



## Godrej Industries Limited

### Investor & Analyst Meet Transcript

### June 21, 2011

---

**Anoop Poojari**

Good evening ladies and gentlemen. Thank you for joining us today and a very warm welcome on behalf of Godrej Industries. We have with us on the dais Mr. Adi Godrej – Chairman of Godrej Industries, Mr. Nadir Godrej – Managing Director, Ms. Tanya Dubash – Executive Director and President (Marketing) of the group, Mr. Balram Yadav – Managing Director of Godrej Agrovet, and Mr. V. Srinivasan – CFO and Company Secretary of the Company. We are also joined by senior members of the Godrej Group in the front row.

We would like to begin the session with the presentation by the Company, following which will have a Q&A session, after which the management will be happy to carry on with the discussion over high tea I would now like to invite Mr. Adi Godrej to open the session with the presentation.

**Adi Godrej**

Good afternoon. Thank you for joining us on the presentation for Godrej Industries. This is the agenda today. A little bit about the Company overview, the investment rationale, then we have a deep dive into Godrej Agrovet. This is a private company but roughly 75% is owned by Godrej Industries, so we thought we'd present greater details on Godrej Agrovet and then of course we will have a question and answer session. Just a little bit on the Godrej Group. We would like to say it is 114 years young not 114 years old, established in 1897, USD 3.3 billion as revenue. A little description about the group as a whole. Godrej Industries has a very balanced portfolio of growth businesses. It has a considerable shareholding in many companies in the Godrej Group.

On this slide showing the balanced portfolio of growth businesses, the numbers in bracket in the left on the companies is the percentage holding of Godrej Industries in that particular company - FMCG, Properties, very strong agri business. Balram will give details on our Godrej Agrovet business. This is roughly the financial performance in the last year on the various constituents of Godrej Industries. We have a very strong brand advantage. We have a systematic value creation approach. A proven track record of value creation and strong value of underlying assets. This company is roughly 10 years old. It became a separate company around this time, a couple of months earlier than this in 2001, when we demerged the FMCG business from the erstwhile Godrej soaps and since the soap business went to Godrej Consumer Products, we renamed the balance company as Godrej Industries because if we continued the Godrej Soap's name it would be a misnomer. Since then the share price, after taking the splits into account has grown by a compounded annual growth rate of 51% per annum over those ten years. So roughly grown by almost a 100 times in that period.

One of our greatest assets in the group is our brand. One or the other of the Godrej products is used by 500 million people in India each day, whether they are bathing

with our soap or using our insecticide, opening a refrigerator door or unlocking the cupboard or whatever. We recently did a brand valuation by a very well-known international agency who has been working with us on brand value enhancement and brand repositioning called Interbrand and they came up with a value of USD 2.86 billion for the Godrej brand including the various constituent brands of the group - the detailed report. And now our marketing and the brand group is working on how this can be enhanced further because the study has given us a lot of indicators of what can we do to further enhance the brand value in the years to come. We are leading market positions, no. 1 positions in the following areas which have been listed. We are no. 2 in the soap business in the country and number no. 3 in the sugar confectionary business in the country.

We announced a 'CREATE' strategy for Godrej Industries, the C stands for Consumers and Chemicals. RE for Real Estate, A for Agri, T for Transformation and E for our Emergent businesses which we are incubating. The consumer business is Godrej Consumer Products. Godrej Industries owns about 22%. It has grown very rapidly. It has a market cap of little over USD 3 billion and we have grown very considerably both organically and by acquisitions. And of course a major development in the last financial year was acquisition of the 51% shareholding that Sara Lee Corporation had in our joint venture called Godrej Sara Lee, that was acquired. The Company was renamed Godrej Household Products and on the 31<sup>st</sup> of March it was merged with Godrej Consumer Products. So now it is one company and there are tremendous synergistic benefits both in the top line growth and cost savings which we are now reaping and harvesting. Several categories and leadership positions in many categories, strong international business in Godrej Consumer Products - roughly 35% about 1/3<sup>rd</sup> of our business last year was outside of India and that number should be slightly higher this year. That's salience of international business to the total business and most of the international business is in high growth developing countries across Asia, Africa and South America. This was the financial performance of Godrej Consumer Products in the last financial year. Strong growth in sales and of course continued strong growth in profit, the profit growth is lower than the sales growth because the cost of acquisitions obviously are deducted, the interest costs of the acquisitions are deducted in the profit. So the profit growth in an acquired company will be a little lower than the sales growth as a result. But the overall acquisition were very accretive in the very first year.

