



## **Godrej Industries Ltd.**

### **Investor/Analyst Conference Call Transcript**

**May 28, 2010**

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**Moderator**

Ladies and gentlemen good afternoon and welcome to the Godrej Industries Conference Call. As a reminder, for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need any 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 Citigate Dewe Rogerson. Thank you and over to you sir.

**Anoop Poojari**

Thank you. Good afternoon everyone and thank you for joining us on the Godrej Industries FY2010 Results Conference Call. We have with us Mr. Adi Godrej – Chairman of Godrej Industries, Mr. Nadir Godrej – Managing Director and Mr. V. Srinivasan – CFO and Company Secretary of the company. We will begin the conference 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 begin this call I would like to point out that some statements made in this call maybe 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**

Thank you. Good afternoon everyone and thank you for joining us on this conference call. I would like to welcome you to this conference call to discuss the

results for the financial year 2010. I will begin this call by taking you through our business model as well as our key economic interests.

Our unique business model is diversified by virtue of having both, a combination of operating business and several economic interests across key group entities, which expose our stakeholders to some of the fastest growing sectors in the Indian economy. Our activities encompass chemicals, agriculture, real estate, FMCG and food segments. This diversity has allowed us to achieve steady growth in the past and we expect impressive growth in our businesses going forward. Our incumbent chemicals business has maintained its market leadership position in India in oleo-chemicals and surfactant industries.

In the chemicals division we use products ranging from fatty acids, fatty alcohol, to specialty fatty acids and surfactants. The business caters to the needs of personal care, home care and specialized applications. Specialty fatty acids and surfactants are specialized products which require a high level of technological perfection in manufacturing and quality control and hence command good margins. The aim of the business is also to maximize operational efficiency by reducing networking capital, conversion costs and fixed costs, while improving yields.

We have introduced a customer relationship management website to provide our customers with information regarding orders and transactions. This is a part of our ongoing effort to improve our business through innovation and technology. This is a very stable business and our efforts to improve efficiencies will continue to yield results in the coming year. We are also excited about our range of economic interest, in particular across realty, agriculture and FMCG space which continue to demonstrate great growth potential.

Godrej Agrovet, our agri business covers animal feed, agricultural inputs, oil palm plantation and poultry. The agri space offers exciting opportunities in the Indian context and we believe that we are very well placed in this sector given our brand, quality, manufacturing and distribution reach. We believe that over the medium to long term, the efforts and investments we have put in the past and in the present will make visible contribution to the sustained performance of this business. Godrej Agrovet had a successful financial year with several new product launches and initiatives including a seaweed extract that improves crop yields. Venturing into providing quality maize seeds to farmers, as part of our effort to be a one-stop solution provider to Indian farmers. Godrej Agrovet, along with its subsidiaries and joint ventures is India's largest crude palm oil producer.

The oil palm business operates on a command area model with state governments allocating specific territories to corporates for the development of oil palm plantations. Growers are required to sell the entire production of fresh fruit bunches at a predetermined price linked to output price set by the government. Currently we have about 37,000 hectares of area under cultivation out of which about 12,000 hectares is fruit bearing. The oil palm business has gained critical mass; an operating maturity is likely to be a key value driver for the company in the future.

Godrej Properties, our real estate business was successfully listed on the stock exchanges in January and was received very positively. Our real estate business utilizes a highly capital efficient model that allows us to quickly grow the business without tying out large amounts of capital in land purchases. There are currently projects in 10 cities across India with 82 million sq. ft. of upcoming developable area, which includes residential, commercial and township developments. Sales have been outstanding this year especially with regard to our first state of the art township Godrej Garden City in Ahmedabad. The project was launched in March and received an overwhelming response resulting in the booking of 1.3 million sq. ft. within days. This demand underlines optimism for Godrej Properties, which I believe will experience significant growth this decade. One of the key highlights for the year was that Godrej Properties delivered 3.9 million sq. ft. in financial year 2010 as compared to a total of 3.7 million sq. ft. delivered since inception in 1991 till financial year 2009.

