

Q1FY22 result review
and reco change

Diversified

Target price: Rs654

Target price revision

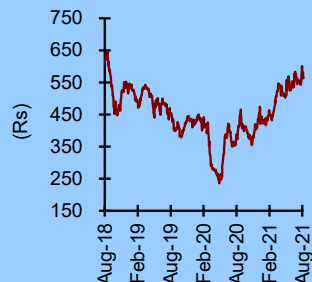
Rs654 from Rs623

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	66.4	67.2	67.2
Institutional investors	13.4	12.9	12.9
MFs and other	0.3	0.3	0.5
FIs/Banks	0.6	0.9	0.7
Insurance co	3.9	3.9	3.9
FII	8.6	7.8	7.8
Others	20.2	19.9	19.9

Source: BSE

Price chart



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INDIA

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Godrej Industries

BUY

Upgrade from ADD

At 62% discount to NAV vs average of 50%

Rs562

Godrej Industries (GIL) generates major value from its listed subsidiaries and associates viz. Godrej Consumer, Godrej Properties and Godrej Agrovet. As per I-Sec target prices for Godrej Consumer, Godrej Properties and Godrej Agrovet and 50% holdco discount, GIL's value works out to Rs654/share. At current market prices of the listed subsidiaries and associates, GIL's value works out to Rs682/share. The stock trades at a discount of 62% to combined market value of subsidiaries and associates. We believe the subsidiaries as well as associates of Godrej Industries to be net beneficiaries of revival in economy. We also expect these businesses to benefit with value migration from unorganized to organised sector. We value GIL as per SOTP method at TP of Rs654 (Earlier TP-Rs623). Considering higher than average discount prevailing on the stock right now, we upgrade the stock to BUY. Standalone business (<10% of GIL's TP) reported revenue growth of 148.3%, YoY but incurred a loss of Rs363mn in Q1FY22 compared to loss of Rs711mn in Q1FY21.

- **Godrej Industries (GIL) – a holding company:** GIL derives major value from its listed subsidiaries and associates, viz. Godrej Consumer, Godrej Properties and Godrej Agrovet. Apart from these companies, GIL is also running its oleo-chemical business (standalone operations). The palm oil trading business is housed under its 100% subsidiary Godrej International.
- **Standalone business reported muted performance:** The standalone chemical business revenues grew 148.3% YoY. There is sequential recovery in business with re-opening up of the economy. EBITDA margin increased to 5.1% in Q1FY22 from -4.1% in Q1FY21. GIL reported loss of Rs363mn vs loss of Rs711mn YoY.
- **Trading at discount of 62% to NAV:** The stock is trading at a holding company discount of 62% to the combined market valuation of its listed subsidiaries and associates. The average discount is ~50% since the listing of Godrej Agrovet.
- **Upgrade to BUY:** We value GIL at Rs654 as per the SoTP methodology and I-Sec target prices for GIL's listed subsidiaries and associates, viz. Godrej Consumer, Godrej Properties, and Godrej Agrovet. At current market prices of the listed subsidiaries and associates, GIL's value per share works out to Rs682. At holding company discounts of 20%, 30% and 40%, GIL's value per share works out to Rs1,147, Rs992 and Rs837, respectively. We upgrade the stock to **BUY**. Key risks are steep increase in competitive pressures and raw material prices and changes in group structure which will impact valuations.

Market Cap	Rs189bn/US\$2.5bn	Company	Amount (Rs mn)
Reuters/Bloomberg	GODI.BO / GDSP IN	Godrej Inds (Chemical Business) [A]	10,942
Shares Outstanding (mn)	336.6	Godrej Consumer 23.8% stake [B]	1,33,843
52-week Range (Rs)	674/351	Godrej Properties 47.3% stake [C]	74,279
Free Float (%)	32.8	Godrej Agrovet 62.5% stake [D]	43,219
FII (%)	8.6	Godrej International 100% stake [E]	250
Daily Volume (US\$'000)	4,482	Total [A+B+C+D+E]	2,62,533
Absolute Return 3m (%)	1.0	Less: Net debt of Godrej Inds	42,295
Absolute Return 12m (%)	47.1	Value attributable to shareholders of Godrej Inds	2,20,238
Sensex Return 3m (%)	14.6	Number of shares (mn)	337
Sensex Return 12m (%)	46.2	Value per share (Rs)	654