Real estate is the next major part of the Godrej Industries portfolio. It has both its owned real estate business as well as its shareholding in Godrej Properties. When I say its own, when we move factories outside the Vikhroli campus of Godrej Industries, we started leasing out space to the IT industry and other such industries and we used to earn fair amount from that. Now that the Urban Land Ceiling Act has gone, we have decided to redevelop that 35 acre property. It has already started and so that will yield considerable profits to Godrej Industries as time goes by. And of course that is done in a joint venture with Godrej Properties. Godrej Properties has a very differentiated business model. It has joint ventures with other Godrej Group companies as well as many joint ventures outside the Godrej Group. It is a capital-light model and better return on capital used in that model. We have projects across 11 cities. These are the cities where we have projects in Godrej Properties. We are adding cities adding projects all the time. These are the financial results of Godrej Properties in the last year. We had an IPO in Godrej Properties about 18 months ago. I mentioned about the Vikhroli development project, it is a 35 acre project, it is named 'The Trees', it will be approximately 2.8 million sq ft, it is a JV between GIL and GPL and GIL - Godrej Industries will be a beneficiary of 82.4% profits of the project. This is its own 40% share of the profit and 60% share that Godrej Industries will get, with the 70 odd percent holding in Godrej Properties, where the total adds up to 82.4%. We have already started construction of the main commercial building called Godrej One, about three-

quarters of a million sq ft, fair amount of it will be used as head quarters for Godrej Group, the rest of it would be leased and/or sold, mainly leased. And we will look at further joint venture projects in Vikhroli as time goes by, we expect to announce one or two quite soon. These of course will be joint ventures between Godrej Properties and Godrej & Boyce.

Our chemical business continues to do well; it is a bit of cyclical business. We are in the up side of the cycle right now. We had a very good year last year. Later on Nadir and Srinivasan will give more numbers in the chemical business.

**Nadir Godrej**

Our three major businesses in chemicals are the fatty acids and glycerin, the fatty alcohols and the surfactants and in all areas we are moving more to speciality products. The surfactants are all considered as speciality products. In fatty alcohols, we are selling more and more products based on rapeseed oil and in fatty acids the big chunk of our business now is based on rapeseed oil and India has become the lowest cost producer of rapeseed oil in the world, which gives India a very competitive edge in erucic and behenic acids and behenyl alcohol. Plan is to increase the salience of specialty chemicals as we go forward. We are setting up a new oleo chemicals manufacturing facility at Ambernath and with a CAPEX of Rs. 230 crores we expect it to be operational in the fiscal year 2013-14. The civil work is in progress, the MPCB permission is obtained, we are waiting for the final clearances and then we will proceed. We are also putting up additional capacity at our factory at Valia with an outlay of about Rs. 50 crore. This is both for splitter and fatty acid fractionation column, so we can manufacture erucic acid at our Valia factory as well. As you can see the growth was very good both in sales and the bottom line. There was a good recovery from the financial crisis. Fatty alcohol capacity was tight worldwide and it is still tight which helped us. Raw material prices were very high and as a result the differential between the cheaper raw materials we used and palm kernel oil, the normal raw material for fatty alcohols, widened which was a good benefit to the business. This situation still continues.

We will continue to be leaders in alpha-olefin sulfonate but we are also producing more and more Lauryl alcohol derivatives. This enables us to use our own Lauryl alcohol in our surfactants business. This is a very balanced portfolio because the alpha-olefins are made from petroleum and our lauryl alcohols are made from vegetable oils produced by ourselves. So in any kind of environmental situation we have a surfactant for the job. Another major business of ours is the agri business, where the food price is rising and the demand for food in China and India is rapidly increasing. Agriculture has an extremely bright future and Godrej Agrovet is very well positioned for this. Our businesses are the animal feed business, which has finally started growing. We have improved our quality considerably and this is being noticed in the market place. The oil palm plantations are in the phase of rapid growth and the challenge now is to get more and more acreage but what is already planted is maturing and there will be good growth for the next few years.

The agri-inputs- we are a niche player in high margin products such as plant growth regulators and herbicides and normal herbicide, Hitweed is doing extremely well. Importantly, we have a joint venture with the world's largest food processor that is Tyson. As you can see both the sales growth and profit growth were very excellent in the last year and now I will hand over to Tanya to take you through HR and the Brand.

**Tanya Dubash**

Good afternoon, the 'T' in our CREATE strategy stands for transformation and in order to achieve full potential and to keep up to our promise and live by our vision and promise of brighter living, we are transforming the way we think, behave and act. Godrej Industries and associate companies all continue to feature prominently on the best employer list. Godrej Industries stood first in excellence in HR through technology and in also top 15 best employers in India. Godrej Consumer Products

stood fourth in the overall best employer category in a study by Hewitt and Godrej Properties stood first in the real estate and construction industry among the top 100 best employers in India last year. We believe that good leadership is absolutely pivotal to any transformation and growth and we strongly support strong development in all our talent. In collaboration with faculty from Harvard Business School and Columbia University last year, we started the Leadership Development Series and in its first phase 50 senior leaders, including myself went through an extensive talent development process, which tailored career planning inputs. Succession planning for key positions is imperative and underway at Godrej. Employee satisfaction surveys were conducted across all our domestic and international business units. We got deep insights into why our employees are satisfied and dissatisfied and I am happy to tell you that most of our businesses score in the highly satisfied range.

