



Godrej Industries Limited

Q1 FY2016 Earnings Conference Call Transcript August 12, 2015

Moderator Good day ladies and gentlemen and welcome to the results conference call for Godrej Industries Limited. As a reminder all participants' 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 an 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 from 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 2016 earnings conference call. We have with us Mr. Adi Godrej – Chairman of Godrej Industries, Mr. Nadir Godrej – Managing Director, Ms. Tanya Dubash – Executive Director and Chief Brand Officer, Mr. 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 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 earnings presentation shared with you earlier. I would now like to invite Mr. Adi Godrej to make the initial 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 30th, 2015. 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 for the quarter.

I am pleased to share with you that our overall performance for the quarter has witnessed a healthy growth in profits with consolidated net profit growing by 21%. Despite volatile market conditions, Godrej Agrovet had a steady quarter. Our agri input business performed strongly and has delivered a growth of 17% over the corresponding period of the previous year. Volume growth in the feed business was flat for the quarter on the back of poor and volatile end product prices. We are focusing on launching new products in new categories to overcome the current challenging operating environment. In the Oil Palm business vertical we were focused 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 32% and this is driven by strong volume growth across categories of Poultry Feed, Cattle Feed and Aqua Feed. Our new plant in Bangladesh is ready for trial run. This will help us 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** brands. In Q1 FY 2015-2016 the business sales grew by 19% over the corresponding quarter of the previous year. Our emerging business in the agri space – “seeds” has shown a strong growth of 56% over the corresponding quarter of the previous year. We are planning to launch our own hybrids in corn and pearl millets during the next season.

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

Moving on to the performance of Godrej Consumer Products I am happy to share that we had an encouraging start to financial year 2015-2016 and have delivered a 53% growth in net profits without exceptional and one-offs as compared to the corresponding quarter of the previous year. We continue to strengthen our leadership position across our core categories. In the first quarter our India branded net sales grew by 13%. This was driven by a healthy volume growth of 13%. Our international business in organic constant currency terms also grew by 13% despite the macro challenges and slowdown in a few of our larger markets. Our consolidated EBITDA in organic constant currency terms grew by 32%. I am confident that with our clear strategic focus, differentiated product portfolio, superior execution and top-notch scheme 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.

Godrej Properties started the year on a strong note by registering the highest ever value of booking in a single quarter with total booking value of Rs.1,251 crore and total booking volume of 1.3 million square feet. Net profit after minority interest in Q1 FY16 increased by 21% over Q1 FY15. During the quarter, GPL added two new projects with 1.75 million square feet of saleable area. The government's thrust on smart cities; housing for all and an urban renewal are all expected to give a boost to urbanization and the growth of the real estate sector. The new grant plans for REITs the easing away of FDI investment norms in this sector and tax incentives for homebuyers all signaled the intent of the government to support growth in this sector. We must leverage this trend and continue our focus on driving strong growth.

Our Chemicals business has had a strong start to the year with PBIT for the quarter growing by 63% as compared to the corresponding quarter of the previous year. I am also happy to share that during the quarter our Valia factory received the ICC award for Excellence in Energy Conservation and Management. Such initiatives are part of our good and green vision of creating more inclusive and greener India.

Let me now briefly run through our financial highlights. During the quarter consolidated total income stood at Rs.2,565 crore, a growth of 7% as compared to the corresponding period of the previous year. Consolidated net profit stood at Rs.94 crore and grew by 21% during the quarter as compared to the corresponding period of the previous year.

To conclude we have had a good beginning to the fiscal year. With the improving macroeconomic environment we are 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.

We will now be happy to answer your questions.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Manish Gandhi who is an Individual Investor. Please go ahead.

Manish Gandhi

I have two questions basically, one on Agrovet. Hi Balram, congrats for steady business performance even when it seems to be very difficult situation. So I would just love to know your view not only about this monsoon and its effect on our agri business. And also overall in the last five years, we have had an unprecedented price rise in agri commodities and due to UPA2's MG-NREGA and you can say, rural focus, there has been a rise in the income of farmers and rural people, and the probability of all these things are less for the next five years. So is this going to affect our business or overall agri business per say that is the first question.

Nadir Godrej

I would like to make a comment first. I think the price rise in agricultural commodities was a global phenomenon and it was part of commodity boom and had nothing to do with India per se, though many people thought it was local Indian factors but it was a global factor that drove agricultural prices. In fact, all commodity prices is high mostly due to Chinese demand. Now in the collapse of the Chinese economy all commodity prices whether it be crude oil, metals or agricultural prices are all falling and I will leave it to Balram to answer what impact it will have on the business.

Manish Gandhi I will 100% agree with you but that is was not because of India that agri prices were up. But generally what we have seen that agriculture prices can also stay muted world over and that can have effect in India also.

