

Q1FY22 result review and TP revision

Agriculture

Target price: Rs720

Target price revision

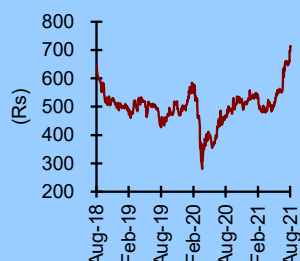
Rs720 from Rs555

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	70.3	70.7	71.7
Institutional investors	5.4	4.5	4.1
MFs and others	2.2	1.7	1.3
FIs/Banks	0.0	0.0	0.0
FII	3.1	2.8	2.8
Others	24.4	24.8	24.2

Source: BSE

Price chart



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INDIA

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Godrej Agrovet

ADD

Maintained

Palm oil segment doing well; Dairy disappoints

Rs681

Godrej Agrovet's Animal feed and Vegetable oil segments reported strong results but Dairy segment reported muted numbers. We note (1) favorable base, aggressive price hikes and revival in layer and broiler feed helped Animal feed segment to report 33.9% revenue growth, (2) Steep increase in palm oil prices and better extraction rate resulted in 83.5% higher revenues of Vegetable oil segment and (3) With increase in milk procurement prices, Dairy segment reported losses again. We also note lower out-of-home consumption and closure of HoReCa due to lockdown resulted in lower off-take for segments like Dairy and Poultry. We expect most segments of the company to show recovery in FY22-23 with favourable base of FY21. We remain confident of value creation (RoE > Cost of Equity) and maintain ADD with a DCF-based target price of Rs720 (30x FY23E).

- **Q1FY22 performance:** Godrej Agrovet reported revenue, EBITDA and PAT growth of 28.2%, 2.2% and 4.1%, respectively. Animal feed and Vegetable oil segments reported strong revenue growth of 33.9% and 83.5%, respectively. However, crop protection and Dairy segments reported revenue growth of 15.1% and 12.7%, respectively. Astec reported revenue growth of 14.9%, YoY.
- **Higher input prices across segments:** The input prices of Animal feed and Dairy have increased due to higher food inflation and higher global SMP prices. We also note the RM prices for agrochemicals business have increased due to higher crude oil prices and impact on supplies from China. The company's gross and EBITDA margins declined 300bps and 220bps, respectively.
- **Slower revenue growth due to lower demand from HoReCa:** The company's multiple segments such as Dairy and poultry generate demand from HoReCa sector. With lockdown and lower out-of-home consumption, growth rates of these segments were impacted. However, we believe there is normalcy post lifting of lockdowns.
- **Robust performance of Vegetable oil segment:** With steep increase in crude palm oil prices, there is healthy realization growth. Increase in extraction rate also helped to improve productivity. The segment reported strong revenue growth of 83.5% and EBIT margin expanded to 11.3% in Q1FY22 from 4.1% in Q1FY21.
- **Drivers for FY22:** Apart from favourable base of FY21, we believe GAVL can benefit due to (1) normal monsoon in FY22, (2) essentials goods such as animal feed, milk, palm oil continue to do well, (3) Strong growth/profitability of vegetable oil segment considering steep increase in palm oil prices, (4) possibility of recovery in HoReCa sector in FY22 and (5) benefits of cost saving initiatives.
- **Maintain ADD:** We expect GAVL to report revenue and PAT CAGRs of 13.2% and 20.2% respectively, over FY21-FY23E. The return ratios are also expected to be above cost of capital over FY21-23. We maintain ADD with a DCF based target price of Rs720 (30x FY23E). Key risks: Failure of new products and prolonged slow-down in out-of-home consumption.

Market Cap	Rs131bn/US\$1.8bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	GODE.BO/GOAGRO IN	Net Revenue (Rs mn)	69,640	62,667	71,061	80,325
Shares Outstanding (mn)	192.1	Net Profit (Rs mn)	3,163	3,142	3,751	4,535
52-week Range (Rs)	714/464	Dil. EPS (Rs)	16.5	16.4	19.5	23.6
Free Float (%)	28.3	% Chg YoY	46.7	(0.7)	19.4	20.9
FII (%)	2.8	P/E (x)	41.1	41.4	34.7	28.7
Daily Volume (US\$'000)	3,632	CEPS (Rs)	24.2	24.4	28.2	33.2
Absolute Return 3m (%)	33.2	EV/EBITDA (x)	29.4	25.5	21.0	18.1
Absolute Return 12m (%)	48.3	Dividend Yield (%)	0.8	1.2	1.3	1.5
Sensex Return 3m (%)	10.9	RoCE (%)	11.9	12.3	13.9	15.5
Sensex Return 12m (%)	44.4	RoE (%)	16.5	15.8	16.3	18.0