We have improved our long term incentive schemes to further align them with the shareholder returns and we continue to invest in new capabilities such as an HR IT transformation project with IBM. Mr. Godrej has already spoken about the immense value of the Godrej brands, the Godrej Industries and Associate Companies. We embarked on our process of managing our brand as a strategic asset a few years ago and we created a powerful framework to maximize the value of the Godrej brand and its constituent portfolio. As part of that, two important consumer activities that we undertook last year were Godrej Khelo Jeeto Jiyo and Godrej Power Play. Godrej Khelo Jeeto Jiyo was India's first advertiser sponsored lifestyle reality show where people interacted with each other and with our products in a very innovative format on television. This show was awarded a gold for best campaign in India and a gold in the best brand building campaign category pan Asia by the prestigious Promotion and Marketing Asia Awards. Godrej Power Play is a pan Godrej gaming based consumer connect activation. It is a sort of pan Godrej promotion and it is the first brand in India to enter into the mass multi-category loyalty. This of course is hosted on IPL and we have been associated with IPL since its inception two years ago. As a group we always strongly believe, associated with philanthropy and social good. In an effort to enhance our CSR, we undertook a study to figure out how we could add even more meaningful value to society, to the community and to the environment and our new CSR strategy is based on the idea of shared value which implies addressing social and societal problems such as climate change and providing quality education, while at the same time strengthening our own competitiveness by innovating new products and improving the talent pipeline. In conjunction with our group wide vision of brighter living, we came up with a long term shared value vision which we have made Godrej Good and Green. In Good and Green, we hope to participate and build a more inclusive and green India. By 2020 we hope to ensure greater employability, create a greener India and innovate for good and green. Some of our most specific goals like below, we hope to train a million rural-urban youths and give them skilled employment. We hope to achieve zero waste, carbon neutrality, positive water balance and a 30% renewable energy source. We hope to have a third of our portfolio revenues coming from good and green products and services by which we mean we hope that they will be environment friendly or serve societal needs at the bottom of the pyramid.

Under emergence, one of our important businesses is our JV with the Hershey Company, the USD 5.5 billion leader in the American chocolate category. The revenues of this business were Rs. 360 crore last year. It's a market leader in the candy segment. Last year, the core brand Nutrient Mahalacto was relaunched successfully.

Some of the other brands which did well was Hershey Milk Mix, which grew by 47% on the back of innovative activations and Sofit, with effective micro marketing. Some of the product launches during financial year, one to highlight is Nutrine 123, which was a successful launch because it sort of piggy backed on the thought that

kids like the idea of having variety at the low-price point and this is what this product offered. It was three candies in a pack at the price point of Re. 1.

Natures Basket is our fine food chain, which evolved from being a fresh food retailer in 2005. It is recognized as being India's premium gourmet chain, although in a niche space. We have 14 stores located in the premium residential catchments, nine in Mumbai, three in Delhi, one in Gurgaon, and one in Pune. We hope to launch 7 or 8 more stores this year. The interesting thing about this category in our business is that the demand here is fairly inelastic and this is based not just on the fact that we offer a very interesting product mix, but the fact that we offer services that people value and we have a very well trained and inviting staff. And people reaffirmed that during the deep downturn that other businesses, particularly retail businesses suffered there in the downturn, we continued to grow at a rapid pace. We grew by 63% last year over the previous year and our same store sales growth was also over 40%. We were awarded the most admired food retailers of the year in the foreign foods category at the prestigious Coca Cola Golden Spoon Awards. Thank you.

**V. Srinivasan**

Good afternoon. I would like to share with you the track record of strong financial performance and value creation that Godrej Industries has created for its investors, and, also explore with you some of the underlying assets and the value unlocking potential that is there in this Company.

Over the last 5 years, we have done a compounded annual growth rate of about 17% on revenue and 49% on net profits. Pretty good numbers here. We have demonstrated a huge value creation when compared to the broad market index. Over the last 10 years, Godrej Industries, apart from giving consistent dividends and opportunity for encashment through buy-back, has been able to offer a capital appreciation of over 50% as compared to 18% which has been offered by the broad market Sensex. In fact, post the last investor meet which happened on 15<sup>th</sup> of June last year, GIL has been able to provide a capital appreciation of about 30% as compared to a flat market, so that's a pretty good performance I would say. Now in terms of the significant appreciation, which is there in the investments that we hold, this slide gives you a summarized view on that. We have compared the cost at which we hold the investments in our group companies and outside. Just the market value of investments that are listed is over five times our cost. I am not considering the value of our unlisted investments.

So this slide explains in sum, the value unlocking potential that we have in Godrej Industries. If you see the graph, the blue line depicts the market cap of Godrej Industries and the green line, just the share of Godrej Industries investment holdings in Godrej Consumer Products and Godrej Properties. The entire market cap of Godrej Industries is explained by just these two investments that we hold. On the right hand side, we have listed out the other valuable interests that Godrej Industries has. Many of these businesses are market leaders in their own right. We have the animal feed business, the oil palm plantation business, oleo-chemicals business, agri input business. Apart from that, we also have a very significant stake in the joint development that we are doing with Godrej Properties in 'The Trees' project. All these are extremely value accretive in the future in our view. So Godrej Industries in a nutshell provides the investors with a portfolio, which is fairly de-risked because we have exposure to many industries. And we believe this has a strong long term investment potential.

