



Godrej Industries Ltd.

Q4 & FY2011 Results Conference Call Transcript
June 1, 2011

Moderator Ladies and gentlemen, good day and welcome to the Godrej Industries Limited Results Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you sir.

Anoop Poojari Good afternoon everyone, and thank you for joining us on Godrej Industries' Q4 & FY2011 results conference call. We have with us Mr. Adi Godrej, Chairman of Godrej Industries, Mr. Nadir Godrej, Managing Director, Mr. Pirojsha Godrej, Executive Director of Godrej Properties, Mr. Balram Yadav, Managing Director of Godrej Agrovet, Mr. Vivek Gambhir, Chief Strategy Officer and Mr. V. Srinivasan, CFO & Company Secretary of the Company.

We will begin the call with brief opening remarks from the management. Following which, we will open the forum to answer any questions you have.

Before we begin, 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 sent out in the conference call invite. I would now like to invite Mr. Adi Godrej to make his opening remarks.

Adi Godrej Good afternoon everyone. I welcome you to Godrej Industries conference call to discuss GIL's operating and financial performance for the financial year 2011. I am extremely pleased to announce that FY2011 has been very exciting for Godrej Industries in terms of business developments and performance across verticals. This is indicative of the efficacy of our strategy for growth - 'CREATE', which remains pivotal to the success of GIL. The strategy focuses on harnessing the full potential of our four core businesses, enabling a transformation across the group and incubating businesses for the future.

Let me now take you through the key developments at each of our businesses.

Our oleo-chemicals business with products ranging from Fatty Acids, Fatty Alcohol to Specialty Chemicals & Surfactants, reported a strong

growth of around 31% in FY2011. We continue to focus on improving the profitability of our chemicals business through concerted efforts at increasing contribution from specialty chemicals whose share to total revenues improved to 33% in FY2011. In addition, strong growth witnessed by a well-diversified portfolio of end-user industries such as cosmetics, personal care products, rubber and plastic & polymer facilitated enhanced performance. Expanding business, both domestically and internationally, through sustained efforts at product and process innovation has helped us maintain our leadership position in the Indian oleo-chemicals space. All these initiatives have enabled us to enhance our margins and deliver strong sales growth during the year.

Our FMCG businesses, represented by Godrej Consumer Products where we have about 21.6% equity stake, witnessed a 78% growth in revenues and 52% growth in Net profit during FY2011. The year was marked with strategic international and domestic acquisitions helping us strengthen our position in home care, personal wash and hair care space. In FY2011, with the acquisition of the 51% stake in Godrej Sara Lee Limited, Godrej Consumer Products is now the largest Indian Home and Personal Care business. Consistent efforts in product innovation, branding and compelling sales campaigns have enabled increasing both consumer penetration and user consumption during the period. International businesses comprising about 35% of GCPL's consolidated revenues have been largely EPS accretive.

Our properties business, Godrej Properties, where we have a 70.6% equity stake, witnessed a strong year and a particularly strong fourth quarter with significant growth in volumes and healthy construction progress across projects. GPL's total bookings for the year (its own share) grew by 132% from 1.38 million sq. ft. in FY 2010 to 3.2 million sq. ft. in FY2011. Our township project, Godrej Garden City, Ahmedabad continues to register strong sales. I am happy with the success of Godrej Frontier, our residential project in Gurgaon where we have already been able to sell over 88% of our interest in the project despite this being GPL's first project in the region. Among other highlights for the year was commencement of our Flagship project, The Trees, at Vikhroli in January 2011. As you are aware, this is the joint development project between Godrej Industries and Godrej Properties to develop about 35 acres. The net profit will be shared 40:60 between Godrej Industries and Godrej Properties respectively. Godrej Industries will thus effectively be beneficiary of 82.4% of the profits, 40% directly and 42.4% through its 70.6% shareholding in Godrej Properties. Prospects in the coming year are exciting as we expect to launch projects in Chennai, Chembur in Mumbai and Hyderabad and unveil phase IV & phase V at Ahmedabad. With a healthy demand scenario for mid-income housing in India and continued traction across projects, we expect to deliver robust financial and operational performance in the coming years.

Moving on to the key developments at Godrej Agrovet or GAVL, which operates our agri-related businesses including animal feed, agricultural inputs and oil palm plantation. GAVL delivered excellent numbers during the period under review. In FY2011, GAVL reported a growth of 20% in sales and 103% in PBIT over FY2010. Each of the verticals contributed significantly to the improved performance of GAVL. The animal feed business, the key contributor to revenues, witnessed strong growth in

volumes across categories especially the shrimp feed and fish feed categories. As we continue to focus on innovating products to enhance yields, we are also in the process of adding new feed mill capacities across India.