Godrej Consumer Products, our main FMCG business had a very impressive year with several major events. GCPL has signed an agreement to acquire Sara Lee stake in Godrej Sara Lee which will make GCPL India's largest homegrown and personal care company and we are likely to conclude this transaction today. In addition, GCPL has made acquisitions outside India acquiring the Megasari Group, a leader in Indonesian household care and agreeing to acquire Tura a leading Nigerian personal care company, a leader in the hair color segment in Argentina and with strong presence in other Latin American countries. There have been new product launches in Godrej #1 toilet soap, Godrej Renew Hair Colourants and Cinthol Deodorant Sprays. Godrej Protect, a line of hand-hygiene products have been introduced with hand sanitizers, hand washes and hand wipes.

Before we start the Q&A session, let me quickly run you through our financial highlights during the year.

Our consolidated income increased by 5% to Rs. 3781 crores from Rs. 3614 crores. EBITDA increased 25% to Rs. 413 crores from Rs. 328 crores and net

profit is at Rs. 300 crores up from Rs. 111 crores, an increase of 82%. The consolidated results demonstrate healthy financial contribution from both the operating and investment businesses. We believe that Godrej industries is one of the very few companies in Corporate India that has exposure to key growth sector across the Indian economy, through solid businesses which are delivering healthy performance.

Thank you for your time and we would now be glad to answer any questions that you would like to pose or any suggestions you would like to make. Thank you.

**Moderator** Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Manish Gandhi an individual investor, please go ahead.

**Manish Gandhi** Sir, I have a question regarding Nature's Basket. Though it is very small, like 8-stores but it has been one of the best performers in the last two years & in the industry, in all the parameters. So I feel is this the right time to aggressively expand. What are your views on that?

**Adi Godrej** We are expanding. We are opening up new stores. Now we have 10 stores and two of them are in Delhi, so for the first time we have moved out of Bombay and we have aggressive plans for expanding the number of stores. The model in Bombay and Delhi remains similar. We are adding newer and newer varieties of gourmet foods in all our stores.

**Manish Gandhi** And sir one more question on Godrej Hershey Foods, I think the last two or three years back you said that it will be like the next Godrej consumer. So I just want to know what are your plans?

**Adi Godrej** Well, the company is planning to get into the chocolate business which is the main business Hershey's have all over the world. We have already introduced the Hershey Chocolate Syrup and the other products continue to be marketed such as confectionary in the Nutrine brand, edible oil, soymilk and fruit juices.

**Manish Gandhi** Okay. Thank you very much sir. All the best.

**Moderator** Thank you. The next question is from the line of Sumit Rohra from Sun Global Investments Ltd. Please go ahead.

**Sumit Rohra** Sir, I just have two questions, and in fact one of it is not a question but just a thought process of mine. Sir, GIL owns 80 acres of land in Vikhroli and we have

signed an MOU with Godrej Properties for 35 acres which was announced last October, when do you plan to sir, doing the balance 45 acres for development? Can we expect something in the next few years on that? And also sir, Godrej Industries through its various subsidiaries owns a lot of land Pan India, so if you can just throw some light on that. And sir, the second thing is, I mean this is a view of mine which I wanted to share with you. Sir, I think the Godrej Industries is a very deep value stock because I mean the matter of fact is the 80 acres of land what Godrej owns at Vikhroli, based on recent deal of Hindustan Composite that happened, it values the land at Rs. 2500 crores and the market cap today is a paltry Rs. 4500 crores. Besides all the stuff you have got in Godrej Properties, Godrej Consumer, Godrej Hershey, Godrej Agrovet, so is there something that any value unlocking or something that the investment fraternity starts recognizing and saying that this is the deep value stock at the 17000 index. So your views on that sir.