ICRA had done an Equity Research Report recently on Godrej Industries after a very detailed discussion with the management has also their own research in the various industries in which we have stake. They have assigned the valuation grading of 4+ on the fundamentals, which means very strong fundamentals relative to the other listed scripts and "+" means a superior position within the same

category. And in terms of valuation they have given a grading of B, which means moderately under-valued on a relative basis. So in sum, as I have mentioned, GIL provides a balanced portfolio to our investors and the management is committed to improving the value continuously as in the past. Now I request Mr. Balram Yadav, Managing Director of Godrej Agrovet to share about the Agrovet businesses.

**Balram Yadav**

Good evening. As Mr. Nadir Godrej said that we have four main businesses and we had a very good year, all the four business did very well. You can see that our sales increased by 20% and PBIT more than doubled last year. This growth story is our effort in the last three years focused on research and development in all our businesses. This is the result we have seen and we believe that this kind of performance is likely to continue in future also. Two things which we were working on the new businesses were drip irrigation and seed and we are very close to announcing entry into these areas also. Animal feed is the largest business. It is back on growth trajectory. We did a turnover of almost Rs. 1,300 crore that is a 13% growth.

One of the good things about this business, last year also we talked about it, is that it has very little capital employed. We had more than 133% returns on capital employed last year. One of the reasons for good growth and profitability in this business has been one of our research products called Super Star, which is the best performing broiler feed in this country and we are quite hopeful that substantial growth in the broiler feed segment this year is going to come in from this new product. We had a joint venture in the shrimp feed business, which was with a company called Gold Coin. We bought 51% stake in that business and merged with the animal feed business of Godrej Agrovet.

Unfortunately, for last few years we were having flat tonnages, so we broke that curse last year and we are quite hopeful that we will continue with this trend of growth in the future. We have a 50-50 joint venture in Bangladesh which is in animal feeds as well as into the breeding business. We sell day old chicks. We sell fish feed and we sell poultry feed in that country. And it has very good news because the business grew by almost 60% top line and profitability went up several folds in the last year.

In Bangladesh, we are in a massive expansion spree. By the end of this year, our animal feed capacity, our fish feed production capacity and our breeding capacity will be double of what they were in the beginning of the year. Strategic priority for animal feed, as you know the Indian growth story particularly in the food is focused in the eastern parts of the country. And so is our rapid expansion also. We draw a straight line from Kanpur downwards and it is on the eastern part of the country where most of the expansion has happened. We have come with a factory in Unnao. We have bought a factory recently in Bhubaneswar. We have started a new factory in Indore and Nagpur last year. And before this year is complete, we will come up with a capacity in Kharagpur which is in West Bengal and in Patna, which is in Bihar.

One of the things which we are very conscious about, is the margins in this business and I just wanted to go back to the first slide and tell you that we added Rs. 300 crore to the top line last year but we added about Rs. 34 crore to the bottom line. So we are focused on increasing and expanding the margin of our businesses and since animal feed is our biggest business, that is our prime focus here. And this is happening because of introduction of new products, renovations of old products.

One of the reasons why we are able to change the salience of our products to high performance, high value is very good prices of animal protein like other food

products in the market, which will make things very remunerative for the farmers and we are ready to invest in better inputs and better feed to get better results.

Oil palm benefited from the global commodity boom. We made a turnover Rs. 115 crore. And one of the things which helped us last year was very good monsoon which is also helping us this year, because our FFB production last year crossed 1 lac tons and the productivity is going to be very high this year. The only place where Godrej Agrovet could not achieve what it had intended to do, was area coverage in oil palm. And you know there are two things which are important in oil palm, one is get more hectare and second is get more oil per hectare. To get more hectare, we work with the government to increase allocations for us and we were successful in having some change in government policies by the allocation of Rs. 300 crore for oil palm development and we believe the subsidy doubled from Rs. 23,000 to Rs. 45,000 per hectare to give the required acceleration to execution of more hectare in oil palm in future. Plus we also got allocation in Gujarat in Narmada and Bharuch district, which are most suited for oil palm. And in Maharashtra in Sindhudurg and Raigarh, which are very good for oil palm because Goa is an excellent place for oil palm and we have a very good presence there. So as I said there are two priorities in oil palm, first is to get more oil per hectare. Two things we did in the last few years, one is that we set up the leaf and soil testing laboratory, which also does lot of education and extension work for the farmers. Because of these efforts there is lot of productivity improvement which has happened in our oil palm plantations. The second thing is that to monitor the 10,000 farmers and almost 38,000 hectares we have we introduced a farmer management system where we keep track of every hectare, every acre and every farmer and the status of the farm at every point in time. We have a huge force of almost 75 people for extension work in oil palm and our effort is that in case the farmer produced more fresh fruit bunches from his land, it will become more lucrative for him and we will be able to get more hectares in the oil palm. The second thing is to get more hectares, where we have to work with the government, more subsidy announced and more areas where states would never have got into oil palm being announced and state which has recently joined the oil palm bandwagon in Maharashtra and we have got three districts in Maharashtra. This year growth continues because the hectares we had planted several years ago are coming in production and we have to expand capacity. We are going to set up a 30 tons per hour upgradable to 60 tons per hour oil mill at the cost of Rs. 60 crore. In this year, the oil mill has to function by April because that is the time we will need that additional capacity. In addition to that, we are setting up a 2.2 megawatts cogeneration plant in the same facility because we generate a lot of biomass and it is prudent that we use our biomass to produce our own electricity, which is also the green electricity.