The oil palm business witnessed substantial growth in revenues, about 80%, supported primarily by high crude palm oil prices and good monsoons. Initiatives undertaken by the government to provide impetus to palm oil production are good for the industry. This year's Union budget has earmarked Rs. 300 crore for increasing palm oil production. We firmly believe that the oil palm plantation business is poised for significant growth in the years to come.

In FY2011, agri-inputs segment registered an increase in sales of 18% over FY2010. 'Hitweed' - a broad leaf herbicide for cotton, was the outperformer during the year as sales reached 71 KL vs. 21 KL in FY2010. This is a higher margin business and with the new product pipeline on track, we expect this segment to contribute meaningfully to volumes and margins.

As we stay committed to our vision for a brighter living for all our stakeholders, we have embraced the concept of shared value. The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. We are implementing a Group wide initiative called 'Godrej Good and Green' initiative for playing our part in creating a more inclusive and greener India. This initiative proposes to train one million urban and rural youth in skilled employment to create an employable workforce by 2020. We will aim to help create a Greener India through achieving zero waste, carbon neutrality, positive water balance and 30% renewable energy. In addition, we also aspire to have a third of our portfolio revenues comprising Good and / or Green products and services.

Let me now briefly run you through our financial highlights for the period under review. During Q4 FY2011, total income increased by a healthy 30% to Rs. 1,431 crore from Rs. 1,099 crore and net profit grew by 43% to Rs. 109 crore from Rs. 76 crore in the corresponding quarter last year. Our consolidated total income improved by 24% to Rs. 4,602 crore during FY2011 from Rs. 3,716 crore in FY2010. Net Profit for FY2011 stood at Rs. 293 crore, marking an increase of 44% over FY2010.

As we build on a solid foundation of a diverse business profile across the key growth sectors of economy, a proven results record and an established brand Godrej, we take confident strides in the future to create value for all our stakeholders.

Thank you for your time and we will now be glad to take your suggestions and answer any questions that you have.

Moderator

Thank you. The first question is from the line of Manish from Blue Chip. Please go ahead.

Manish My question would be on GAVL. We are about to launch new product pipeline which is already on track. Could you provide us the details for the same.

Balram Yadav When we talk about new product pipeline we talked that in the agri input business and we are very close to getting permissions to start selling rice herbicides which is a chemical called Bispyribac and this is the second herbicide we would launch after success of the first which is Hitweed, which has been a runaway success. As Mr. Godrej said that from 21 KL volume went to 71 KL and we are expecting a multifold increase this year also. Why it is critical for us is because the rice herbicide has at least 25 times more potential than the cotton herbicide purely based on the acreages under these crops.

Manish Okay.

Moderator Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia I just had a question on Godrej Industries. What would be your vision say for 3-5 year period? What kind of growth or other opportunities are we looking out for?

Adi Godrej Generally we expect very strong growth in Godrej Industries over the next 3-5 years. All our verticals that I mentioned have very strong potential for the future. We think that the property business has the potential to grow very strongly behind our strong brand in the residential property market. Godrej Agrovet is on a strong growth path. Our other businesses including Godrej consumer products, the chemical business etc all are doing well, our investments are doing well and with economic growth running between 8-10% over the next 3-5 years, we see a very strong growth potential and value creation potential in Godrej Industries.

Kunal Bhatia And specifically on growth incase of your agri products, how do you see that going forward?

Balram Yadav This year we believe that we will grow over 17%. Last year our growth was 20%. But the way the first two months are I think we will grow well over 17% this year.

Kunal Bhatia Thank you so much.

Moderator Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani Regarding the debt at Godrej Industries - we are looking at around Rs. 1,700 crore currently. So in the next two years or so what level could we be at? The debt levels would be similar or be lower.

V. Srinivasan You are talking of the consolidated debt level of Godrej Industries?

Mayur Gathani Yes.

Adi Godrej I think if you look at the consolidated debt that will depend a lot on what each of the companies do. So the major business that requires a lot of capital is likely to be Godrej Properties because it is growing rapidly. Godrej Properties debt equity ratio will be kept under control. Godrej Properties at a later date, after sometime may also need to raise equity. As you know there is the requirement now that public holding should become minimum of 25% non-promoter holding. Godrej Properties has only 17% non-promoter holding currently so there is scope to raise further capital. So the debt equity ratio in Godrej Industries overall consolidated will depend on each company, mainly on Godrej Properties. But we will control debt equity ratios to be within reasonable level. If you look at the standalone numbers, Godrej Industries debt equity ratio is less than 0.5:1 and we expect that to be maintained.

