

## Company update

## Agriculture

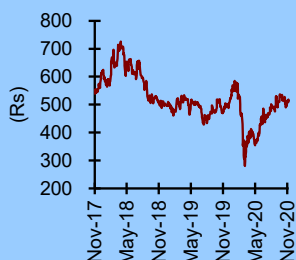
Target price: Rs560

## 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
FIs/Banks	0.4	0.4	0.0
FIIIs	3.5	3.5	15.3
Others	24.3	24.1	12.6

Source: BSE

## Price chart



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
Reuters/Bloomberg	GODE.BO/GOAGRO IN
Shares Outstanding (mn)	192.1
52-week Range (Rs)	597/265
Free Float (%)	29.9
FII (%)	15.3
Daily Volume (US\$'000)	1,511
Absolute Return 3m (%)	4.7
Absolute Return 12m (%)	3.0
Sensex Return 3m (%)	15.6
Sensex Return 12m (%)	9.5

Year to March	FY19	FY20	FY21E	FY22E
Net Revenue (Rs mn)	58,707	69,640	70,837	79,560
Net Profit (Rs mn)	2,156	3,163	3,404	3,987
Dil. EPS (Rs)	11.2	16.5	17.7	20.8
% Chg YoY	(1.0)	46.7	7.6	17.1
P/E (x)	45.4	31.0	28.8	24.6
CEPS (Rs)	16.3	24.2	26.0	29.9
EV/EBITDA (x)	24.1	22.5	17.3	15.4
Dividend Yield (%)	0.9	1.1	1.1	1.2
RoCE (%)	14.5	11.9	15.1	15.8
RoE (%)	19.1	16.5	17.8	18.5

## Research Analyst:

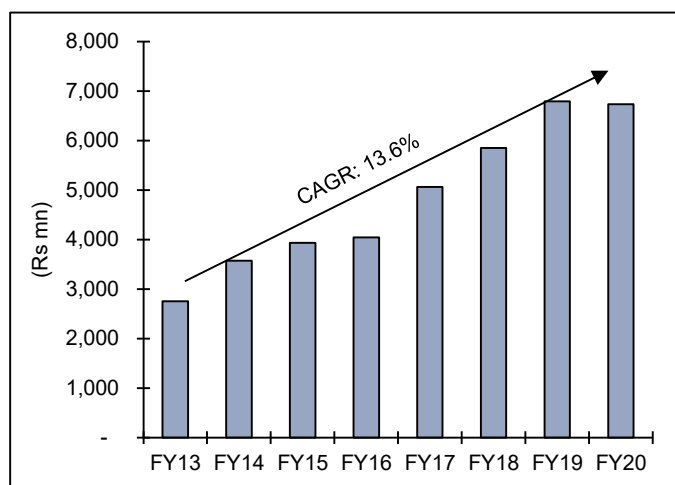
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## Vegetable oil segment and key financials

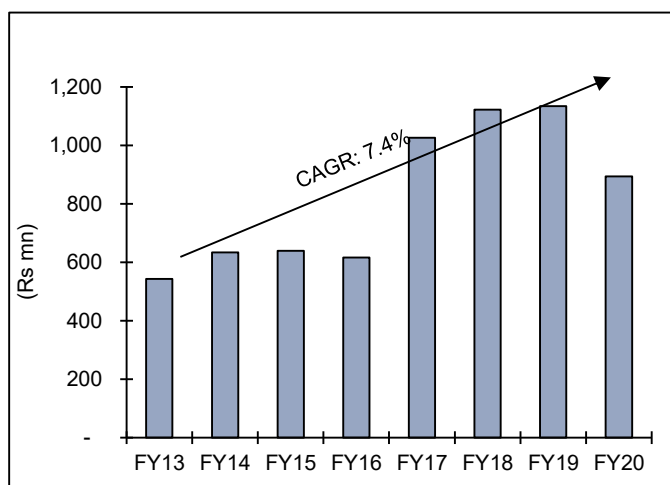
Godrej Agrovet operates crude palm oil processing units in Andhra Pradesh where it has c.66,000 hectares of palm oil plantations. It extracts the crude palm oil and sells it to mostly B2B customers in India. Vegetable oil segment accounted for 10% of its revenues and 19% of EBIT in FY20. Its revenues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

**Chart 1: Revenue CAGR of 13.6%**



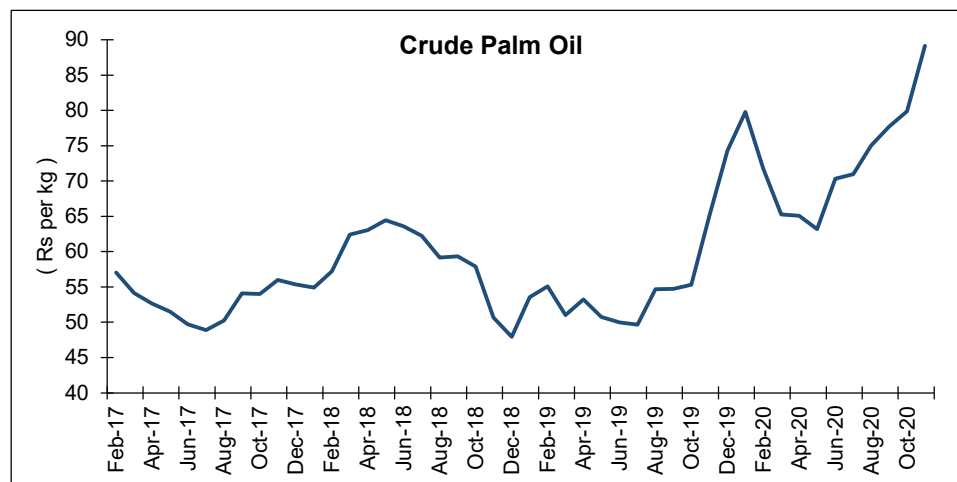
Source: Company data, I-Sec research

**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
<b>Value per share (Rs)</b>	<b>560</b>

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 &amp; 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
<b>Assets</b>				
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
<b>Liabilities</b>				
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	379	(2,322)	-	-
Chg. in Cash & Bank balance	(60)	210	834	322

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
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
<b>Growth (%)</b>				
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
<b>Valuation Ratios (x)</b>				
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
<b>Operating Ratios</b>				
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
<b>Profitability Ratios (%)</b>				
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

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