Balram Singh Yadav So three things, first is that even the unilateral secular growth of agri output has definitely slowed down but it has not stopped. So if you ask me is agriculture profitable at these prices? The answer is yes it is still profitable. The costs have not risen at the same pace. That is point number one. Point number two, I think we are not an import dependent economy as far as proteins, fruits and vegetables are concerned. So droughts and erratic rainfall will also determine what prices the farmers get and we have seen a disproportionate rise in prices whenever there is a small challenge in the macro environment. I feel that the prices will continue to rise even though they won't rise at the same pace as it has happened in last five years. And agri businesses will do well because the farmers are now focusing on productivity; they are using very good agri inputs which we had started about 5 years ago. So my sense is that agri businesses will do well, that is for sure. The only thing is that pace of growth might come down. You will not see a 20% plus growth but I will be very surprised if the growth is less than 15%.

Manish Gandhi One more thing on Animal Feed volumes, in the industry we are losing market share or it's an industry phenomenon?

Balram Singh Yadav As far as all other segments are concerned, we are growing between 7-25%, in Layer and Cattle we have about 7-9% growth and in Fish Feed we had about 20% growth in the first quarter. Our only problem and the problem of the entire industry is the Broiler Feed which was the big segment of Feed in the past. There we believe because of volatility in prices the individual farmer is not continuing with the business and joining integration thereby reducing the available market. Now this is a phenomenon we saw 5-6 years ago but consistently good prices of Broiler again expanded the individual farmer market and reduced integration. So I cannot say what will happen but I definitely say in all the other segments we will continue to grow, Broiler will definitely depend on what happens in the macro environments and the Chicken industry.

Manish Gandhi So we have not lost market share vis-à-vis other players?

Balram Singh Yadav I don't think so. In Fish Feed we definitely have increased our market share. In other segments we would have retained market share in the open compound Feed market.

Manish Gandhi You don't see any challenges if farmers are stressed so they will opt for green fodder rather than composite?

Balram Singh Yadav I think what happens is that whenever the Animal Protein prices are down, definitely the farmer does not want to produce more and they don't want to produce more efficiently also and that is a mistake they commit. I think that is one thing which we are seeing in the Cattle Feed market that the premium feeds are not selling, it's only the middle level at the lower level feed which are selling which are not as profitable. But we have seen this, it happens once in 2-3 years and then whenever there is a shortage of milk, suddenly the prices will rise and farmers will go back to producing more milk and more efficiently. So this is the cyclical issue and I think this will not, at least with Cattle Feed, last for more than another three months or so.

Manish Gandhi Thanks Balram. My next question is to Mr. Rajendra. I just want to know about The Trees residential launch because in the fourth quarter presentation we had given that we would love to launch two phases in this year and I think as per my understanding we were supposed to launch on second quarter. So now we are saying that we won't be able to launch in second quarter. Of course the permissions are not in your hands, but can you just give some color that whether you will be able to launch two phases in this year, residential?

Rajendra Khetawat As we said on our concall also, the phase 1 itself is a sizable phase around 0.5 million so definitely I think you are confusing between the Platinum T4 launch and The Tress launch, these are two separate projects. So both T4 was supposed to come in first half and Trees was supposed to come in either end of Q2 or Q3. Because of the DP issues and the DP getting rephrased and reframed, the approvals are taking some more time so we are quite hopeful that we should be able to launch in the second half of this financial year.

Manish Gandhi One more thing about this Times of India article, but I was surprised they are talking about Rs. 25,000 we are selling that. So I don't know whether you can give some light on that.

Adi Godrej We would not like to comment on speculative reports.

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

Anand Krishnan With respect to your approvals for The Trees project is it that you have all the approvals and it's going to be launched in the second half of the year or is it the situation that you have no approvals or what is the state currently?

Rajendra Khetawat There are various stages of approval and we are in the final leg of receiving the approval. Unless we have the IOD approval which is the approval whereby we can launch a project, that has still not come and is still awaited. The moment that gets issued we are good to launch the project.

Anand Krishnan So the environment clearance and all which is actually required is through?

Rajendra Khetawat That is all in place.

Anand Krishnan So only IOD is pending?

Rajendra Khetawat Yes, so we call it the building plan/layout plan approval and that is awaited, so we are expecting that we should be receiving it in the second half of the financial year and we should be able to launch the project.

Anand Krishnan The second question is with respect to the Chemicals business. The Chemicals business actually posted an EBIT margin of around 10% this quarter. What would be the factors which actually contributed to it and whether it is sustainable over a period of time is what I wanted to understand.

