive synergies and if any number can be put on that that will be helpful.

Balram Singh Yadav This year we procured one Herbicides for soya and Fungicides from Astec Life Sciences and we have already sold whatever we had purchased. What we do is we buy chemicals and formulate it and sell it, so total turnover this year of products taken from Astec will be about Rs 50 crore and if you take 1:3 dilution because Astec gives us concentrated chemicals, so Astec's sales to us will be close to about Rs 15-18 crore and both companies will keep healthy margin.

Nadir Godrej We also expect over a period of time to get energy savings in both Creamline and Astec and our energy conservation cells are actively helping them out.

Balram Singh Yadav The most important and we have done is that the joint initiative of R&D has started because one of the reason why we bought Astec was that we had a very poor product pipeline. So we believe that we were launching a product every 3-4 years, with Astec's help and joint R&D initiative we will be launching a product every year now.

Abhishek Anand If I am looking at the Chemicals business I see that exports have declined this time to 25% of the total revenues, any particular reason for that?

Clement Pinto In this quarter we had our planned shutdown at our Valia factory which basically is production of fatty alcohol, mostly our fatty alcohol gets exported hence the proportion is lower.

Moderator We have the next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella On an organic growth basis, adjusting for the two acquisitions that were made during the course of last year, what would the growth in profits have been for Agrovot overall? Is it possible to share that?

S.Varadaraj If you are to just take out the inorganic growth which are there our profit growth would be close to 10%.

Abhijit Akella Second, with regard to the Veg Oil segment again it seems that under IndAS there has been a substantial downward restatement of the revenues in that segment and I presume that's largely because of the trading business.

Clement Pinto That's right. It's because of international trading business under the IndAS we need to account this as a derivative so that it gets captured in the topline.

Abhijit Akella So what is the portion that we record as revenue now for trading?

Clement Pinto It will be under the derivative principle but in terms of the net profit it will remain the same under both the standards.

Abhijit Akella Because it seems like the EBIT margin on the trading business seems almost like 20% odd if I am not mistaken.

Nadir Godrej Earlier we could actually report trade as revenue, now we more or less report profits as revenues.

Abhijit Akella So what we are seeing here is this quarter is sustainable going forward?

Nadir Godrej The trading business will be volatile by its very nature but this was probably a little bit higher than normal profit in this quarter but nothing very extraordinary.

Abhijit Akella If you could please tell us a little bit about the research objectives are in each of your three major segments and what you are hoping to drive actually?

Balram Singh Yadav We are also adapting our feed to changes in the breed which is happening because there is lot of research and development which is happening at the breeding level also. The animals are changing, birds are changing and so are their nutritional requirements. So we try and cater to the nutritional requirement of these changed species also.

Abhijit Akella One last question on Agrovet, the consolidated tax rate for Agrovet what should we expect it to be going forward, it has been in the low 20% in the past, will that continue?

S.Varadaraj At a cash tax level we will close to MAT, that's that we would be.

Nadir Godrej But we have to report deferred tax as well but as you know that is not a cash flow.

Abhijit Akella Do we have any exemptions because of which the tax rate is low?

S.Varadaraj It's a combination of various tax breaks which we get in terms of additional depreciation in terms of some of the agricultural extension activities which

we undertake and R&D investments. So all these things help us to bring down our tax rate.

Nadir Godrej Some of the exemptions may slowly be phased out but also that could happen only if the tax rate itself is reduced as indicated in the budget so overall we shouldn't have a big change.

Moderator We have the next question from the line of Manish Gandhi an Individual Investor. Please go ahead.

Manish Gandhi My first question is to Mr. Balram Yadav. We have talked about in presentation higher prices of FFB in Oil Palm and it will help farmer bringing sizable area in this year. So can you just throw some light how much Oil Palm we have right now and what additional area do we expect?

Balram Singh Yadav We have close to about 63,000 hectare of which about 36,000 or 37,000 hectare are producing, which is five year plus. And last year was not very good because of drought and also because of certain issues with government policies but we believe that this year we will be able to bring about 6000-7000 hectare under Oil Palm.

Nadir Godrej So we will get the benefit of that five years down the road. But we have a lot in the pipeline which is maturing each year.

Manish Gandhi How are the margins in Oil Palm compared to last few years because as we know about this government policy change what do you think about the next 2 to 3 years margins going in this sector?

Balram Singh Yadav This year the margins have been good. As I have always been saying that our contribution margins is protected by the formula. Our fixed costs are absolute so the margins keep on varying and now you know that this has been a very good oil year so margins are in the mid-teens.

Nadir Godrej And Palm Oil prices are quite good right now.

Balram Singh Yadav Nothing can be predicted about future. Our initiative is to keep on lowering our costs and keep on generating other steams of revenue from this business because we sit on lot of biomass, etc., which can be converted into electricity or some other usable material like briquettes. So that is under our control and that we keep on doing.

Manish Gandhi Last three years India's rural side we are badly affected by so many multiple reasons, how do you see rural demand for the next three years because of government policies or predicting good monsoons for 2 to 3 years, do you feel change on the ground?

Balram Singh Yadav One thing which I have seen in last say 10 months, whether it is Central Government or State Government, they have spent disproportionate amount of money in rural India and first time I am seeing substantial amount of money is going in development of rural infrastructure focused at irrigation. So my sense is that if this continues for several years continuously I think we will be reasonably de-risked from the vagaries of monsoon. So that's point one. Second thing is that this year rain has been very good. The area under cultivation has increased. We believe if you take the temporal and spatial distribution we believe Rabi will be bumper and we believe that food inflation will come down and once farmer sells the crop in October-November so the consumption cycle in several commodities will start. So I cannot predict about what will happen a year down the line. I think government has to continuously do what they have done in the last 10-11 months. And as far as this year's Rabi and this year's Kharif are concerned we believe it will be a very good crop.