**Adi Godrej**

Well, I agree with you, it is a deep value stock and I hope we can unlock some value in this conference call but, to answer your specific question, Godrej Industries does not own any land in Vikhroli. All the land it has rights on in Vikhroli is leased land from Godrej & Boyce. We have entered into a tri-partite agreement for Godrej Properties to develop 35 acres as a joint venture. Godrej Properties has also signed other MOUs with Godrej & Boyce, Godrej Industries and Godrej Agrovet to develop their lands both in Bombay and outside as joint ventures over a period of time. As you rightly put it, Vikhroli has large scope for redevelopment which will be largely done under an umbrella of joint venturing by Godrej & Boyce with Godrej Properties. And as you know, Godrej Properties is a 70% subsidiary of Godrej Industries.

**Sumit Rohra**

Okay sir. Thank you very much.

**Moderator**

Thank you Mr. Rohra. The next question is from the line of Vishal Biraia from Batlivala & Karani Securities India Pvt. Ltd. please go ahead.

**Vishal Biraia**

Sir my question pertains to the oil palm plantations, currently what would be the area under cultivation that we would have?

**Adi Godrej**

37,000 hectares is under cultivation of which 12,000 hectares is at the stage where it is bearing fruit. It takes three years from planting to bear fruits. So we are adding thousands of hectares each year and it takes three years after the first planting before it starts bearing fruits. Then it continues yielding revenues for about 30 years.

**Vishal Biraia** Right sir. Sir, currently in FY10 how many hectares of plantations were available which bore fruit?

**Adi Godrej** As I mentioned to you 12,000 hectares bore fruit in the year 2010 and every year there will be much more bearing fruit.

**Vishal Biraia** Sure sir, any guidance if you could give for FY11 and FY12 sir?

**Adi Godrej** Well, I think it would add at least about something like 6000-8000 hectares bearing fruit in each year further.

**Vishal Biraia** Right sir. Sir, could you throw some light on the other Agrovvet businesses like animal feed, the performance and the demand for the animal feed.

**Nadir Godrej** There was a good progress in animal feed. We introduced high contribution advanced cattle feeds. We are working on milk replacers and these sophisticated products will give better margins and there was a good volume growth in the animal feed business as well. We are focusing on the animal feed business. We are reducing costs and expanding it.

**Vishal Biraia** Okay. Sir how do you see Agrovvet placed in the next five years?

**Adi Godrej** I think it is a very strong company. It is in many avenues of business that are growing very rapidly. Rural India is doing very well. Godrej Agrovvet's almost entire business is in rural India and together with some of the joint ventures it has in the oil palm field and of course the joint venture with Tyson in the poultry field, we think the growth opportunities are extremely strong. It is a large company, growing at a strong pace. Its profit growth in the last couple of years has been quite high. Of course, it is a low profit margin business. We are increasing the profit margins also quite considerably from year to year.

**Vishal Biraia** Sir, currently what would have been the market share in FY10 for animal feeds?

**Adi Godrej** I do not have the numbers.

**Nadir Godrej** It is very difficult to define market share in animal feed. If you look at the organized animal feed our market share would be of the order of 15% to 20% but there is lots of feed stuff being consumed by animals as well. If you look at that our share would be lower.

**Adi Godrej** We are the largest manufacturer of animal feeds in the country by far.

**Vishal Biraia** Right. Sir in the coming five years, say FY11 to FY15-odd, I know it is a very long timeframe, could we see revenues 2.5x-3x and profit much 5x-10x on these levels?

**Adi Godrej** Well, I would not like to give guidance going forward but many of our businesses are growing very rapidly. As you have seen Godrej Properties and Godrej Consumer Products in the last year had sales growth of around 50%. Other businesses are also growing rapidly. We do not provide guidance, so I would not like to specifically answer that question, but the Indian economy generally is doing well and all the component parts of Godrej Industries continue to do very well.

**Vishal Biraia** So are we looking at any acquisition in Godrej Agrovet in the near future?

**Adi Godrej** Currently we have no acquisition in mind.

**Vishal Biraia** Sir any views on how do you wish to take Hershey's forward, as to what are the plans that you outline for Hershey's?

**Adi Godrej** No particular plans except what I spoke about, launching chocolates, etc. It has its own plans of expansion which includes getting into the chocolate business which is a large business but of course it has a large portfolio which continues to be invested into for growth.

