



Godrej Industries Limited

Q2 & H1 FY2016 Earnings Conference Call Transcript
November 9, 2015

Moderator Ladies and gentlemen, good day and welcome to Earnings Conference Call for Godrej Industries Limited. 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 morning everyone and thank you for joining us on Godrej Industries Q2 and H1 FY2016 Earnings Conference Call. We have with us Mr. Adi Godrej – Chairman of Godrej Industries, Mr. Nadir Godrej – Managing Director, Balram Singh Yadav – Managing Director of Godrej Agrovet, Mr. Nitin Nabar – Executive Director and President (Chemicals), Mr. P. Ganesh – CFO and Company Secretary, Mr. Clement Pinto – Vice President Finance and Mr. Rajendra Khetawat – CFO of Godrej Properties Limited.

We would like to begin this 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 maybe forward looking and a disclaimer to this effect has been included in the conference call invites sent out earlier.

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

Adi Godrej Thanks Anoop. Good morning everyone, I welcome you to the Godrej Industries' Conference Call to discuss the operating and financial performance for the quarter and half year ended September 30th, 2015. I shall take you through some key developments and operational highlights of each of our businesses followed by a summary of our financial result.

I am pleased to share that our overall performance for the quarter has witnessed a healthy growth in profit with consolidated net profit growing by 42%. Godrej Properties had the best ever quarter on every parameter. GPL registered highest ever value of bookings in a single quarter with total

booking value of Rs.1,957 crores and total booking volume of 1.25 million square feet. I am happy to share that GPL entered into the largest ever end user commercial real-estate transaction in India selling 435,000 square feet at Godrej BKC Mumbai for Rs.1,479 crores.

Total income for Q2 FY16 increased by 383% to Rs.1,481 crores compared to Rs.307 crores in Q2 FY15. Net profit after minority interest in Q2 FY16 increased by 128% over that of Q2 FY15. On the operations front, GPL successfully delivered 1.4 million square feet of residential space across four cities during the quarter. In the first half of the financial year, GPL has already delivered more than 3 million square feet across the country and is set to have its highest ever project deliver this year.

Godrej Agrovet faced significant headwinds during this quarter on account of two consecutive below par monsoons and significant fall in commodity prices. Despite this situation, Godrej Agrovet has delivered a steady performance. Our agri input business during the first half of this fiscal has managed to clock a steady growth of 11% over the corresponding period. During the quarter, Godrej Agrovet announced the acquisition of Astec LifeSciences, a listed niche agrochemicals company. This acquisition will further strengthen our agrochemicals retail presence in the country. The agri input business will also have access to the export market with Astec having registered in more than 30 countries. Volume growth in cattle and aqua feed business was reasonable for the current quarter. However, due to lower poultry prices our poultry feed business was impacted significantly. Operational efficiency and financial prudence would be critical for this business for the rest of the year.

In the oil palm business vertical, we will focus on developing additional revenue stream by enhancing the value of biomass generated. Our joint venture in Bangladesh, ACI Godrej, has shown a robust sales growth of 29% and this has been driven by strong volume growth across categories of poultry feed, cattle feed and aqua feed. Our new plant in Bangladesh will be commissioned in the next quarter and this will help us to further augment our position in the market.

Godrej Tyson, continues to focus on building brand based business and strengthening our **Real Good Chicken** and **Yummiez** brand. In Q2 FY16, despite live broiler pricing being lower than cost of production, sales grew by 10% over the corresponding quarter of the previous year.

With an agile team focused on continuously improving our operational efficiency and research and development in agri businesses, 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, I am happy to share that the business did a strong competitive performance in the first half of the fiscal year 2106. In Q2 FY16 GCPL has delivered a 37% growth in net profit without exceptional and one-offs. We have grown ahead of the market and gained share in four categories aided by continued focus on innovation, competitive marketing investments and strong on ground execution.

In the second quarter despite the softness in rural demand and a deficit monsoon, our India branded net sales grew by 10%. This was driven by a volume growth of 9%. Our international business in organic constant currency terms too grew by 15%. Consolidated EBITDA in organic constant currency terms too grew by 22%. This was aided by lower commodity costs, stringent cost management, and effective leverage of brands. 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 in our medium and long-term growth prospects in India and our other emerging markets would remain robust.

Our chemical business had a strong performance in the first half in the fiscal with PBIT for the quarter rising 155% as compared to the corresponding quarter of the previous year. I am also happy to share that our Valia factory was awarded the energy efficient unit at CII's National Awards for Excellence in Energy Management 2015. The Valia plant won this award for the significant reduction in specific energy consumption, better CO2 emission management and increased awareness on energy conservation.