Nitin Nabar So there are three factors, one is that in this quarter we have a better product mix. Our Surfactants portfolio did extremely well. Ambernath plant is fully stabilized and the efficiencies that we were expecting have started

coming in now and we had some efficient buying, so an exceptionally good quarter. This 10% is slightly higher. Typically our margin will be about 7-8%.

Moderator The next question is from the line of Resham Jain from B&K Securities. Please go ahead.

Resham Jain On the Chemical business the margins are really good in this quarter. So just wanted to understand will this margin look sustainable or are there any one-offs in this quarter.

Nitin Nabar I just answered this question that this quarter was exceptionally good because of better product mix, some efficient raw material buying but on a sustainable basis we can expect 7-8%.

Resham Jain Secondly, on a very broad basis just wanted to understand during the previous government we have seen that rural growth has been very good but in the last 18 months or so we have seen rural growth slowing down. So do you see any of the indicators indicating that...

Adi Godrej. We have not seen rural growth doing down. For example in Godrej Consumer Products, the rural growth was higher than the urban growth. So we are not seeing rural growth going down much. But overall, growth in consumer demand is a little lower than in the best quarters in the past. But if you look at the April-June quarter, consumer demand growth has been better than in the previous couple of quarters. So we are seeing an inching up of consumer demand. Of course, a lot will depend upon how the monsoon ends up this year.

Resham Jain Because most of the crop is currently trading almost at MSP so basically from that angle I am saying our income levels because we have seen a higher prices or realization which farmers used to get earlier

Adi Godrej I think we should also realize that in some case some of the farmer's crops have also come down, etc., so it's a question of overall the costs in the economy are coming down. If you look at many companies in the past, value sales growth was much higher than volume sales growth because there was considerable inflationary growth, now it will be the opposite,

perhaps in some cases volume growth may be higher than value or certainly value growth may not be much higher than volume growth. So we have to bear with that.

Resham Jain I think in the last couple of days we have seen Yuan depreciating. It might be early days to gauge anything on this trend but do you see any impact on our overall business because of this?

Adi Godrej Well, the Yuan has depreciated twice and we hear they may announce some more. Clearly the Rupee is also depreciating maybe not as much as the Yuan but I think commodity prices are falling as a result of Yuan depreciation, so for our business overall we think it will be more or less neutral, we don't think there will be any either negative effect or positive effect over a reasonable period of time from Yuan depreciation.

Moderator Next question is from the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan I just wanted a better clarity with respect to The Trees project. The Trees project that you are actually planning to launch will be in a phased manner. So what will be the phases that it will be launched in and what would be the timeline for it?

Rajendra Khetawat Like I said it would be in the second half. The phase 1 would be about 0.5 million. Overall residential phase we expect about 1 million square feet.

Anand Krishnan The BMC is actually postponing the new DP by around the next six months is what I have heard or I have actually read in the newspaper. So is that going to actually affect your approval process by any chance?

Rajendra Khetawat I don't think so but we are also waiting, we are also trying to find out what actually the government wants to do for the approvals which are already been applied. Are they going to wait till the new DP comes out or they want to issue on approval based on the compliances which has already been done.

Anand Krishnan Has there been any reservation or anything in the new DP as such?

Rajendra Khetawat The old DP has been scrapped, the new DP is yet to come out. As of now there is no reservation on the Tree residential part.

Moderator Next question is from the line of Abhijit Akela from IIFL. Please go ahead.

Abhijit Akella A few questions on Agrovet. We have seen really strong growth in your Seeds business this quarter whereas the rest of the industry has actually been reporting very weak results. A lot of them have been reporting year over year decline in Seeds sales. So which segments drove this increase and what's your outlook for this business?

Balram Singh Yadav Actually in percentage terms it looks very big but I must also remind you that it is still a very small business so we are a small player. Most of the growth has come from two crops that is Corn and Bajra. Both these crops have performed well in Rajasthan, Bajra in UP and Corn in Maharashtra we have also done very well.

Abhijit Akella The presentation says that you plan to launch your own hybrids in Pearl Millet and Corn in the next season. So what we sold this season was traded seeds.

Balram Singh Yadav We have test marketed and sold small quantities of our Pearl Millet which we plan to launch next year, that is what we did this year and next year we will launch our own Corn. Right now we buy germplasm from a germplasm supplier, multiplying it and selling it.

Abhijit Akella For the overall Seed market there would have been a de-growth this year according to you in Corn, Rice as well as Cotton segment?

Balram Singh Yadav Rice I think the sowing is still on. In Eastern India I can't say. Corn definitely in Marathwada, Telangana, Coastal Andhra Pradesh and in parts of Western Maharashtra also has not done very well and Bajra has done well, I would say. Cotton did very well initially but because of a dry period in Marathwada I think it tapered very quickly in June. So I feel that it will be an average year for Seeds industry which is highly dependent on Corn and Cotton. But if there are other crops I think Rabi will definitely help in probably improving the performance.