**Vishal Biraia** I will come back with more questions sir. Thank you very much.

**Moderator** Thank you. The next question is from the line of Jay Asher from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

**Jay Asher** Hi sir, just wanted to know what was the average rental that Godrej Industries earned on the leased real estate that it has at Vikhroli?

**Adi Godrej** I think it was about Rs. 50 a sq. ft. roughly.

**Jay Asher** And sir the 35-acre JV that is signed with Godrej Properties, does it include this leased area as well or is it separate from that?

**Adi Godrej** It is on the leased area, yes.

**Jay Asher** So as and when you decide to start work on that the leased income may stop for Godrej Industries?

**Adi Godrej** Yes, it would decline for a short period whilst we do it and then after that once it is completed it will rise dramatically.

**Jay Asher**                      Okay and sir the Godrej Industries through a long term lease agreement owns about 80 acres at Vikhroli as you mentioned earlier. Any plans to develop land other than 35 acres in the foreseeable future?

**Adi Godrej**                      Any further development would be joint ventures between Godrej & Boyce and Godrej Properties. So the beneficiary would not be Godrej Industries directly but Godrej Properties and as you know Godrej Industries owns 70% of Godrej Properties.

**Jay Asher**                      Okay. Thank you very much sir.

**Moderator**                      Thank you. The next question is from the line of Anup Ranadive from Tower Capital & Securities Pvt. Ltd. please go ahead.

**Anup Ranadive**                      Sir I have a question on the vegetable oil business. In your presentation you mentioned that the veg-oil sales are about 576 crores which is about 15% of your total sales but if we look at the PBIT margins, it goes like only 1 crore. So any reason?

**Adi Godrej**                      This is mainly a trading business in a company called Godrej International which is based in the United Kingdom and the trading margins in commodities are always small. So this is normal margin for the business, in fact this company has done better than most of its competitors and it also includes some of the refined oil that comes from Godrej Hershey.

**Anup Ranadive**                      Thank you. Sir, it is just a follow-up again on the same thing, here under the part of the vegetable oil business you said that oil palm plantation business is about like 10 odd percent. Sir, it was also mentioned in the presentation that the oil palm fruits are sold to third parties at a predetermined rate. So would it make any strategic sense for you to use that for your own branded oil going forward?

**Adi Godrej**                      See it is not that we sell the fruits, what happens is the farmers grow the oil palm plantation and they harvest the fruits, they come to our crushing units for crushing into oil and then we sell that oil to refiners in that region. This is mainly on the East Coast of India. So we are not large consumers of edible palm oil. We are mainly consumers of palm byproducts like Palm Stearin and Palm Fatty Acid Distillate. So therefore it makes sense for us to procure our raw material separately and the crude palm oil, Godrej Agrovet sells to other refiners mainly on the East Coast.

**Anup Ranadive**                      Okay, going forward any strategy for branding your own edible oil considering that India almost has 70% of its import requirements?

**Adi Godrej** We have branded edible oil in Godrej Hershey and they are under the Godrej brand and that business continues.

**Anup Ranadive** Okay fine, thank you sir.

**Moderator** Thank you. The next question is a follow-up from the line of Sumit Rohra from Sun Global Investments Ltd. please go ahead.

**Sumit Rohra** I wanted to ask you something on the JV with Tyson we have on the poultry side. You know, I mean the foreign partner, he is on a pretty strong base, so do we have any big plans for this business because there can be scalability here?

**Nadir Godrej** Yes, Tyson has added a lot of benefit to this business. They have enabled us to cut cost. They have brought good technologies. They are helping us to increase the shelf life. Our Processed branded chicken is growing quite well. We have a 20% market share in process poultry and the general situation for the poultry industry was very good in the last year as poultry prices were good and the raw material prices stayed very stable.

**Sumit Rohra** Okay, and then the other two, I wanted to ask you about what kind of margins do we work in the palm oil business?

**Adi Godrej** I think the margins are around 10% to 15%, they vary. It goes up to 20% at times.

**Sumit Rohra** Thank you sir. I will come back.

**Moderator** Thank you. The next question is a follow-up from the line of Vishal Biraia from Batliwala & Karani Securities India Pvt. Ltd. Please go ahead.

