

Company update

Agriculture

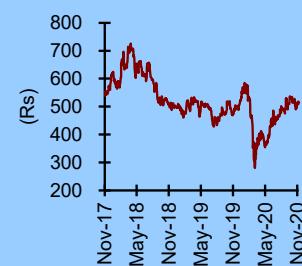
Target price: Rs560

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	70.1	70.1	70.1
Institutional investors	5.6	5.8	17.3
MFs and others	1.7	1.9	2.0
FIIs/Banks	0.4	0.4	0.0
FIIs	3.5	3.5	15.3
Others	24.3	24.1	12.6

Source: BSE

Price chart



Research Analyst:

Aniruddha Joshi

Aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

INDIA

Godrej Agrovet

ADD

Maintained

Rs510

Beneficiary of 60% increase in palm oil prices

Higher palm oil prices (up 60% YoY) have increased realisations as well as profitability of Godrej Agrovet's vegetable oil segment. Lower supplies from South-East Asia are leading to higher palm oil prices in India. With gradual reopening of the economy, demand from HoReCa segment is likely to improve, which may further increase palm oil prices. For every 5% increase in palm oil prices, Godrej Agrovet's earnings can increase by c.2%. Customs duty on palm oil imports has been cut from 37.5% to 27.5%. However, we believe there is still large gap between Indian and imported palm oil prices and this differential will ensure healthy demand for palm oil produced by GAVL. We remain confident of value creation (RoE > Cost of Equity) by Godrej Agrovet and maintain our ADD rating with a DCF-based target price of Rs560 (27x FY22E).

- ▶ **Sharp increase in palm oil prices:** Palm oil prices are up c.60% YoY. Demand for palm oil in India is still muted considering weaker demand from HoReCa segment. However, reduction in supply from South-East Asia is resulting in higher prices of palm oil. Increase in demand from HoReCa post reopening of the economy is likely to push palm oil prices higher.
- ▶ **Expect profitability of 'vegetable oil' segment to increase:** We expect Godrej Agrovet to benefit from higher palm oil prices. Company generates c.10% revenues and c.19% EBIT from its vegetable oil segment. Revenues as well as margins of the segment will increase with higher prices of palm oil. Improving demand and higher selling prices, coupled with favourable base, will increase profitability of the segment.
- ▶ **Reduction in import duty on palm oil imports:** Import duty on palm oil was reduced from 37.5% to 27.5% in Nov'20. While this is likely to reduce the prices of imported palm oil and narrow the price gap between palm oil sold by Godrej Agrovet and its imported counterpart, we believe there is still large scope for domestic players to generate healthy demand and profitability.
- ▶ **Earnings sensitivity:** While we don't factor-in the profitability changes due to higher palm prices, we believe if crude palm oil prices rise 5% YoY, there is a likely upside of c.2% to Godrej Agrovet's earnings.
- ▶ **Maintain ADD:** We expect the company to report revenue and PAT CAGRs of 6.9% and 12.3% respectively, over FY20-FY22E. We remain confident of value creation with RoE > Cost of Equity and maintain our **ADD** rating with a DCF-based target price of Rs560 (27x FY22E P/E).

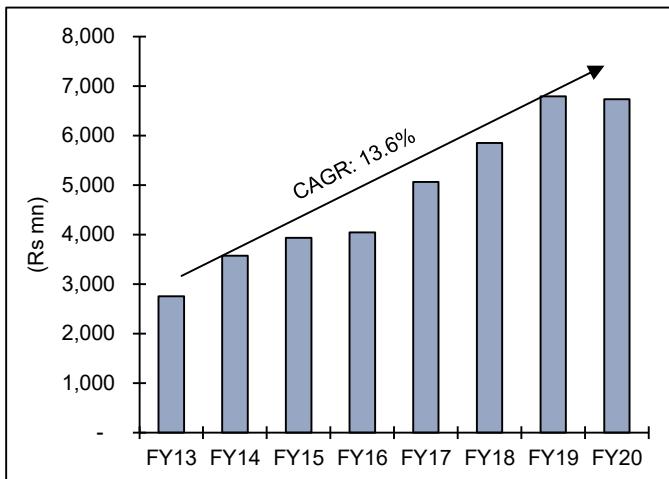
Market Cap	Rs98bn/US\$1.3bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	GODE.BO/GOAGRO IN	Net Revenue (Rs mn)	58,707	69,640	70,837	79,560
Shares Outstanding (mn)	192.1	Net Profit (Rs mn)	2,156	3,163	3,404	3,987
52-week Range (Rs)	597/265	Dil. EPS (Rs)	11.2	16.5	17.7	20.8
Free Float (%)	29.9	% Chg YoY	(1.0)	46.7	7.6	17.1
FII (%)	15.3	P/E (x)	45.4	31.0	28.8	24.6
Daily Volume (US\$'000)	1,511	CEPS (Rs)	16.3	24.2	26.0	29.9
Absolute Return 3m (%)	4.7	EV/EBITDA (x)	24.1	22.5	17.3	15.4
Absolute Return 12m (%)	3.0	Dividend Yield (%)	0.9	1.1	1.1	1.2
Sensex Return 3m (%)	15.6	RoCE (%)	14.5	11.9	15.1	15.8
Sensex Return 12m (%)	9.5	RoE (%)	19.1	16.5	17.8	18.5