Nadir Godrej And with good crops and strong Rupee we are likely to see much less inflation because a lot of our inflation is measured in terms of commodity prices and traded commodity prices in many cases so with lower inflation and lower interest rates also the Indian economy could get a big boost leave alone GST and increase of government salaries.

Adi Godrej GCPL also is already showing signs of good increased offtake because of the good monsoon and we expect this to continue and, of course, GCPL could benefit tremendously once the GST is implemented because inherently it will lead to strong acceleration in sales growth.

Manish Gandhi Mr. Adi Godrej, we have grown very well in Nature's Basket not only in this quarter but over the years we are growing very strongly and, of course, I know that our model is not the discounting model like others are growing. I am confused, what do you think what is lacking for us to achieve cash breakeven and what needs to be done that we can come to a stage where we can grow from internal accruals.

Adi Godrej We are investing a lot of money in growth. As I mentioned earlier, existing stores are doing quite well. However, new stores take a few years before they breakeven. So if we want to grow at a pace that we are growing we will have

to continue to invest which we think is very valuable and we will continue to do that.

Manish Gandhi We had one enabling resolution of putting extra money investment in Godrej Agrovet and Godrej Properties in this year's balance sheet. Can you throw some light on that? What Godrej Industries is planning to do in that?

Adi Godrej As mentioned by you it's an enabling resolution so we had earlier such resolutions and they have been more or less exhausted so we had to review this enabling resolution so that at short notice that we need to invest we can do so. There are no particular plans for investment as of now

Manish Gandhi The last question for Pirojsha. Congrats on two new deals of 13 million square feet largest ever for our company in any quarter and what I am positively surprised is by the 12% DM fees though it is a group company, so I just want to know, is it last few years we have shown our capacity in designing, marketing, so is that helping us and is there a possibility that for our future group companies specially Vikhroli, do we have a chance that we can do additional JVs at this rate.

Pirojsha Godrej Thanks Manish and thanks Balram for one of the new deals this quarter. I think there is obviously a difference in location also with this Bangalore property and Vikhroli. One will sell at Rs. 20,000 a square foot, another at maybe Rs. 4,000 a square foot, so obviously while the percentage might be a little bit better, the total return for effort put in is not necessarily going to be greater. So I think for this property we felt this was the appropriate rate. It's also incidentally the approximate rate we are doing with external partners for mid-income type of properties. Typically we have been getting over 10% for such deals so this was a 12% which again is in line with what we are getting from unrelated partners and I don't think this should be seen as any implication on the Vikhroli deal.

Moderator We have the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi Just on the Chemical plant, the Gujarat Valia plant is up and running now and can you please quantify the revenue loss due to the closure of the plant? Also can you elaborate the transaction between GAVL and GPL regarding the Bangalore land? And what will be the profit or cash flow generation to Godrej Agrovet over the next period of 3 to 4 years due to this development of Bangalore land?

Clement Pinto On the Chemicals piece it was a planned shutdown for maintenance. The plant has now started from mid of June. We incurred an expense of about Rs 4 crore for the shutdown expenses that was the impact on the profit.

Aniruddha Joshi Revenue loss?

Clement Pinto Revenue loss was especially on the fatty alcohol portfolio, the sales was lower by about Rs 40 crore.

Pirojsha Godrej On your question on the potential value to Godrej Agrovet from the Bangalore deal with Godrej Properties. We wouldn't like to give any guidance on the exact numbers achievable obviously it will depend a lot on ultimate selling price, it is a very large format project, saleable area is up to 9 million square feet. So I think it will depend on a lot of factors but certainly we see this as a very exciting opportunity for the group as a whole and both companies involved and my expectation would be several hundred crore of profit for both companies, exactly what number we end up with again will obviously depend on market conditions, phase of executions and so on.

Aniruddha Joshi Is there any excess land parcel with GAVL apart from Bangalore land and, of course, the other subsidiaries like Creamline, etc., Astec?

Balram Singh Yadav We have several land parcels but for use of farms, etc., so this was one land parcel which had come into urban limits and which could be developed but I don't think we have any other land parcel which can go for development in near-term.

Nadir Godrej But we will constantly be acquiring land for other purposes which might ultimately become urbanized.

Aniruddha Joshi Two last questions, can you indicate the segment wise EBIT margin of GAVL's three segments? Lastly, we have been hearing various rumors of reverse merger of GAVL with Astec Life Sciences, is there any truth or is it just a market rumor?

S.Varadaraj The segment results for the various segments of Agrovet like Animal Feeds we have said that it is around Rs 46crore. . And similarly for agri input business it's around Rs 56.5 crore. Dairy is around Rs 16.5 crore and total Veg Oils is around 38.7 crore.

Aniruddha Joshi Regarding the question on the reverse merger with Astec?

- Adi Godrej** We have no plans for a reverse merger with Astec and we don't want to comment on that.
- Moderator** We have the next question from the line of Nikunj Gala from IIFL. Please go ahead.
- Nikunj Gala** I have a question on our standalone balance sheet. We are seeing our standalone debt has increased significantly over the last two years from Rs 1400 crore to Rs 2600 crore, so I just need your take on this whether do we have any plan to reduce it because it's impacting our profitability on a standalone basis significantly.
- Clement Pinto** Over the last 2-3 years we have invested well in the Chemicals business both at our Valia factory and at Ambarnath and also we have made our investments in Godrej Consumer Products and the market value of consumer products currently is substantially higher than the cost of investment.
- Moderator** As there are no further questions, I would now like to hand over the floor to the management for closing comments, 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 call. Thanks for joining us; you may now disconnect your lines. Thank you.

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