Mayur Gathani Okay and in segment revenues, there is something called others. Can you just give us details as what this others constitute?

V. Srinivasan That mainly consists of Agri inputs, Oil Palm Plantations, then our subsidiary Nature's Basket and the poultry business.

Mayur Gathani Okay fair enough.

Moderator Thank you. The next question is from the line of Akshit Shah from SBI Capital. Please go ahead.

Akshit Shah Sir my question primarily is on the margin front - the Q4 has seen excellent margins for all the core businesses. How do we see the margins going forward? Are these margins sustainable? Just want to get clarity on that.

Adi Godrej I think in many of the businesses margins have improved with improvement in the general economic cycle and I think we feel in most of our businesses the higher margins will be maintainable. However, we have a lot of opportunity in terms of value creation. If you notice if you look at the assets of the company in terms of its holding in the listed companies that has increased very considerably and keeps increasing every year. So we have the opportunity to even encash some of that from time to time when we need to create profits and our margins. So overall, in Godrej Industries we are very buoyant in terms of margins, sales growth, and profits in the future.

Akshit Shah My question was actually only on the core business that is animal feeds, chemical and oil palm plantation, poultry and agri inputs. The margins we have seen during the quarter have been much higher than the past. So the only thing that I wanted to understand is, are these margins sustainable for next 2-3 years or so. That is what I wanted to understand.

Nadir Godrej In the Chemical business - the margins in the fourth quarter were a little bit higher, because there were no maintenance shut downs and in the first quarter, there is a maintenance shut down. But, generally the margins are maintainable and if commodity prices stay high particularly the margins are maintainable and similar is the case for the oil palm business. If palm oil prices are high, the margins will be maintained very

well. In the animal feed business, there has been a significant turn around and the higher margins are very likely to continue.

Akshit Shah Okay and regarding others category that the other three businesses of ours - I guess if I am not wrong with my numbers Q4 FY10 had seen around 33% PBIT margins whereas the current quarter has seen around 10% PBIT margins. Any views on that?

V. Srinivasan I think some of the expenses have increased and inputs cost have also increased in some businesses so there could be an impact of that.

Balram Yadav Off season for oil palm and agri input.

Akshit Shah So going forward do we see reduction in margin further from this level?

V. Srinivasan No, I don't think so.

Akshit Shah Okay, Chemical side we have seen around 43% growth year-on-year. So, any specific reason for that or this is the general growth which we are seeing because of the increase in specialty chemicals?

V. Srinivasan The high commodity prices also mean high finished good prices so the unit values have also gone up. There is a growth on that account and to the extent that is maintained the volumes are more or less going to grow in lower two digits say around on 10-12%. So we will be able to maintain based on the finished good selling prices.

Akshit Shah Okay thanks a lot.

Moderator Thank you. The next question is from the line of Manish Gandhi, an individual investor. Please go ahead.

Manish Gandhi What is the status of the Wadala Land?

Adi Godrej The Wadala Land belongs to Godrej Industries and we are seeking permission to redevelop it. We will also have to negotiate with the workers at the factory and once we get permission, then we will look as to how to progress. But, we are likely to get permission in the near future but we can't tell because we have to go through the BPT on this. But that is a strong asset which can be developed. If we develop it, it will probably be in a joint venture with Godrej Properties.

Manish Gandhi I just want some numbers in Godrej Agroviet consolidated. What is the total capital employed in Godrej Agroviet all the four businesses.

V. Srinivasan Total capital employed is about Rs. 440 crore or so.

Manish Gandhi It includes Palm Oil?

V. Srinivasan Yes, all the business.

Manish Gandhi And what is the total debt in Godrej Agroviet?

V. Srinivasan	About Rs. 200 crore.
Adi Godrej	Capital employed includes capital employed outside India. We have a very strong joint venture in Bangladesh.
Manish Gandhi	It includes Bangladesh JV also right?
Adi Godrej	Yes.
Manish Gandhi	So that is what I wanted to know.
Moderator	Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.
K Pawaskar	I just have one question on your Oil palm business. Just wanted to know whether the growth of 80% in 2011 and 200% in Q4 2011 was primarily on account of increase in the palm oil prices or there was increase in the yield also?
Balram Yadav	In Oil Palm business all three things are happening. First is the oil palm prices which is known to everybody. Plus we had very good plantation done in 5,6,7 years ago which is coming into production now and thirdly we had taken a lot of initiative for increasing the yield from the existing plantation which is also yielding results as our average yield per hectare is going up.
K Pawaskar	So what kind of increase you are seeing in average yield per hectare. Just broader prospective, what was two years back and now.
Balram Yadav	Mature plantation two years back was about 17-18 tons fruit bunches per hectare and of that about 18% is oil and now this year which is also held by very good monsoon last year - we are seeing 19 to 20 tons per hectare.
K Pawaskar	So do you expect this to continue going forward – increase in your per ton acreage?
Balram Yadav	As far as our initiatives are concerned, in terms of improving package and practices, to setup a leave and soil laboratory, to help the farmers improve general plantation condition - that we will continue. But, in case there is a good monsoon I don't see any reason why these things will not improve further.
K Pawaskar	But do you expect prices to go significantly from here onwards in terms of palm oil? So in that terms, can we expect that growth will limit to around 25-30% odd in the coming year?
Nadir Godrej	Palm oil prices are very high and we do not expect them to go much higher. We do not expect them to fall a lot either and this year we have already started selling palm oil forward and most of the production will be in the first six months of the year. So we don't expect any bad effects of lower prices this year.