Please refer to important disclosures at the end of this report

Vegetable oil segment and key financials

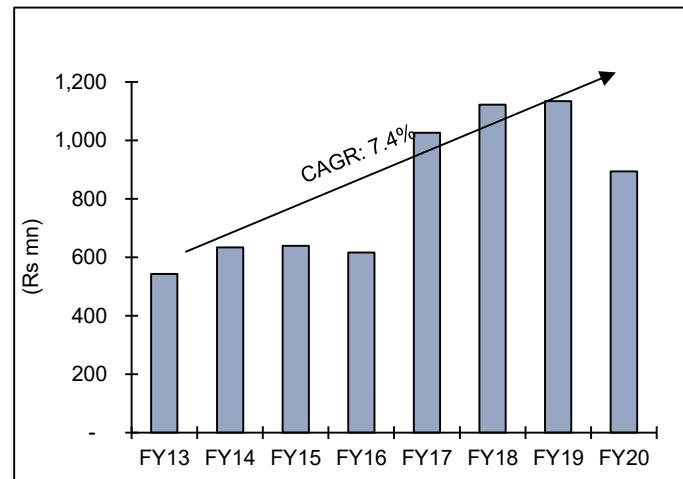
Godrej Agrovet operates crude palm oil processing units in Andhra Pradesh where it has c.66,000 hectares of palm oil plantations. It extracts the crude palm oil and sells it to mostly B2B customers in India. Vegetable oil segment accounted for 10% of its revenues and 19% of EBIT in FY20. Its revenues and EBIT have grown at CAGRs of 13.6% and 7.4% respectively over FY13-FY20.

Chart 1: Revenue CAGR of 13.6%



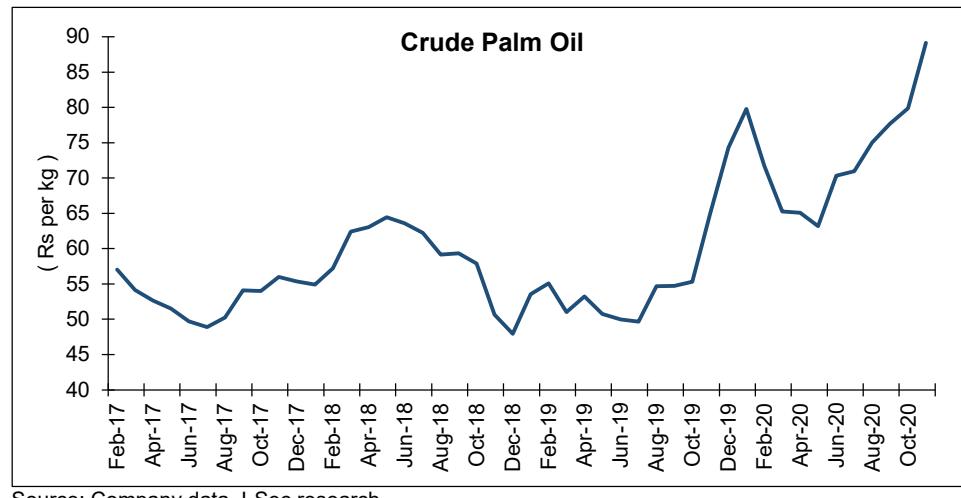
Source: Company data, I-Sec research

Chart 2: EBIT CAGR of 7.4%



Source: Company data, I-Sec research

Chart 3: Sharp increase in crude palm oil prices



Source: Company data, I-Sec research

Valuation and risks

We expect Godrej Agrovet to report revenue and PAT CAGRs of 6.9% and 12.3% over FY20-FY22E respectively. We expect RoE to increase from 16.5% in FY20 to 18.5% in FY22E. We value the stock on DCF basis with a target price of Rs560. At this target price, the implied P/E works out to 27x on FY22E. Maintain **ADD**.

Table 1: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	10.8
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	36,438
Discounted terminal value (Rs mn)	71,097
Total equity value (Rs mn)	1,07,536
Value per share (Rs)	560

Source: Company data, I-Sec research

Risks

Lower than expected offtake of new products

Any failure of new products may impact our estimates.