**Vishal Biraia** Sir, could you share with us the key financials of Agrovvet?

**Vishal Biraia** I have the key numbers; sales of Rs. 1613 crores and PBT of Rs. 27 crores

**Adi Godrej** That is right. The sales figure and the PBT figures have been provided.

**Vishal Biraia** Sir for Tyson, would you be having the figures ?

**Adi Godrej** No, that is part of the Agrovvet, that is consolidated with the Agrovvet figures.

**Vishal Biraia** So this Rs. 1613 crores is ?

**Adi Godrej** Consolidated figures for Godrej Agrovvet.

**Vishal Biraia** Sir could we have it separately, what's the Standalone, Hershey's and Tyson sometime later

**Adi Godrej** Yes, we could share it with you later.

**Vishal Biraia** Fair sir. I will come back with more questions sir.

**Moderator** Thank you. The next question is a follow-up from the line of Manish Gandhi an individual investor, please go ahead.

**Manish Gandhi** Sir, I have one follow-up question. Sir, we have done a JV in Bangalore for 100-acre of Godrej Agrovet with Godrej Property. So in Godrej Agrovet we maybe having some 40 processing units, so do you feel in the next five years we can have more land available for development?

**Adi Godrej** Yes, there is a possibility of more land from Godrej Agrovet being available for development. Godrej Properties has already signed an MOU with Godrej Agrovet to develop its properties over a period of time. So there could be further possibilities.

**Manish Gandhi** Okay, and are there any prime properties in some metros or the big cities?

**Adi Godrej** No, because these are basically factories. They are not in the center of cities but they are in the outskirts of cities, so the Bangalore property is are in the outskirts of Bangalore, there is a property in the outskirts of Hyderabad and there are other such properties.

**Manish Gandhi** Okay. Thank you very much sir.

**Moderator** Thank you. The next question is from the line of Sumit Poddar from Birla Sun Life Insurance, Investments and Treasury. Please go ahead.

**Sumit Poddar** Sir, Congrats on the good set of results. Just wanted to understand, apart from the real estate that is for the JV with Godrej Properties what is the direct interest of Godrej Industries in the real estate?

**Adi Godrej** Godrej Industries does not have any other real estate. It has some land and buildings in different parts but they are being mainly used for their own factories. Vikhroli land will be redeveloped. It has other real estate assets but they are being used as guest houses etc. So the main advantage in real estate will be when Godrej Properties has joint ventures with other Godrej group companies to

redevelop their properties in Bombay and elsewhere and Godrej Properties is 70% owned by Godrej Industries.

**Sumit Poddar** Right. So I mean the land which we already had in terms of 40 acres, which is being developed, so apart from interest through Godrej Properties, anything will directly accrue to GIL?..

**Adi Godrej** There is a tri partied joint venture between Godrej & Boyce, Godrej Industries and Godrej Properties.

**Sumit Poddar** Okay, so what will be the direct interest of GIL in that property?

**Adi Godrej** GIL will make a large amount of money over a period of time on that development. Godrej Properties will also make a large amount of money and Godrej & Boyce will earn some lease rent.

**Sumit Poddar** Okay, so GIL along with GPL will pay a lease rent, I mean is it a commercial property?

**Adi Godrej** That is right. It will be a combination. It is a large development as you would note 35 acres is a very large development in Bombay. It will be a combination of residential, commercial, retail and hospitality.

**Sumit Poddar** Sure and what is the GIL's direct interest in that particular project?

**Adi Godrej** I told you that is a joint venture. There is an LLP being formed which will then share the thing. GIL percentage of the profits will be 40%.

**Sumit Poddar** Directly, not via GPL?

**Adi Godrej** No, directly. Rest will be in GPL.

**Sumit Poddar** Okay and Godrej & Boyce would earn the lease rent.

**Adi Godrej** It will earn the lease rent.

**Sumit Poddar** Okay, great. And any other such real estates still lying with GIL directly?

**Adi Godrej** No, I do not see any developable real estate. GAVL, which is a subsidiary, 75% subsidiary has a fair amount of land. GIL also has some land in Wadala which we have applied to the Bombay Port Trust for clearance. If that comes through that will also be redeveloped as a joint venture with Godrej Properties.