Let me now briefly run through our financial highlights. During the quarter, consolidated total income stood at Rs 3,337 crores, a growth of 42% as compared to the corresponding period of the previous year. Consolidated net profit stood at Rs.135 crores and grew by 42% during the quarter as compared to the corresponding period of the previous year. During the half year, consolidated total income stood at Rs.5,902 crores, a growth of 24% as compared to the corresponding period last year. Consolidated net profit stood at Rs 229 crores and grew by 33% as compared to the corresponding period in the previous year.

To conclude, we have had a reasonably good half year. We remain encouraged and confident of achieving our long-term objective of inclusive, sustainable and profitable growth. I am confident that our disciplined strategy, prudent approach, focus on agile execution and our coveted team will enable us to improve the performance further and create greater shareholder value. Thank you.

Moderator

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abhijit Akella from IIFL. Please go ahead.

- Abhijit Akella** First, just on the chemical business, we have seen drop in revenues but pretty sharp expansion in margins this quarter. So if you could just talk a little bit about the reasons behind that.
- Nitin Nabar** So this drop in revenue is largely because of the commodity prices and very marginal drop in volumes and the better profitability is due to better product mix, very good oil buying and energy efficiency projects at both the factories.
- Abhijit Akella** So going forward can we expect this kind of margin level to sustain in subsequent quarters?
- Nitin Nabar** It is difficult to predict for the future because given the current situation it is not correct to predict future.
- Abhijit Akella** And then on the Agrovet side, this Astec LifeSciences acquisition, if you could talk a little bit about the growth strategy there and the integration plans in which areas it benefits the agri inputs business for us?
- Balram Singh Yadav** So Astec Life Sciences has three main lines of business, they do bulk sales domestically as well as exports, they do contract manufacturing from global giants and they also head a B2C business which is not part of the deal. So how we gain, first thing is very simple, they manufacture technical so for us it is a backward integration. Whatever fungicides which we can sell through our B2C business in Godrej Agrovet we will buy technical and we will sell, so that also gives them an access to a B2C companies and we also get an access to a technical manufacturing company. Second thing is that their contract manufacturing business is growing rapidly, they have global giants like Syngenta, Nufarm, Dow, Biostadt, etc., as their partners. And as more and more chemicals come into agri space they can expand that activity rapidly. Third, bulk sales is an important business for them because it is largely exports and they have registration in almost 30 countries and that is also growing steadily at about 15% per annum for last several years and the same growth rate we expect in future also.
- Abhijit Akella** Just to clarify if I heard you correctly, you said that the B2C business that they have is not part of this transaction?
- Balram Singh Yadav** Yes, they have a very small B2C business which is not part of the transaction.
- Abhijit Akella** And also on the CRAMS side, given the challenging environment in the global marketplace just wondering if you have been seeing any kind of pressures on their CRAMS business or even the bulk technical business?
- Balram Singh Yadav** Definitely the domestic business has been affected in the first six months but they still have grown close to about 15% in the first half. Normally their second half is the bigger half because it is a B2C business and most of the

companies procure technical and start manufacturing retail products in the second half. We believe, the second half will be very good because several of their products are exported in this half and they are not seeing any slowdown in their export demand.

Abhijit Akella And sir just to clarify, when Astec used to communicate their growth strategy to the markets, I think they had a very aggressive growth ramp up plan over the next five years I think growing at a 20% - 25% CAGR and achieving 25% EBITDA margins. So whether you think that those targets are still tenable for us?

Balram Singh Yadav Yes, once the macroeconomic condition improves I think we can go for the same kind of a growth and for your information in this financial year also for a company of the size of Astec is planning a Rs 25 crores expansion plan. So there is no change in the growth strategy and there is no change in the expectation of their growth trajectory.

Abhijit Akella And finally on the animal feed side, I noticed your comments about poultry having been perhaps the worst impacted given the pressure on prices etc, but if you could talk a little bit about the margin trend across the three verticals, cattle, fisheries and poultry, and which one was the worst impacted, has poultry come under particular pressure?

Balram Singh Yadav So I think this is a very unique year, we have never seen a year where animal protein prices, commodity prices have come down so sharply in spite of the drought and this is a second consecutive drought, so it is very unique that way. Poultry volumes have been impacted and the margins have also been impacted. The major dip in margins as well as volumes is in the poultry, broiler particularly. We have grown in aqua and cattle, and in layer we feel the margins are going to be very steady. So the big problem for us is broilers and I do not see that improving in short-term also.