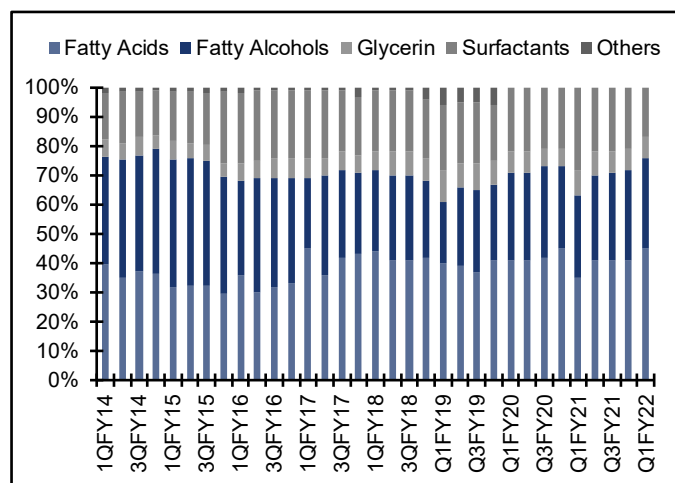
Chemical business Q1FY22 financials

Table 1: Q1FY22 performance (standalone / chemical business)

Particulars	Q1FY22	Q1FY21	% YoY	Q4FY21	% QoQ
Net Sales	6,641	2,675	148.3	5,476	21.3
Expenditure					
Raw Mat	4,940	1,916	157.8	4,000	23.5
% of NS	74.4	71.6		73.0	
Employee cost	414.6	276.8	49.8	395	5.0
% of NS	6.2	10.3		7.2	
Other expenditure	946	591	59.9	842	12.4
% of NS	14.2	22.1		15.4	
Total expenditure	6,300	2,784	126.3	5,236	20.3
EBITDA	340	-110	(410.3)	240	42.1
EBITDA margin (%)	5.1	(4.1)		4.4	
Other Income	270	87	211.4	194	38.9
PBDIT	610	(23)	(2,741.1)	434	40.7
Depreciation	186	171	8.4	191	(2.8)
PBIT	425	(194)	(318.5)	243	74.8
Interest	788	516	52.6	658	19.7
Profit before tax	(363)	(711)	(48.9)	(415)	(12.5)
Prov for Tax	-	-	-	(1)	-
% of PBT	-	-	-	0.1	-
PAT	(363)	(711)	(48.9)	(415)	(12.4)
Extraordinary Item	2	(5)	(138.8)	18	(89.4)
PAT After extraordinary	(361)	-716	(49.5)	(397)	(8.9)

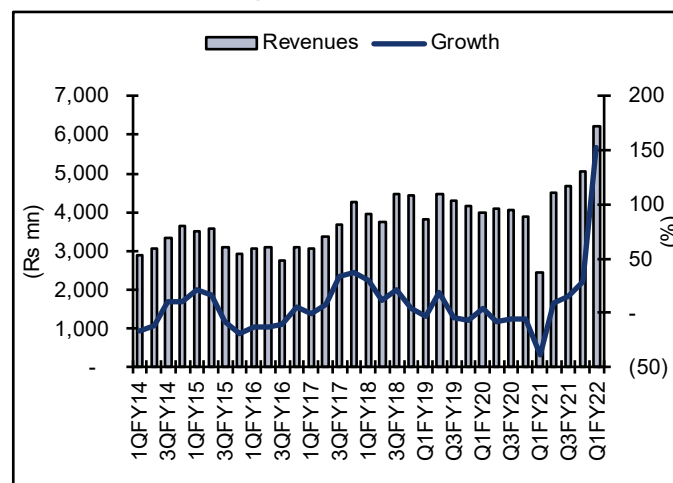
Source: Company data, I-Sec research

Chart 1: Revenue breakup of chemical business



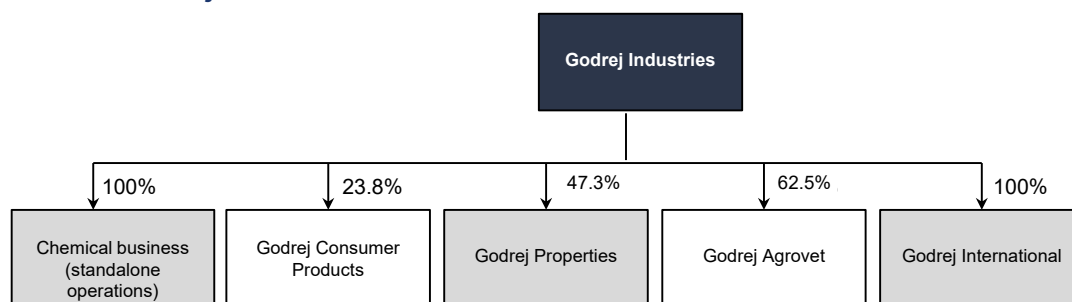
Source: Company data, I-Sec research

Chart 2: Revenue growth in chemical business



Valuation

Chart 3: Godrej Industries' subsidiaries and associates



Source: Company data, I-Sec research

Upgrade to BUY

We have valued each subsidiary of Godrej Industries (GIL) separately based on I-Sec target prices as well as current market prices. We upgrade GIL to BUY with a target price of Rs654 (earlier: Rs623).