Abhijit Akella In your agri inputs business also you have recorded 17% growth. Now how is the outlook for that looking given where we are in August now with not much rains?

Balram Singh Yadav We are okay in July and I think we need a few more showers particularly in three areas, Marathwada, Vidarbha, and Telangana and we can maintain a similar growth in this quarter also.

Abhijit Akella On the Animal Feed side you alluded to poor and volatile end product prices, so I suppose that means that the farmer demand was subdued because the end product prices were low, is that correct?

Balram Singh Yadav Yes, in Cattle Feed the milk prices definitely hit our volumes and the product mix. So we were expecting double digit growth in Cattle Feed and we ended up about 8% growth in quarter 1. And the volatility has definitely hurt our Broiler Feed business because the market is becoming more integrated because the farmers don't want to take price risk and joining an integration at least secures them from the price volatility. So open market for Broiler has considerably reduced in last two years and that is the only cause of worry for the Feed industry.

Abhijit Akella The Aqua Feed industry, the Shrimp Feed industry seems to have been growing very strongly the last few quarters. How is our position?

Balram Singh Yadav Our performance in Fish Feed is very good with more than 25% growth in Fish Feed. In Shrimp Feed our growth has been about 6%. We did not grow as compared to the market leader but several companies have grown less. Supposed disturbance with some competitor helped the market leader consolidate their position and grow very rapidly. So my sense is that the crop was not good. There were some diseases that is why the crop was sold early, so most of the Shrimp Feed players wouldn't have registered a very good growth except the market leader.

Abhijit Akella But what kind of growth rate can we target in this segment?

Balram Singh Yadav Whenever this early harvesting happened in Shrimp and the disease incidence is not carried in the next crop we have an equally good second

crop in Shrimp, which we will come to know only in September. If that happens I am very sure that we will have more than double digit growth in Shrimp and we will continue to grow more than 20% in Fish Feed this year.

Abhijit Akella On the Chemicals side, we have seen very sharp margin expansion in the Chemical segment, so just wanted to understand what that was due to?

Nitin Nabar Like I mentioned earlier, that Q1 has been excessively good for three reasons; we had a better product mix, our product portfolio and surfactants did extremely well, Ambernath efficiencies have started coming in because of good capacity utilization and we also have some efficient raw material buying in this quarter.

Abhijit Akella Given the fact that I believe we are the market leaders from India in our respective segments in Chemicals, do you see a great opportunity for us to become a preferred exporter as well with India becoming increasingly competitive in the Chemicals industry globally, is there an opportunity to tap that export market in the long term?

Nitin Nabar We are growing our exports. We export to about 65 countries all over the world, our export revenue is in the region of about Rs 500-550 crores and we are constantly adding new products to export to these countries.

Abhijit Akella What would our market share be right now in the global segments that we are present in?

Nitin Nabar Our major product portfolio that we export is fatty alcohol and in that I am getting a little technical but it is 16 18 chain length and in merchant market our global market share will be in the region of about 15%.

Abhijit Akella Can we target substantial further increases in the coming year?

Nitin Nabar No, I think we will remain at these levels because then we will have capacity constraints.

Moderator The next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.

Prachi Kodikal The first question was you have mentioned in your presentation that in the agri- Animal Feed business slide, that you are looking at launching new products and new categories, so would you be in a position to tell us more about this?

Balram Singh Yadav When I talked about new products in Animal Feed we are talking about Buffalo Feed. India has about 80-90 million Buffalo but compound feed usage in Buffalo is very low. Through our R&D initiatives we have developed a Buffalo feed which caters to requirement of Buffalo specifically and we believe this launch will help us get into this segment which is untouched by the compound feed manufacturer.

Prachi Kodikal What is the contribution of Broiler Feed to our total feeds business?

Balram Singh Yadav Broiler Feed to our total feed business is now about 40%.

Moderator The next question is from the line of Manish Gandhi who is an Individual Investor. Please go ahead.

Manish Gandhi Actually it is not a question, I forgot to mention to Rajendra and all the team members of Godrej Properties that you have done an amazing job and in this kind of real estate scenario where our pre-sales was Rs 1250 crore in residential, is really commendable. Now there are everyday reports about real estate prices or real estate market is in dump or next 3-4 years it is going to be like that but I don't know you can correct me, my understanding is that if the market stays bad it is even beneficial for Godrej Properties more. Like what we have achieved in Gurgaon, I am not taking any credit away from your team but it helps us that is what I feel.

Rajendra Khetawat Yes, that's very true and thanks for the compliment Manish.

Moderator As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Adi Godrej Thank you very much. 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.

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.