Agri input is set for aggressive growth. Two years before we introduced a product called Hitweed which is a cotton herbicide. Last year was a wonderful year for cotton herbicide that grew from 21 KL went to 71 KL and we believe this will do much, much better than last year, also this year. So the effort in agri input is also to come up with our own R&D product and we are very close to getting registered a rice herbicide which will be the growth driver for this division in future. To tell you friends, the cotton area is about 10 million hectares and rice area is about 45 million hectares. So you can see the kind of opportunity that rice herbicide will have for this division. The strategic priorities are again research and development and come up with our own products which will be high margin, which will also provide solution to the farmers.

Godrej-Tyson our joint venture in poultry did very well. The food products, the ready to cook, ready to eat products we launched a few years ago, have been growing very fast and they are the growth drivers in this business and this segment is also very profitable. We were working on two businesses as part of our strategy,

which will be the seed business. We believe that the food problem will definitely be solved in future and two things which will be critical for that will be germplasm which is the seed business and how we use our water. And we would like to be in both these spaces. We have started a new company called Godrej Seed and Genetics Ltd. It will be headquartered in Hyderabad. The leadership team is in the process of getting hired. We have a technological tie up with some breeders. Seed is a business which needs to be watched for some time and we need to understand the kind of germplasm that people have, before we start building up this company by acquiring some smaller (16:55) breeders and getting access to good benefits. The second business which we wanted to announce was drip irrigation. We strongly believe, to answer India's irrigation issues, micro-irrigation will be a big thrust area in the future. And we are very close to announcing a joint venture with a company in drip irrigation area, which is a multinational company. The factory construction, we believe will start in second half and we should be in this business in the next financial year. Another interesting aspect of drip irrigation business is that in oil palm there is a direct correlation between water and the production we get. We help our farmers source drip irrigation systems from other people in this industry and we believe this will be one of our captive consumption in future. How we think about the future of this company - this company is doing well and is likely to do very well in future. We are already in the four businesses which cater to the farmer. We will be in these two businesses, seed and drip irrigation in the future and we would like to cater to all the requirements of the farmers in these particular areas, because we have access to many preferred relations with the farmers with whom we have worked with.

There is a change in our logo also and identity. If you see we have put a new logo for Godrej Agrovet. You can see the green leaf which talks about our relation with agriculture, the blue is about technology and brighter farming. It is based on group slogan 'Brighter Living', incorporating new GAVL mission. Thank you.

## Q & A session

**Kushal Sanghrajka**

Sir this year you have grown commendably and this quarter has been good for all the businesses, but as we have seen in the past, every quarter we see some kind of volatility at least in one or two of the businesses which leads to either a slower growth in revenue or a slow growth in profitability. What I wanted to know right now we have had good times for the chemicals business and the Agrovet business and these are both sort of commodity related businesses, going forward what is your view at least for the next year or so in terms of commodity prices, in terms of the chemicals business growing further? Just to complete that question also in the chemical business, I noticed for one-third of the chemicals business now is from specialty chemicals. We know that they are more profitable, but going forward how much more can you actually grow your specialty chemical business. Do they actually take over a significant portion of your entire business or what will be the situation?

**Adi Godrej**

Sure we have had ups and downs in business growth in some segments in the past, but if you look at the compounded annual growth rate, over a period of time, it has been quite high. I think the profit growth was something in the 40s and sales growth was about 17%. So by and large, we have grown very well, even if you take a 10-year period, there might have been a quarter or two where the growth rate might have been slightly lower. And of course you were right some of the businesses do depend on global fluctuations. But in the last few quarters, last year we grew very well and I will give the mic to Nadir to answer some of your questions on the Chemicals business.

**Nadir Godrej**

Regarding the commodity prices, we get the feeling that commodity prices are peaking, but we do not expect a peak decline in commodity prices. And both

chemicals business and Godrej Agrovet benefit from high commodity prices. Of course Godrej Consumer Products benefits from low commodity prices. Then regarding specialty chemicals, growth will be slow until we get our new capacities and Ambarnath will have more surfactant capacity, so there will be growth in surfactant specialty chemicals. At Valia we are having the new fractionation plant to produce Erucic acid, so there will be growth in that. And the demand for erucic acid currently is very good. Also we are doing R&D on newer products, mostly derivatives of fatty alcohols and fatty acids. And as and when we introduce those products, there will be further growth in the specialty chemicals business. And we hope that in a period of four to five years we could bring it up to 50% of our business.

**Kushal Sanghrajka**

I have just one more question that has to do with the value of Godrej Industries as a share value right now, significant portion of it actually comes from Godrej Consumer Products and Godrej Properties at least in fact over 50% of it right now comes from those two almost in terms of market cap. Going forward what about the rest of the businesses, these two businesses we have already seen the value. The other businesses, I know for the past at least a year or so that I have been looking at the company that we know that there are hidden values that are supposed to come out at some point but what kind of foresight do we have? In the next three years, we will see some kind of further growth, in the next five years we see further growth of the hidden value of the company?