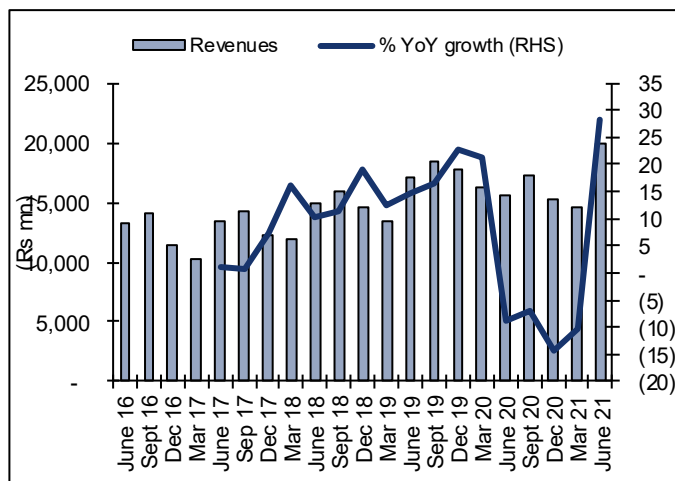
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Table 1: Q1FY22 financial performance*(Rs mn, year ending March 31)*

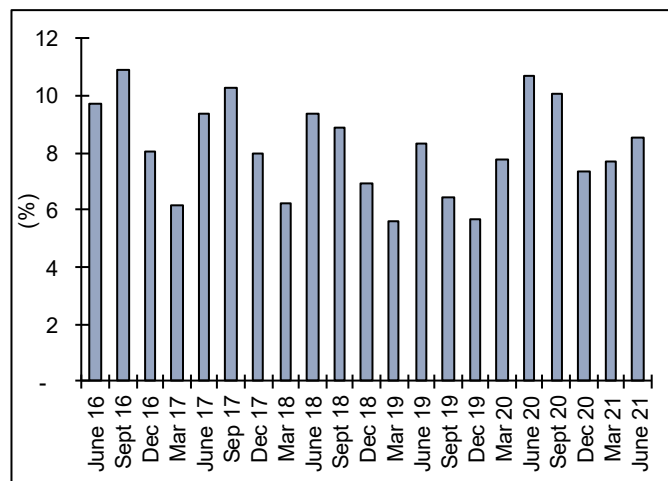
Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
Revenue	19,928	15,542	28.2	14,625	36.3
Expenditure					
Raw materials	15,114	11,319	33.5	10,819	39.7
% of revenue	75.8	72.8		74.0	
Employee cost	1,021	923	10.6	860	18.8
% of revenue	5.1	5.9		5.9	
Other expenditure	2,097	1,641	27.8	1,823	15.0
% of revenue	10.5	10.6		12.5	
Total expenditure	18,232	13,882	31.3	13,502	35.0
EBITDA	1,695	1,659	2.2	1,122	51.1
EBITDA margin	8.5	10.7		7.7	
Other income	104	83	26.3	99	5.2
Profit from Associates	113	96	18.1	135	(16.1)
PBDIT	1,913	1,838	4.1	1,357	41.0
Depreciation	407.7	366.2	11.3	392.8	3.8
PBIT	1,505	1,472	2.3	964	56.2
Interest	130	128	1.9	178	(26.8)
PBT	1,375	1,344	2.3	786	75.0
Prov for tax	327	338	(3.1)	152	115.5
% of PBT	23.8	25.1		19.3	
Adjusted PAT	1,048	1,006	4.1	634	65.3
Extra ordinary items	3	4	(21.4)	25	(86.5)
Minority Interest	(14)	121	(111.3)	68	(120.0)
Reported PAT	1,064	890	19.6	590	80.3