Table 2: SoTP valuation of Godrej Industries (I-Sec target prices)

Company	Amount (Rs mn)	Per share (Rs)	Methodology
Godrej Inds (Chemical Business) [A]	10,942	33	8x FY21 EV/EBITDA
Godrej Consumer 23.8% stake [B]	1,33,843	398	Isec Target price & holding company discount of 50%
Godrej Properties 47.3% stake [C]	74,279	221	Isec Target price & holding company discount of 50%
Godrej Agrovet 62.5% stake [D]	43,219	128	Isec Target price & holding company discount of 50%
Godrej International [E]	250	1	At 0.5x FY21 Book Value
Total [A+B+C+D+E]	2,62,533	780	
Less: Net debt of Godrej Inds	42,295	126	
Value attributable to shareholders of Godrej Inds	2,20,238	654	
Number of Shares (mn)	337		
Value per share (Rs)	654		

Source: Company data, I-Sec research

Table 3: SoTP valuation of Godrej Industries (current market prices)

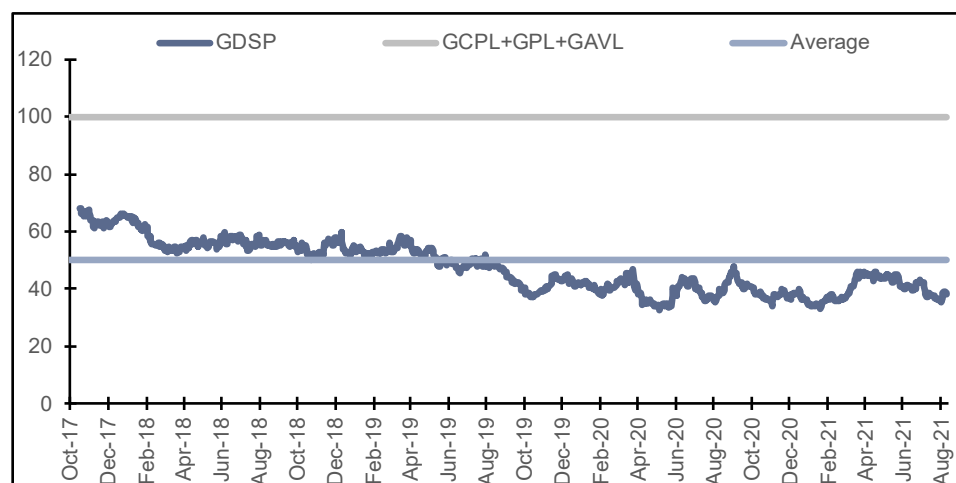
Company	Amount (Rs mn)	Per share (Rs)	Methodology
Godrej Inds (Chemical Business) [A]	10,942	33	8x FY21 EV/EBITDA
Godrej Consumer 23.8% stake [B]	1,19,601	355	Market cap & holding company discount of 50%
Godrej Properties 47.3% stake [C]	1,01,696	302	Market cap & holding company discount of 50%
Godrej Agrovet 62.5% stake [D]	39,375	117	Market cap & holding company discount of 50%
Godrej International [E]	250	1	At 0.5x FY21 Book Value
Total [A+B+C+D+E]	2,71,864	808	
Less: Net debt of Godrej Inds	42,295	126	
Value attributable to shareholders of Godrej Inds	2,29,569	682	
Number of Shares (mn)	337		
Value per share (Rs)	682		

Source: Company data, I-Sec research

Table 4: Sensitivity analysis of SoTP valuation of Godrej Industries*

Company	Holding company discount (%)			
	20%	30%	40%	50%
Godrej Inds (Chemical Business) [A]	10,942	10,942	10,942	10,942
Godrej Consumer 23.8% stake [B]	1,91,362	1,67,442	1,43,522	1,19,601
Godrej Properties 47.3% stake [C]	1,62,714	1,42,375	1,22,036	1,01,696
Godrej Agrovet 62.5% stake [D]	62,999	55,124	47,249	39,375
Godrej International [F]	250	250	250	250
Total [A+B+C+D+E]	4,28,267	3,76,133	3,23,998	2,71,864
Less: Net debt of Godrej Inds	42,295	42,295	42,295	42,295
Value attributable to shareholders of Godrej Inds	3,85,972	3,33,837	2,81,703	2,29,569
Number of Shares (mn)	337	337	337	337
Value per share (Rs)	1,147	992	837	682