**Sumit Poddar** Okay, any numbers that you could give us on Wadala?

**Adi Godrej** Wadala, I think is a 5-acre plot .

**Sumit Poddar** Okay. And GAVL what kind of land is that?

**Adi Godrej** GAVL has large tracks of land. They have about 100 odd acres outside of Bangalore. They have some 30-40 acres outside of Hyderabad and they have I think a plot in Ambattur in Chennai and they have several other plots all over the country.

**Sumit Poddar** Sure. And this will be basically shifting of the current properties that they might have or any factories or things like that they have?

**Adi Godrej** Oh it is usually when a particular plot of land becomes, from a opportunity cost point of view uneconomic, then we change the manufacturing location and develop the plot.

**Sumit Poddar** Sure. Okay, great thanks and all the best.

**Moderator** Thank you. The next question is a follow-up from the line of Vishal Biraia from Batiwala & Karani Securities India Pvt. Ltd. Please go ahead.

**Vishal Biraia** Sir we have close to 600 crores debt in a standalone business. Any plans to retire that debt?

**Adi Godrej** Yes, with incoming cash flow it will get gradually retired, yes.

**Vishal Biraia** Sir, in the investment that we have made in any of our joint ventures and subsidiaries, are those investments via debt?

**Adi Godrej** It varies. Some of the investments are made from internal cash flows, some are made from debt. It depends on the particular point of time. Most of the investments have been made from internal accruals.

**Adi Godrej** Also, two and half years ago we raised some equity in terms of a QIP.

**Vishal Biraia** Sure. Sir, what portion of the Rs. 600 crores would be a short term debt and what portion of it could be a long term debt, if you could

**V. Srinivasan** this is Srinivasan here. Essentially most of the investments have been made out of internal accruals. short term debt would be about 40% of the total debt. We have a

large fixed deposits base. About Rs. 100 crores of fixed deposits we have. That comes as a debt.

**Vishal Biraia** Okay. So fixed deposits would be about portion on the total Rs. 600 crores

**V. Srinivasan** Rs. 100 crores of the Rs. 600 is fixed deposits. The net debt is less than Rs. 600, around Rs. 500.

**Vishal Biraia** Thank you sir.

**Moderator** Thank you. The next question is from the line of Nachiket Kelkar from Financial Technologies, please go ahead.

**Nachiket Kelkar** Hi sir. I just wanted to check you mentioned you have aggressive plans as far as your retail chain Nature's Basket is concerned. Could you give us how many stores you plan to open in FY11?

**Adi Godrej** Sorry, unfortunately I do not have the figures with me but I do know they have recently opened two stores and I am informed by Srinivasan that about 10 more stores will be opened.

**Nachiket Kelkar** And that will be across India?

**Adi Godrej** I think so. I am not sure. We can give you that information later.

**Nachiket Kelkar** Not an issue. Thanks so much sir.

**Moderator** Thank you. The next question is from the line of Alok Churiwala from Churiwala Securities Pvt. Ltd. please go ahead.

**Alok Churiwala** I just wanted to know if you have any plans of diluting stake in Godrej Industries. I believe our stake is at a very comfortable level and quite high but any plans of the promoter group to be diluting any stake in.

**Adi Godrej** There are no plans of diluting stake in Godrej Industries.

**Alok Churiwala** Thank you very much.

**Moderator** Thank you. As we have no further questions I would like to hand the floor back to Mr. Adi Godrej for closing comments.

**Adi Godrej** Thank you very much. I would like to thank all of you for joining this conference call. Godrej Industries has done very well last year. We think there is tremendous shareholder value in this company and we are all committed to provide improved results year on year. Thank you very much.

**Moderator**

Thank you gentlemen of the management. Ladies and gentlemen on behalf of Godrej Industries, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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