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenues and revenue growth

Source: Company data, I-Sec research

Chart 2: EBITDA margin

Source: Company data, I-Sec research

Segment-wise performance

Table 2: Segment-wise performance

(Rs mn)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
Revenues					
Animal feed	10,013	7,480	33.9	7,995	25.2
Vegetable oil	2,888	1,574	83.5	717	302.7
Crop protection	3,692	3,208	15.1	2,656	39.0
Dairy	2,665	2,365	12.7	2,801	(4.8)
Others	1,995	1,823	9.4	1,408	41.6
Intersegment	(1,326)	(908)	46.0	(953)	39.1
Total	19,928	15,542	28.2	14,625	36.3
EBIT					
Animal feed	637	481	32.5	568	12.1
Vegetable oil	326	65	403.6	53	514.7
Crop protection	829	844	(1.9)	539	53.6
Dairy	(105)	33	(416.6)	(36)	189.5
Others	9	195	(95.4)	(88)	(110.2)
Intersegment					
Total	1,696	1,618	4.8	1,037	63.6
Revenues as % of Total					
Animal feed	50.2	48.1		54.7	
Vegetable oil	14.5	10.1		4.9	
Crop protection	18.5	20.6		18.2	
Dairy	13.4	15.2		19.2	
Others	10.0	11.7		9.6	
Intersegment	-6.7	-5.8		-6.5	
Total	100.0	100.0		100.0	
EBIT as % of Total					
Animal feed	37.6	29.7		54.8	
Vegetable oil	19.2	4.0		5.1	
Crop protection	48.9	52.2		52.0	
Dairy	-6.2	2.0		-3.5	
Others	0.5	12.0		-8.5	
Intersegment	0.0	0.0		0.0	
Total	100.0	100.0		100.0	
EBIT margin (%)					
Animal feed	6.4	6.4		7.1	
Vegetable oil	11.3	4.1		7.4	
Crop protection	22.4	26.3		20.3	
Dairy	(3.9)	1.4		(1.3)	
Others	0.5	10.7		(6.2)	
Intersegment	-	-		-	
Total	8.5	10.4		7.1	

Source: Company data, I-Sec research

Key highlights from Q1FY22 results

- Animal feed segment reported volume growth of 18.3%. There is strong volume uptick in key categories i.e. cattle, broiler and layer. Only Aqua feed sub-segment was muted.
- With aggressive price hikes as well as healthy volume growth, the segment reported revenue growth of 33.9% YoY.
- Steep increase in crude palm oil prices resulted in strong EBIT margin expansion of Oil Palm segment. It expanded from 4.1% in Q1FY21 to 11.3% in Q1FY22.
- The segment also reported strong revenue growth of 83.5% YoY due to higher volume growth as well as better realizations.
- Domestic crop protection business reported 15.5% revenue growth. Gap in monsoon and delayed sowing resulted in relatively lower growth in June'21.
- There is steep inflation in input prices of agrochemicals due to higher crude oil prices, higher demand and limited supply from China.
- Astec reported revenue growth of 14.9% largely on account of higher domestic revenues as exports declined during the quarter.
- Higher raw material prices impacted the margins of Astec segment.
- The lockdowns in South India impacted the demand from HoReCa sector as well as out-of-home consumption products.
- Increase in milk procurement prices have impacted the profitability.
- The company has continued to introduce differentiated products such as Mango recharge energy drink.
- Lower demand from HoReCa and lower out-of-home consumption impacted demand for poultry in Q1FY22.
- The demand for poultry has recovered post lifting of lockdowns and the profit margins are also expected to improve.

Valuation and risks

We expect Godrej Agrovet (GAVL) to report revenue and PAT CAGRs of 13.2% and 20.2% over FY21-FY23E, respectively. We expect RoE to improve to 18% in FY23E from 15.8% in FY21. We value the stock on DCF basis with a target price of Rs720. At this target price, the implied P/E works out to 30x on FY23E EPS. We maintain ADD rating.