**Adi Godrej**

I think Srinu put up a chart which showed that just the value of Godrej Industries investments in Godrej Consumer Products and Godrej Properties is around the same level over the last two months or weeks as the market cap of Godrej Industries. So all the other values which is on the top of that, most of these businesses are creating increasing value and we expect that to continue, especially the joint venture property development in Vikhroli will add considerable value. And we expect both GCPL and Godrej Properties also over the next five to ten years will create tremendous value. So we expect this value creation to continue. We are quite bullish on the macroeconomic picture in India. We think if the goods and services tax gets enacted which might be in April 2012, it might get delayed a little bit, but once it is enacted, it will add 1.5%-2% points to GDP growth. But aside from GDP growth, our type of consumer businesses will benefit tremendously from a goods and services type of economic reform. So we are quite optimistic on the future value creation in Godrej Industries.

**Arun Kejriwal**

Sir, you mentioned that Godrej Agrovet could launch its paddy herbicide in 2012 -- 13. Could you share some numbers with us in terms of what is the present testing facility that you are doing, under what acreage that you are doing and what gives you this comfort that you will be launching in 12 months from now?

**Balram Yadav**

Two things you have asked - One is the development of herbicides will be done at our R&D facility in Mumbai and Bahar Agrochem the company where we produce this product. The testing is being done for the last few years and at several places because of statutory requirements as well as commercially, we have done this testing in several places in the country, including Jharkhand, Punjab, all the belts where paddy grows. We are in the process of getting this product registered and registration takes a long time. The good news about this product is that this has already been registered as an imported product by Pesticide India Ltd and they are already selling this product. So we don't have to replicate a lot of efforts which have been done. But still it will take almost a year to get this product registered.

**Participant**

Will it not be a better idea to take Godrej Agrovet public at this stage because it is much more than fructified in each stream of its business to unlock better value and greater visibility also?

|                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Adi Godrej</b>   | That's a good suggestion and we will keep it in mind. One of our major investments was Godrej Properties and we did take it public about 18 months ago. I think for any such business to go public, the right time is important and the capital requirement of the business is important. It makes little sense to go public when there is not much capital required and capital requirements can be met from internal sources, particularly. It is an option we always keep looking at.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Participant</b>  | Mr. Godrej can we get some clarity on the economics of the palm oil business, how does it work here, you obviously don't own the 38,000 hectares, what is the price at which you have purchased, what is the type of profitability within that sector? That's the first question. Second question, since there is obviously such value as you are showing us, do you have huge plans for buy-back of the shares?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Balram Yadav</b> | I will answer your first question that how the oil palm business works. The government under the oil palm mission has earmarked almost 200,000 hectares area, which has to be developed for oil palm and almost 100,000 hectares the government will develop. Now there is a subsidy which is required to be given by the government to the farmer, because first three years there is no revenue stream for the farmers. So the state government and the central government share that subsidy and the allocation of area which the company gets is limited to the subsidy the government has. So that is why even if you can plant 10,000-15,000 hectares, sometimes you will plant 3,000, sometimes we plant 5000 hectares, depending on the subsidy to be given. So that is point one. And this subsidy given for all things which are needed for development of oil palm including drip irrigation, bore well, etc. The point number two is that how does the economics work. Now the command area which has been given to us, we set up oil mills and we source the germplasm for the farmer from the product companies which are international companies and have done a lot of research in the oil palm germplasm. And for our requirement, we source it from company called Univanich in Thailand and this is given at a cost to the farmer and the subsidy is also claimed by us. Once the oil palm comes into production then the output is fresh fruit bunches which we have to procure and then we process and take out oil. Now the margin is protected in this business because the price of fresh fruit bunches we pay is fixed over the market price of the crude palm oil. That is why it fluctuates every month and it would be a fair calculation because it is a percentage of the palm oil price. If the palm oil price goes up the remuneration for the farmer goes up and it comes down as the palm oil prices come down. |
| <b>Adi Godrej</b>   | We had done buy-backs in the past. Godrej Consumer Products I think we have done over around 10 buy-backs and in Godrej Industries also we had couple of buy-backs and we always look at that and our view on buy-back is, if the earnings per share for the continuing shareholder can improve through a buy-back, we will look at the buy-back and then we look at how investing any capital in buy-back versus investing it in the business how would it be because obviously since Godrej Industries although it had a relatively low debt-equity ratio, it does have debt. So the way of financing cash for buy-back would be through raising further debt. So we would calculate the number and if it is economical we would do it. Typically, we tend to do buy-backs when the market is irrationally low. It makes a little sense doing it at a time when the market prices are reasonable. But we would certainly look at it from time to time. But we have no immediate plans.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Rajen Shah</b>   | I think the 35 acres land at Vikhroli on which the project –'The Trees', is coming up belongs to Godrej Industries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Adi Godrej</b>   | No, it belongs to Godrej & Boyce but there is a long term lease between Godrej & Boyce and Godrej Industries. So the joint venture is between Godrej Industries who is the lease hold owner of the land and Godrej Properties.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

**Rajen Shah** Okay so once Godrej One is completed the lease income on 7.5 lac square feet will be coming as 82% into Godrej Industries.