Sharp increase in input prices and competition

Any major increase in commodity prices and/or competitive pressures will impact our earnings estimates.

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Sales	58,707	69,640	70,837	79,560
Operating Expenses	54,149	64,756	64,497	72,440
EBITDA	4,558	4,885	6,340	7,121
% margins	7.8	7.0	9.0	9.0
Depreciation & Amortisation	982	1,481	1,581	1,762
Gross Interest	339	416	739	739
Other Income	400	598	414	583
Recurring PBT	3,517	3,456	4,291	5,046
Less: Taxes	1,280	481	1,094	1,287
Less: Minority Interest	202	(59)	(64)	(71)
Net Income (Reported)	3,281	3,024	3,404	3,987
Extraordinaries (Net)	1,125	(139)	-	-
Recurring Net Income	2,156	3,163	3,404	3,987

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	18,113	20,746	23,890	26,683
of which cash & cash eqv.	299	508	1,342	1,664
Total Current Liabilities & Provisions	15,597	16,346	18,772	21,084
Net Current Assets	2,516	4,401	5,118	5,600
Investments	2,736	2,879	3,879	5,629
Net Fixed Assets	20,509	21,565	23,516	24,003
Capital Work-in-Progress	936	1,532	-	-
Total Assets	26,697	30,377	32,513	35,232
Liabilities				
Borrowings	4,154	8,449	8,449	8,449
Deferred Tax Liability	2,044	(278)	(278)	(278)
Minority Interest	4,010	3,825	3,825	3,825
Equity Share Capital	1,920	1,920	1,920	1,920
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	14,570	16,461	18,597	21,316
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	16,490	18,381	20,518	23,237
Total Liabilities	26,697	30,377	32,513	35,232

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Dec 19	Mar 20	June 20	Sept 20
Net sales	17,827	16,277	15,542	17,239
% growth (YoY)	22.6	21.1	(8.7)	(6.9)
EBITDA	1,006	1,263	1,659	1,732
Margin (%)	5.6	7.8	10.7	10.0
Other income	152	164	179	256
Extraordinaries (Net)	(9)	(126)	4	4
Adjusted Net profit	516	848	885	1,072

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	3,523	4,123	4,985	5,749
Working Capital Changes	634	(2,204)	116	(159)
Capital Commitments	(2,379)	(2,575)	(2,000)	(2,250)
Free Cashflow	1,778	(657)	3,101	3,340
Cashflow from Investing				
Activities	15	(4)	(1,000)	(1,750)
Issue of Share Capital	3	2	-	-
Inc (Dec) in Borrowings	(680)	2,311	-	-
Dividend paid	(1,076)	(1,076)	(1,267)	(1,267)
Change in Deferred Tax Liability				
Chg. in Cash & Bank balance	379	(2,322)	-	-
	(60)	210	834	322

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	11.2	16.5	17.7	20.8
Cash EPS	16.3	24.2	26.0	29.9
Dividend per share (DPS)	4.5	5.5	5.5	6.0
Book Value per share (BV)	96.5	94.3	105.4	119.6
Growth (%)				
Net Sales	13.2	18.6	1.7	12.3
EBITDA	2.9	7.2	29.8	12.3
PAT	(1.0)	46.7	7.6	17.1
EPS	(1.0)	46.7	7.6	17.1
Valuation Ratios (x)				
P/E	45.4	31.0	28.8	24.6
P/CEPS	31.2	21.1	19.6	17.0
P/BV	5.3	5.4	4.8	4.3
EV / EBITDA	24.1	22.5	17.3	15.4
EV / Sales	1.9	1.6	1.5	1.4
Operating Ratios				
Raw Material / Sales (%)	77.9	77.2	75.3	75.3
Employee cost / Sales (%)	5.0	5.1	5.1	5.1
SG&A / Sales (%)	1.5	1.3	1.3	1.3
Other Income / PBT (%)	8	14	6	8
Effective Tax Rate (%)	36	14	26	26
Working Capital (days)	13.8	20.4	19.5	18.1
Inventory Turnover (days)	55.9	46.4	55.7	55.7
Receivables (days)	45.7	44.8	45.6	45.6
Payables (days)	77.1	67.5	76.7	76.7
Net D/E (x)	0.4	0.6	0.5	0.3
Profitability Ratios (%)				
Net Income Margins	3.8	4.3	4.5	4.7
RoACE	14.5	11.9	15.1	15.8
RoAE	19.1	16.5	17.8	18.5
Dividend Payout	40.1	33.4	31.0	28.9
Dividend Yield	0.9	1.1	1.1	1.2
EBITDA Margins	7.8	7.0	9.0	9.0

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Aniruddha Joshi, CA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.