Table 3: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	10.8
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	42,416
Discounted terminal value (Rs mn)	95,845
Total equity value (Rs mn)	1,38,261
Value per share (Rs)	720

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 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	69,640	62,667	71,061	80,325
Operating Expenses	64,756	57,029	64,239	72,413
EBITDA	4,885	5,638	6,822	7,912
% margins	7.0	9.0	9.6	9.8
Depreciation & Amortisation	1,481	1,540	1,670	1,836
Gross Interest	416	465	692	692
Other Income	598	898	879	1,038
Recurring PBT	3,456	4,029	4,786	5,814
Less: Taxes	481	1,055	1,220	1,483
Less: Minority Interest	(59)	334	368	404
Net Income (Reported)	3,024	3,170	3,751	4,535
Extraordinaries (Net)	(139)	28	-	-
Recurring Net Income	3,163	3,142	3,751	4,535

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	20,746	21,376	23,375	25,833
of which cash & cash eqv.	508	509	496	217
Total Current Liabilities & Provisions	16,346	11,780	13,502	15,262
Net Current Assets	4,401	9,596	9,874	10,571
Investments	2,879	3,401	4,901	6,401
Net Fixed Assets	21,565	21,602	23,146	23,410
Capital Work-in-Progress	1,532	1,414	-	-
Total Assets	30,377	36,014	37,921	40,382
Liabilities				
Borrowings	8,449	9,883	9,883	9,883
Deferred Tax Liability	(278)	1,517	1,517	1,517
Minority Interest	3,825	4,103	4,103	4,103
Equity Share Capital	1,920	1,921	1,921	1,921
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	16,461	18,590	20,498	22,959
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	18,381	20,511	22,418	24,880
Total Liabilities	30,377	36,014	37,921	40,382

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sept 20	Dec 20	Mar 21	June 21
Net sales	17,239	15,262	14,625	19,928
% growth (YoY)	(6.9)	(14.4)	(10.1)	28.2
EBITDA	1,732	1,124	1,122	1,695
Margin (%)	10.0	7.4	7.7	8.5
Other income	256	230	234	218
Extraordinaries (Net)	4	(4)	25	3
Adjusted Net profit	1,072	619	566	1,061

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	4,123	4,988	5,421	6,371
Working Capital Changes	(2,204)	(5,194)	(291)	(976)
Capital Commitments	(2,575)	(1,459)	(1,800)	(2,100)
Free Cashflow	(657)	(1,666)	3,330	3,295
Cashflow from Investing Activities	(4)	(522)	(1,500)	(1,500)
Issue of Share Capital	2	-	-	-
Inc (Dec) in Borrowings	2,311	1,434	-	-
Dividend paid	(1,076)	755	(1,843)	(2,074)
Change in Deferred Tax Liability	(2,322)	1,795	-	-
Chg. in Cash & Bank balance	210	1	(13)	(279)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	16.5	16.4	19.5	23.6
Cash EPS	24.2	24.4	28.2	33.2
Dividend per share (DPS)	5.5	8.0	9.0	10.0
Book Value per share (BV)	94.3	114.7	124.6	137.5
Growth (%)				
Net Sales	18.6	(10.0)	13.4	13.0
EBITDA	7.2	15.4	21.0	16.0
PAT	46.7	(0.7)	19.4	20.9
EPS	46.7	(0.7)	19.4	20.9
Valuation Ratios (x)				
P/E	41.1	41.4	34.7	28.7
P/CEPS	28.0	27.8	24.0	20.4
P/BV	7.2	5.9	5.4	4.9
EV / EBITDA	29.4	25.5	21.0	18.1
EV / Sales	2.1	2.3	2.0	1.8
Operating Ratios				
Raw Material / Sales (%)	77.2	73.5	73.5	73.4
Employee cost / Sales (%)	5.1	6.0	5.5	5.5
SG&A / Sales (%)	1.3	1.3	1.3	1.3
Other Income / PBT (%)	14	10	7	7
Effective Tax Rate (%)	14	26	26	26
Working Capital (days)	20.4	52.9	48.2	47.0
Inventory Turnover (days)	46.4	60.7	58.4	58.4
Receivables (days)	44.8	47.9	47.5	47.5
Payables (days)	67.5	43.4	43.8	43.8
Net D/E (x)	0.6	0.6	0.5	0.4
Profitability Ratios (%)				
Net Income Margins	4.3	4.7	5.0	5.4
RoACE	11.9	12.3	13.9	15.5
RoAE	16.5	15.8	16.3	18.0
Dividend Payout	33.4	48.9	46.1	42.3
Dividend Yield	0.8	1.2	1.3	1.5
EBITDA Margins	7.0	9.0	9.6	9.8

Source: Company data, I-Sec research

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