**Adi Godrej** Effectively. economic interest is 82%.

**Rajen Shah** What about the rest 22 million square feet.

**Adi Godrej** It goes to the minority non-Godrej Industries shareholders of Godrej Properties. See Godrej Properties is a listed company. Also there is some family shareholding in Godrej Properties. So that accounts for the difference of 18%. The minority shareholders, the public shareholders in Godrej Properties plus the other Godrej Group shareholders in Godrej Properties.

**Rajen Shah** No my question was that this 7.5 lac square feet which you are planning to lease out, out of that 2.5 lac would obviously be going to Godrej Group but rest 5 lac. So overall 7.5 lac square feet is leased out, so that rental will be flowing to Godrej Industries - about 82%. What about the economic interest?

**Adi Godrej** It flows out of Godrej properties

**Rajen Shah** About 40 plus 70% of 60, that is fine but what about the remaining 2 million square feet. This 2 million is going to be residential or housing? And if it is residential then what is the construction cost and what price we are planning to sell at?

**Adi Godrej** That will be much more. The project itself is 2.8 million square feet. This Godrej One is a building about 800,000 square feet. There will be 2 million square feet of residential, commercial, hospitality, there will probably be a hotel and there will be retail - high street retail.

**Rajen Shah** So this high street retail and hospitality would be leased out?

**Adi Godrej** Will be leased out, some could be sold also, we have not finally decided. Residential will probably be sold.

**Rajen Shah** And roughly what will be the construction cost and what price you are planning to sell it in?

**Adi Godrej** I do not have those details right now but it would be highly profitable. We feel the whole project will be highly profitable.

**Rajen Shah** One more question about Godrej Agrovet, the net profit margin in the case of Godrej Agrovet seems to be too low actually about Rs. 2,000 crore of revenue and I think net profit should be around 40 to 45 crores if I am not mistaken. Rs. 69 crore is the PBIT, so any chance of improvement?

**Balram Yadav** That is what I said, we are extremely conscious about the fact. In fact the effort is that we are chasing extremely profitable growth. Last year as I said we added about Rs. 300 crore of top line and Rs. 34 crore of bottom line, the incremental profit and incremental revenue is for everybody to see. Similarly in all our businesses the effort is to upsell, through change in salience of all the products and you will see. I am extremely confident that way the year is going, we will continue the same trend.

**Rajen Shah** So we can expect the net profit margin to move upwards from the current levels?

**Balaram Yadav** The answer is yes.

**V. Srinivasan** If you also look at the ROCE of that business, we have a very small capital base on which this return is pretty high. ROCE in the animal feed business was 133% last year. So we are very conscious.

**Adi Godrej** And globally these business have low profit, it is a global phenomenon.

**Rajen Shah** What kind of value can we assign for your 75% stake in Godrej Agrovets? And you actually being a share holder of Godrej Industries?

**Adi Godrej** You are the expert, we leave it to you.

**Rajen Shah** Last question, 2007 onwards till 2011 you have grown at 49% in-case of net profit. What is the trend going forward to the next 2-3 years? I think it is a very clear and a direct question.

**Adi Godrej** We do not like to give any guidance.

**Rajen Shah** In many of your conference calls you have mentioned that the consumer and properties will be having a strong growth, so some numbers like 18-20% kind of growth for the next two to three years?

**Adi Godrej** We expect strong growth. I will also tell you, I have spoken publicly on it. As a group we have decided on a what we call a '10 x 10 strategy', 10 times in 10 years which leads to a CAGR of 26% to 27%.

**Rajen Shah** So anything you expect for the guidance?

**Adi Godrej** That is not a guidance. Strategy for the group. Different businesses in the group will have different growth rates. So really not all businesses will grow at the same growth rate but this we think is a reasonable forward strategy and each of the business is working detailed plans in how as a group we can achieve this sort of a growth.

**Ramesh Damani** Sir just briefly, your presentation said that Godrej Properties where you might do some more JVs with Godrej & Boyce - can you throw some color in that regard sir?

**Adi Godrej** As we have mentioned, Vikhroli will be developed as a joint venture. We have a vision of developing Vikhroli as an iconic green industrial, residential and commercial township. We have moved forward in many directions. We do feel that for the next 15 to 20 years, we will continue to have industrial activity in Vikhroli. But we have already continued with a lot of planning on commercial and residential activities. Now how fast we can do it, would depend on a lot of other factors but we expect to announce a few other projects like the 'Trees Project' which we have for the 35 acres in the near future. But I cannot provide the details now because they are not ready.

**Ramesh Damani** But the 35 is already announced but now are you talking in relation to that, that you would be announcing that?

**Adi Godrej** Yes.

**Ramesh Damani** And then roughly the timeframe of six months, one year?

**Adi Godrej** Difficult to say but we expect to make announcements.

**Hitesh Doshi** Is it mainly on the commercial side, the other projects that are coming in?

**Adi Godrej** I have mentioned that it will be an iconic green industrial, commercial, and residential. Industrial is not any growth in industry, there will be a decline in the industry over a period of time. The rest could be residential, commercial. In 'The Trees' project we are going to have a hotel also. It may be that over a period of time we could have another hotel in Vikhroli. We already have educational institutions. We already have schools and hospitals, so we may not need those kind of facilities. But it will be a major all-encompassing development, could be shopping in certain cases.

