Headline: Revenue growth plan on track: Adi Godrej

Description: Our Chairman Adi Godrej says the group is on course to meet its target of expanding revenue 10-fold by 2020

Date: August 3, 2016

Publication: Livemint

Author: P.R. Sanjai, Sapna Agarwal

Link: http://www.livemint.com/Companies/qMCXHkYIxAxFdWtBuZDjwJ/Deflation-and-monsoon-drag-Godrej-Groups-growth.html

Godrej Group, a 119-year-old business group with business interests ranging from processed food to property, blamed deflation and poor monsoons as two reasons for low growth but said the conglomerate's plan to grow revenue 10 times by 2020 is on track despite some slowdown in the economy.

The vision 2020 to expand revenue 10 times in 10 years was unveiled to the Godrej Leadership Forum, a panel of top 100 managers in the group, in April 2011.

"We like to achieve 10 by 10—which is to be 10 times our present times in 10 years time—which is compounded annual growth rate (CAGR) of if you grow at 26% each year you will. In the first two to three years, we achieved better than that. Then we slowed down because the economy has slowed down. Now we hope to catch up again when the economy will do better. Also this has to be achieved partly organically and partly inorganically by acquisitions," Adi Godrej, chairman of Godrej Group, said in an interview.

Godrej Group is betting big on it three companies - Godrej Properties Ltd, Godrej Consumer Products Ltd (GCPL) and unlisted Godrej Agrovet Ltd to drive this growth, said Godrej.

Godrej Group's listed companies Godrej Industries Ltd, Geometric Ltd, Godrej Properties, GCPL and Astec Lifesciences Ltd closed the fiscal year 2016 with a cumulative profit of Rs. 1,921.13 crore and revenue of Rs.23,527.48 crore.

GCPL, its largest contributor to profit and revenue, closed the fiscal year 2016 with profit of Rs. 1,158.89 crore and revenue of Rs. 8,967.81 crore. Since the start of the decade from financial year 2011, GCPL grew its top-line at a compounded annual growth rate of 19.41%.

Meanwhile, Godrej Properties is growing at an even faster rate with top-line growing at a compounded annual growth rate of 80.02% since listing on 5 January 2010. However, it is much smaller in size with profit of Rs.231.10crore on revenue of Rs.2633.96crore for fiscal 2016. The third company, Godrej Agrovet, is unlisted and growing its top-line at a compounded annual growth rate of 16.85% since fiscal 2011. The agri-business company, which is part of Godrej Industries Ltd, closed the fiscal year 2015 with profit of Rs. 203.13 crore and revenue of Rs. 3,481.60 crore, according to the latest available data with financial data services company Capital Line.

However, it will not be easy to achieve its targets.

First, the Group's aspiration is coming at a time when Indian consumer companies are floundering because whether a good monsoon can revive rural demand and also central government pay hikes will have that significant impact. If demand remains sluggish but input costs begin to increase, that's a risk to watch for all Indian consumer companies. "Volume and margins may in the short term remain stressed because of increased competition and increasing commodity costs. Moreover demand recovery is still to be seen," said Sanjiv Bhasin, executive vice president-markets and corporate affairs at India Infoline Ltd (IIFL).

As such it may take more than a year for the consumer company to get back on the growth track. Given everything is on track with GST, good monsoon and economy going back to 8%-9% growth even then, "Full recovery is 12-18 months away," said Vivek Gambhir, managing director and chief executive officer, GCPL, while explaining that while pickup is expected to start by September-October there usually is a lag effect and typically for consumer packaged companies it takes 3-4 quarters before complete recovery happens.

However, smaller companies like Godrej Properties, have been expanding fast. Godrej Properties footprint has grown at a fast pace as it sold real estate worth $ 2.1 billion (Rs.140.15 crore) over the last four years, according to a July report by Ashika Stock Broking Ltd, which notes that even though the overall real estate prices have been stagnating over the last two years on slowing consumer demand, Godrej Properties has been performing relatively well. Since listing on 5 January 2010, Godrej Properties has outperformed the BSE Realty Index by giving around 51.25% positive returns versus 59% negative return of BSE Realty Index.

The company has been aggressive about growth even as Godrej Agrovet making two acquisitions in the past year in the high growth sectors of dairy and agro- chemicals.

In December the company increased its stake from 26% to 51% in Creamline Dairy Products Ltd, which owns the Jersey brand of milk and its derivatives. Creamline expects to close 2015-16 with more than Rs.1,000 crore in sales in March 2016 with plans to double revenue in the coming three-four years, *Mint* had reported in December.

The acquisition of a majority stake of 52.28% in Astec LifeSciences Ltd can help reverse the growth slowdown in its agri-business as it diversified. Prior to the acquisition in August Godrej Agrovet's revenue had not risen for the past two quarters. The sharp drop in animal feed and palm oil prices (the core businesses of Godrej Agrovet) are weighing on revenue.

Compared with that, Astec's revenue grew 12% in the June 2015 quarter and in the March 2015 quarter, revenue almost doubled. Godrej is looking at even more inorganic growth opportunities as it plans to go for an initial public offering for the business, according to a July *Bloomberg* report.

"These are the three businesses we think that will have strong growth. For Godrej Properties, we are growing very well and we have been growing at 35%-40% a year. When we recover, real estate market will also recover," said Godrej referring to the growth of economy.

Similarly, the introduction of GST along with its thrust on new launches in new categories like germ protection and fast growing ones like herbal with neem mosquito repellents will help it to maintain its compounded growth rate of the last 10 years of 25%-30%, he said.

Even the unlisted group companies like Godrej and Boyce Mfg. Co. Ltd known for its furniture, locks, safes and consumer appliances business are diversifying. In January the company has acquired a 51% stake in India Circus Retail Pvt. Ltd, which runs an online home decor and accessories portal indiacircus.com. The company has also diversified its consumer appliances business into medical refrigeration in the last two years as it looked at growth in a slowing economy.

So far most of the diversifications have worked. But to achieve its growth targets the company will have to continue on this journey of acquisitions and diversification. “How well they achieve this diversification will be the key to accomplishing its growth target,” said Bhasin.