Nadir Godrej But in the long-term we hope that with the new technology we will be in a very strong position.

Moderator Thank you. Our next question is from the line of Farzan Madan from Axis Capital. Please go ahead

Farzan Madan Yes, my question was on the properties division. This quarter we delivered a stellar set of numbers and with a robust pipeline how do we see going ahead what are the launches that we expect over the next couple of years or a year at least?

Rajendra Khetawat So the launches guidelines has been given in our investor presentation, but just to give you a quick update this quarter we are looking at a Mumbai specific launch like the Trees project which is a very ambitious and prime

project which we are going to launch in Q3. Along with Trees we are going to launch our Badlapur project- Godrej Vihaa and then we are going to launch Godrej Sky, under the DM model which is a luxurious project. Plus there would be existing phases from the projects which are already launched where you will see new phases coming for launch in Q3. And in Q4 also we look to bring in some new projects, it would be too early because it all depends on what is the status of the approvals, but definitely we would like to bring more and more projects as the approval status gets cleared.

Moderator

Thank you. Our next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra

Sir just couple of very quick questions, one, on the chemicals part and the other one on Godrej Agrovet. Sir on the chemicals part we have done extremely well with a half year PBIT at 56 versus 29, sir now from here as well do you see substantial scope for improvement for us in terms of efficiency because we know we have shifted our Valia and our mix for specialty chemical versus normal has been reached optimally or you think that from this level as well we can sustainably improve or do you think that at least this is what we have done now. Sir secondly on the animal, on Godrej Agrovet, it has been definitely a very challenging year because of the drought and all that but now do you see, because in spite of that we have done very well, Balram many congratulations on that. So do you think that the second half can actually be better for us in terms of business wise and what is your outlook over the next 6 to 12 months on Godrej Agrovet as well Balram?

Nitin Nabar

So on the chemical side, first of all, the factory was moved to Ambarnath and not Valia, so all efficiencies that we were expecting in terms of Octroi and newer plants have already started coming in, and as I mentioned previously answer also that it is difficult to predict the future performance but efficiencies have already started coming in now.

Balram Singh Yadav

On Agrovet, traditionally we are first half company. 55% to 58% of our top-line and two-thirds of our profits come in the first half because it is a seasonal business. Agri business and palm plantation business is a first half business and that is the reason why we really got hammered because of low rains in the second half. However, animal feeds is always a second half business, we believe that animal protein prices have started rising, commodity prices have also started firming up and we believe for animal feed the second half will be much better than the first half both in profitability and volumes. Having said that, I think certain amount of changes structurally have started happening, Astec LifeSciences has been added to our portfolio, it is also skewed towards the second half and this year particularly we will start consolidating Astec LifeSciences from November onwards. So we will see an improved second half but if you are asking me if there would be a substantial improvement, that I think we need lot of correction in the macro environment for that to happen.

- Moderator** Thank you. Our next question is from the line of Anand Krishnan from Infina Finance. Please go ahead.
- Anand Krishnan** Sir, I just wanted understand this aspect wherein the poultry prices actually came down and you are also saying that the volumes have come down, I mean I just could not get the sync between that, if the prices have come down does it not actually increase the demand in the market for the same?
- Balram Singh Yadav** So let me just give you a little explanation. Indian broiler feed market is about 10 million tons, about 7 million tons is integrated by players like Venkys, Suguna, etc., who control the whole chain, so they have their own breeding, they have their own feed factories, so that market is not accessible to us. What happens when poultry market comes down, then the open market of 3 million tons shrinks very rapidly because farmers lose money and they go out of business for one or two cycles, so that change has taken place. If you compare last year to this year, we believe that integration which was 70% last year has gone to about 78% to 80% this year and that has shrunk our market significantly.
- Anand Krishnan** And sir if you can actually give us the breakup of the volumes in the three feeds, basically the poultry, aqua and the cattle feed that would also be helpful.
- Balram Singh Yadav** So almost 45% of our volumes come from poultry feeds which is the broiler feed as well as layer feed. About 45% of our volumes come from cattle feed and 10% of our volumes come from aqua feed.
- Anand Krishnan** Sir the other question is with respect to the Natures Basket and the EkStop acquisition, what is the longer-term vision for the company with respect to Natures Basket and the EkStop thing that you guys have acquired?
- Adi Godrej** Natures Basket is growing well, we have acquired this online company integrated with Natures Basket, so Natures Basket will now offer its products both from the physical stores as well as online.
- Anand Krishnan** So the EkStop is going to be actually helping you for the online business of yours and had it actually started generating revenue?
- Adi Godrej** Yes, it has already started generating good revenue and is well integrated with Natures Basket.
- Moderator** Thank you. Our next question is from the line of Kartik Gada Val-Q Investment Advisory. Please go ahead.