**Participant** Actually I just need to confirm - do you have any sole development rights between the Vikhroli projects with Godrej Properties right?

**Adi Godrej** We have an MoU between Godrej & Boyce and Godrej Properties. We have another MoU between Godrej Industries and Godrej Properties and we have another MoU between Godrej Agrovet and Godrej Properties. These are the three companies in the group which have properties across India which could be developed.

**Amit Dalal** Just to add to that thought process, do you think that this major development of real estate will require lot of capital in Godrej Industries or will it be a capital responsibility of the property company?

**Adi Godrej** The capital responsibility, part of the capital could come from Godrej Properties, part could come from other group companies as they develop. But Godrej Properties clearly is going to be the company in the group that will require considerable increase in capital, not just for development of the group plans as a joint venture partner but a lot of other developments. We expect property development to be a fast growing business, although right now it might seem that the property sector might have slowed down but I think it is a very temporary phenomenon and we expect it will grow very considerably over the next 10 years, so it will be a capital intensive business and we may apart from raising debt capital, Godrej Properties clearly over a period of time may need to raise equity capital too.

**Amit Dalal** Given the need perhaps for a better financial parameter on the Godrej Industries performance, I hope there will be no dilution in Godrej Industries for any property development?

**Adi Godrej** Currently there is no plan to do so. But that would be looked upon if there is an opportunity, say three years down the road or five years down the road any dilution in shareholding is always looked at, is it earnings per share accretive. So for example last year in Godrej-Consumer Products, we had several opportunities for very interesting, accretive, and strategically important acquisitions. Ultimately we decided a 5% dilution. So we had QIP issue in Godrej Consumer Products because otherwise our debt-equity ratio would have been a bit too high for our liking. If we did the deal to buy and sell the share holdings, which we thought was strategically and from an accretiveness point of view very interesting. So we would look at the opportunity at that point of time and then decide.

**Gunjan Prithyani** Hi sir, I have two questions on your property business. One what are the other land holdings that the group companies have other than Vikhroli which could jointly get developed with Godrej Properties and second, you mentioned that you have MoUs with the group companies along with Godrej Properties. Does the MoU cover the entire land holdings or is it only limited to the 200 acres that was disclosed at the time of IPO?

- Adi Godrej** No. it is an MoU between the two companies. It doesn't specify the size of the land and the properties the group owns outside here, properties in Mumbai, and then in Vikhroli. But we have other properties in Mumbai. We also have a property in Bangalore. Godrej Agrovet has a large tract of land, where there is a poultry breeding farm. And we have already bought land outside of Bangalore where we would need to move it because of higher security reasons. Then Godrej & Boyce has property which could be developed in Hyderabad, in Thane and in Punjab, in Mohali. There are other parts of land, but they may not be developable at a very early stage. So as cities expand, sometimes land which 10 years ago didn't look like it could be part of the urban area does become part of the urban area.
- Hitesh Doshi** Sir but all the Vikhroli land would come under GPL or it is not necessary?
- Adi Godrej** No I don't want to comment on it. I mentioned there is an MoU for development and I would also like to point out to you that Godrej Industries as you know owns 70% of Godrej Properties. Godrej & Boyce which is the owner of the land in Vikhroli has a 60% shareholding in Godrej Industries roughly.
- Participant** Sir your presentation mentioned about the brand value of Godrej as a brand. So can we know like who actually owns this brand and what are the terms and condition of using this brand among the various group companies?
- Adi Godrej** The brand is owned by different businesses for their products. So for example Godrej Consumer Products owns the Godrej brand for those types of consumer products. Godrej & Boyce owns the brand for their types of products in the engineering field of appliances, locks, etc. Godrej Industries owns the brand for property development and the oleo chemicals, etc., so different companies in the group. This was restructured in the 1990s, where originally the brand was owned by Godrej & Boyce which is the original company and holding company. The other companies paid Godrej & Boyce to buy over the brands for their respective products. So that's how the brand is owned in the process.
- Participant** Sir my concern was more broad because Godrej is also a family name like say anybody else can also have a Godrej brand certainly and on that basis somebody outside this Godrej group launches a product.
- Adi Godrej** No they can't because when you are a registered brand just because your name is that you can't. You can change your name easily. So that's not permitted, once you are registered trade mark for a particular product category that's protected.
- Participant** Can you share the plans about the scaling up of the Hershey's business and what is the current profitability in that business?
- Adi Godrej** The business is not profitable. They are scaling up. We expect scaling up both in our juices business and our confectionary business. There is a chocolate launch planned. We have already launched a Hershey's milk mix product and a syrup which is doing quite well, I think as it was mentioned it grew 47% last year. So the idea is to expand the business. That and Natures basket are the two businesses we call emergent businesses, because we need investments for growth in those businesses. Thank you very much.

---

*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.*