Source: Company data, I-Sec research. *Based on current market prices of listed subsidiaries & associates

Chart 4: Historical premium/discount to NAV*

Source: Company data, I-Sec research * Godrej Inds vs Market value of listed subsidiaries and associates

Key risks

- Steep increase in competitive intensity in any GIL business segment may impact its valuation.
- Any sudden increase in raw material prices may also impact GIL's valuation.
- Any changes at the ownership level and change in group structure may alter the valuations of different subsidiaries as well as GIL.

Financial summary (chemical business/standalone operations)

Table 5: Profit & loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21P
Net Sales	19,583	21,440	19,687	18,555
Operating Expenses	17,215	17,389	16,757	17,188
EBITDA	2,369	4,051	2,930	1,368
% margins	12.1%	18.9%	14.9%	7.4%
Depreciation & Amortisation	686	543	686	722
Gross Interest	2,124	2,396	2,290	2,375
Other Income	334	418	609	641
Recurring PBT	(107)	1,530	563	(1,089)
Less: Taxes	153	(1)	(1)	(1)
Less: Minority Interest	-	-	-	-
Net Income (Reported)	(260)	1,531	564	(1,088)
Extraordinaries (Net)	(2,671)	2,444	276	(20)
Recurring Net Income	2,411	(913)	289	(1,068)

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21P
Assets				
Total Current Assets	5,963	10,701	8,547	21,703
of which cash & cash eqv.	618	5,163	3,436	1,181
Total Current Liabilities & Provisions	10,744	7,683	5,584	8,793
Net Current Assets	(4,781)	3,018	2,963	12,909
Investments	29,939	29,106	28,317	32,142
Net Fixed Assets	13,619	13,308	13,168	12,955
Capital Work-in-Progress	77	87	180	728
Goodwill	-	-	-	-
Total Assets	38,853	45,520	44,628	58,734
Liabilities				
Borrowings	20,953	29,203	28,326	43,476
Deferred Tax Liability	(105)	-	(4)	(5)
Minority Interest	-	-	-	-
Equity Share Capital	336	336	337	337
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	17,669	15,981	15,970	14,926
Net Worth	18,006	16,317	16,306	15,263
Total Liabilities	38,853	45,520	44,628	58,734

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21P
Operating Cashflow	3,077	(440)	804	(346)
Working Capital Changes	2,353	(3,254)	(1,672)	(12,201)
Capital Commitments	(258)	(174)	(468)	(1,058)
Free Cashflow	5,172	(3,868)	(1,336)	(13,605)
Cashflow from Investing Activities	(792)	833	789	(3,824)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(3,274)	8,250	(878)	15,151
Dividend paid	(708)	(387)	(387)	(387)
Change in Deferred Tax Liability	(79)	105	(4)	(1)
Chg. in Cash & Bank balances	467	4,545	(1,727)	(2,254)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY18	FY19	FY20	FY21P
Per Share Data (Rs)				
EPS	-0.8	4.5	1.7	-3.2
Cash EPS	1.3	6.2	3.7	-1.1
Dividend per share (DPS)	1.8	1.2	1.2	0.0
Book Value per share (BV)	56.7	51.4	51.3	48.1
Growth (%)				
Net Sales	30.5	9.5	-8.2	-5.7
EBITDA	248.0	71.0	-27.7	-53.3
PAT	-82.1	-689.1	-63.1	-292.8
Operating Ratios				
Raw Material / Sales (%)	66.4	60.5	60.7	69.3
Employee cost / Sales (%)	6.8	6.1	7.4	7.3
SG&A / Sales (%)	14.7	14.5	17.0	16.0
Other Income / PBT (%)	-311.6	27.3	108.2	-58.8
Effective Tax Rate (%)	-142.1	0.0	-0.2	0.1
Working Capital (days)	-87.9	50.7	54.2	250.5
Inventory Turnover (days)	55.1	50.5	46.4	79.7
Receivables (days)	21.7	29.7	36.6	48.4
Payables (days)	98.1	98.2	116.2	168.1
Net D/E (x)	1.2	1.8	1.7	2.8
Profitability Ratios (%)				
Net Income Margins	12.3	-4.3	1.5	-5.8
RoACE	12.3	9.3	6.3	2.5
RoAE	-1.5	8.9	3.5	-6.9
EBITDA Margins	12.1	18.9	14.9	7.4

Source: Company data, I-Sec research

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