

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

Godrej Agrovet

ADD

Maintained

Rs681

Palm oil segment doing well; Dairy disappoints

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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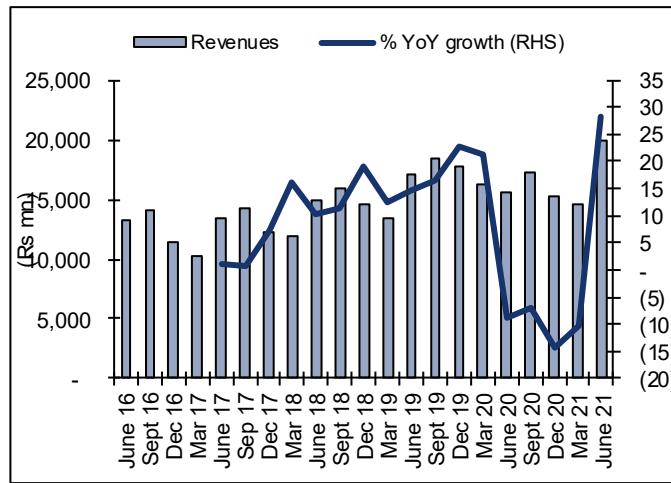
Table 1: Q1FY22 financial performance

(Rs mn, year ending March 31)

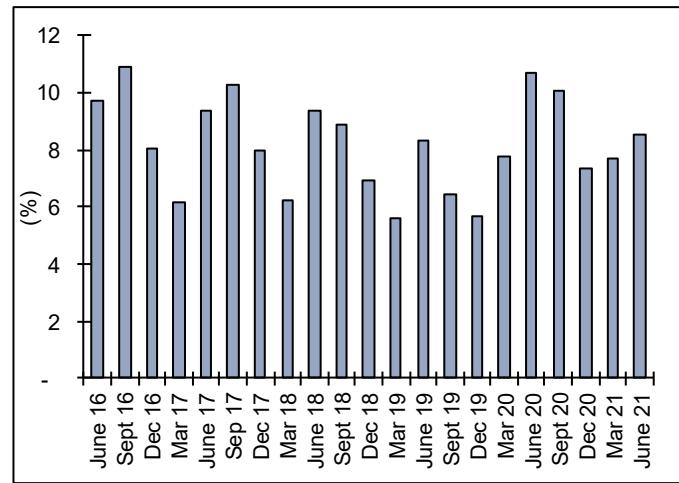
| Y/e March | Q1FY22 | Q1FY21 | YoY gr. (%) | Q4FY21 | QoQ gr. (%) |
|--------------------------|---------------|---------------|-------------|---------------|-------------|
| Revenue | 19,928 | 15,542 | 28.2 | 14,625 | 36.3 |
| Expenditure | | | | | |
| Raw materials | 15,114 | 11,319 | 33.5 | 10,819 | 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 |
| <i>EBITDA margin</i> | 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 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 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 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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