K Pawaskar Okay.

Adi Godrej We should also remember that the absolute palm oil prices don't have a very important effect on the profitability of our Oil Palm business because we have to pay the farmers higher or lower prices for the fruit bunch production depending on palm oil prices.

K Pawaskar Okay sir, thank you.

Moderator Thank you. The next question is follow up from the line of Akshit Shah from SBI Capital. Please go ahead.

Akshit Shah Sir on the BKC land deal with Jet - during conference call of Jet Airways, the management has mentioned that they are expecting the deal to conclude in next two weeks or so. Any sense on that?

Adi Godrej I think since we have an MOU with Jet, we have not finalized the deal yet because as you know they had a complicated lawsuit and now the judgment has come from the High Court and we are under final discussion. So, I would not like to discuss anything until we have a final agreement and as you know we have to inform the stock exchanges on any such agreements before we can talk publically about it.

Akshit Shah Sure sir, understood.

Moderator Thank you. The next question is from the line of Rahul Haria from JHP Securities. Please go head.

Rahul Haria This is just one follow up question from Mr. Gandhi. As such he was enquiring about the Mumbai - Wadala Land. I just wanted to know what is the area for the land.

Adi Godrej 6.5 acres.

Rahul Haria Okay thanks a lot.

Moderator Thank you. The next question is from the line of Vinayak Patil from Wealtake. Please go ahead.

Vinayak Patil Is there any chance of Godrej Agrovet listing or something like that?

Adi Godrej No plans as of now.

Vinayak Patil Thank you very much.

Moderator Thank you. The next question is from the line of Mangesh Kulkarni, from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni The government has allowed FDI in the LLPs. Do we have any plans to bring in some FDI in our LLPs?

Adi Godrej	Well the only LLPs we have in the Godrej Industries platform is the LLP we have for joint venture development of Vikhroli land with Godrej Properties and we might have a couple of other LLPs in our property development area. But there, as you know, LLP foreign direct investment is restricted to the same level as it would be in companies. So if it is foreign direct investment compliant then we could take. But currently we have no plans to take any foreign direct investment in the LLPs but it is a good development and it could be something we could utilize in future.
Mangesh Kulkarni	Okay, thank you.
Moderator	Thank you. The next question is from the line of Rahul Haria from JHP Securities. Please go ahead.
Rahul Haria	Just wanted to know about the JVs in Godrej Properties. The process of talks - how is the pace going on as per last year?
Pirojsha Godrej	I think there is good momentum in the new business development field. We are under discussion for several new properties. We are looking this year, both, as we did in previous years, for joint venture in various parts of the country particularly focused on residential development. The other thing we are very focused on, is trying to get some new redevelopment project in Mumbai specifically and we think that we will be quite successful in adding several new deals on both those fronts this year. Already last month we added a small residential project in Mumbai in Chembur and we think the momentum for new business development this year will be considerably stronger than last year.
Rahul Haria	Sir just wanted to know the speed of talks with the JV partners as you have anticipated last year. How is it going on? Is it normal, going on slowly or is it at normal pace?
Pirojsha Godrej	You know, like I mentioned there are many deals under discussion. I think these deals are quite significant and do involve a period of discussion. So these are not the kind of things that can be rushed through in a few weeks. But I think the total number of deals under discussion is very encouraging. The new deal pipeline is very encouraging and we see very good opportunities in the current market to close the several deals in the coming quarters.
Rahul Haria	Okay thanks a lot.
Moderator	Thank you. As we have no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead.
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. I would like to take this opportunity to invite you to the Analyst & Investor meet that GIL will host on 21st June, 2011 to discuss the Company's various businesses in greater detail, their growth strategies and the road ahead. We look forward to your participation. 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 and now you may disconnect your line.

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.