Kartik Gada Couple of questions on the acquisition, so I was just looking on the shareholding structure, so is it complete or is there any formality left and how much will we folding post it gets completed?

Adi Godrej Which acquisition are you referring to, Astec?

Kartik Gada Yes.

Balram Singh Yadav We have acquired 45.27% shares from the promoter who held 55% of the shares. The open offer will be launched towards the beginning of December and will be completed in December and we plan to subscribe another 26% share and then we can get to about 71%.

Kartik Gada And just one more, I know this will be again an open ended kind of question but any updates or anything on the IPO for Agrovet?

Adi Godrej No, there is no plan for an IPO at this time.

Moderator Thank you. Our next question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand Sir my first question is with respect to our cattle feed business, last concall I think you were mentioning that some of your premium products are not selling, so are we seeing change in behavior in terms of buying pattern or this continues to be the farmers are buying lower premium products?

Balram Singh Yadav So in Q2 I think the same pattern continues but we are seeing some improvement in some of the states where milk prices have gone up, I think the trend has started reversing.

Abhishek Anand Which particular states are these?

Balram Singh Yadav So we are seeing improvements in states of Karnataka, several North Indian states including UP.

Abhishek Anand So basically there we are seeing premium products being served?

Balram Singh Yadav Yes, but we are not seeing any improvement in states of Tamil Nadu, Andhra Pradesh and Maharashtra.

Abhishek Anand And on the broiler market, you were mentioning that 80% is now an integrated market, how do you see, so basically should we see the broiler prices if they go up then we are going to see less amount of integration in the market?

Balram Singh Yadav Yes, so that continues because we have cycles of oversupply and undersupply and it is a typical commodity cycle and whenever we see broiler prices going

up, the farmers come out of integration and start doing the business independently because they can make much more money. So future is not the extension of past but definitely in past I have seen three, four occasions when integration has dropped to 60%, gone back to 75% and then dropped back again. So this kind of thing continues to happen and hopefully this will happen. However, as Mr. Godrej says that we are trying through our research and development initiatives to create that edge for our peak and we believe that in a few quarters from now we will definitely have that edge in cost and performance to have a bigger market share in the open market.

Abhishek Anand Just wanted to understand whether such kind of integration maybe 10 years back was it at 70% or was it at 40%, 50%?

Balram Singh Yadav No, no the swing is about 10%, 15% only.

Abhishek Anand So it is not a structural change which we are seeing

Balram Singh Yadav No.

Abhishek Anand It is kind of cyclical?

Balram Singh Yadav Yes.

Abhishek Anand Secondly, I believe that during the quarter you have sold some Godrej properties and the promoter stake, so after the completion of the deal what will be our eventual stakeholding in Godrej Properties?

P. Ganesh Yes, in Godrej Properties currently we have a stake of about 55%. Once the merger process gets completed we will have an incremental 3.5% stake in Godrej Properties which will take it up to about (+58%).

Moderator Thank you. Our next question is from the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan Sir pardon my ignorance on this, basically I just wanted to figure out if there is any online portal or anything which can actually help me keep a track of live broiler prices or any other animal feed prices that you actually supply.

Balram Singh Yadav Yes, yes there are several portals. So just get in touch with us we will connect you with those portals.

Anand Krishnan Can you just name a few right away, is it possible?

Balram Singh Yadav I think there is a website by NECC, National Egg Coordination Committee, and there is another website for broilers also, which will give you broiler prices for

almost 30 stations in the countries. NECC gives the egg prices for about 100 places in the country and they give historical data also.

Nadir Godrej And a very interesting development now is that eggs are by far the cheapest source of protein in India other than cereals and cereals cannot ever give you enough proteins. So for incremental protein eggs are by far the cheapest source and I think this will push the egg industry in the future.

Balram Singh Yadav So this broiler site is called Bromark.

Anand Krishnan And for the other aqua feed and the cattle feed business, is there anything?

Balram Singh Yadav So for milk prices there are several dairy websites which give you milk prices ex farm. So Indian Dairy Association has a website, it gives you weekly prices. On fish and shrimp prices, there is no website as of now.

Moderator Thank you. As there are no further questions from the participants I would now like to hand over the floor back to the management for their 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. Ladies and Gentlemen, on behalf of Godrej Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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