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### Q3FY21 result review and estimate revision

## Agriculture

Target price: Rs575

### Earnings revision

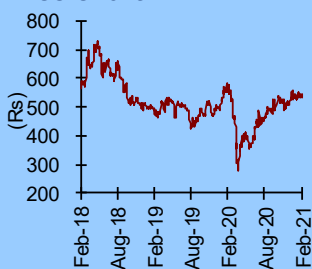
(%)	FY21E	FY22E
Sales	↓ 10.0	↓ 10.0
EBITDA	↓ 7.5	↓ 5.0
EPS	↓ 8.2	↓ 5.5

### Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	70.1	70.1	70.3
Institutional investors	5.8	17.3	5.4
MFs and others	1.9	2.0	2.2
FIs/Banks	0.4	0.0	0.0
FII	3.5	15.3	3.1
Others	24.1	12.6	24.4

Source: BSE

### Price chart



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**ICICI Securities**

## Godrej Agrovet

**ADD**

**Maintained**

Weak revenues but higher margins due to lower commodity prices

**Rs532**

Three pointers to note from Godrej Agrovet's Q3FY21: (1) There is still lower demand from HoReCa for milk, eggs and chicken. It impacted the company's Animal feed and Dairy segments, (2) Re-branding all dairy products under 'Godrej Jersey' brand will strengthen the dairy segment and will improve the ability to raise prices and maintain margins and (3) GAVL has continued to reduce investments in working capital which will lead to higher return ratios. Though Bird flu disease is expected to impact Poultry feed and Godrej Tyson for 1-2 quarters, we expect most segments of the company to show recovery in FY22 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 Rs575 (25x FY23E).

- ▶ **Q3FY21 result performance:** Godrej Agrovet reported revenue decline of 14.4% and EBITDA and PAT growth of 11.7% and 21.2%, respectively. Animal feed, Oil Palm and Dairy segment revenues declined 22.7%, 16.6% and 10.1%, respectively due to localised lockdown, white fly attack, lower commodity prices and lower institutional sales. Astec reported revenue decline of 7.1% YoY.
- ▶ **Deflation in input prices leads to higher gross margin:** The company reported 540bps higher gross margin and EBITDA margin expanded 170bps YoY. The input prices for most segments were lower YoY. We believe cost savings measures initiated post covid have also helped to report better margins. The change in revenue mix (Higher share of Astec and palm oil and lower share of Animal Feed) also helped to improve the margins at consolidated level.
- ▶ **Likely impact of Bird Flu:** With Bird Flu disease impacting birds in multiple states in India, we believe the consumption of chicken and eggs to be impacted. We expect the impact to hurt the revenues of Poultry feed and Godrej Tyson for 1-2 quarters. We expect the situation to be back to normal by Q2FY22.
- ▶ **Dairy business branded as 'Godrej Jersey':** The company has re-launched all the dairy products under the brand 'Godrej Jersey'. We expect higher investments in the dairy business. We also believe Godrej brand equity will help to improve addressable market as well as improve the ability to raise prices and maintain margins. We expect benefits of this strategy in FY22-23.
- ▶ **Maintain ADD:** We expect GAVL to report revenue and PAT CAGRs of 4.9% and 12% respectively, over FY20-FY23E. The return ratios are also expected to be above cost of capital. We maintain ADD with a DCF based target price of Rs575 (25x FY23E). Key risks: Failure of new products and prolonged slow-down in out-of-home consumption.

Market Cap	Rs102bn/US\$1.4bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	GODE.BO/GOAGRO IN	Net Revenue (Rs mn)	69,640	63,752	71,593	80,424
Shares Outstanding (mn)	192.1	Net Profit (Rs mn)	3,163	3,125	3,766	4,439
52-week Range (Rs)	580/280	Dil. EPS (Rs)	16.5	16.3	19.6	23.1
Free Float (%)	29.7	% Chg YoY	46.7	(1.2)	20.5	17.9
FII (%)	3.1	P/E (x)	32.3	32.7	27.1	23.0
Daily Volume (US\$'000)	1,283	CEPS (Rs)	24.2	24.5	28.8	33.0
Absolute Return 3m (%)	1.4	EV/EBITDA (x)	23.3	19.4	16.8	14.9
Absolute Return 12m (%)	(7.1)	Dividend Yield (%)	1.0	1.0	1.1	1.3
Sensex Return 3m (%)	24.7	RoCE (%)	11.9	14.1	15.8	16.6
Sensex Return 12m (%)	25.6	RoE (%)	16.5	16.4	17.8	18.5

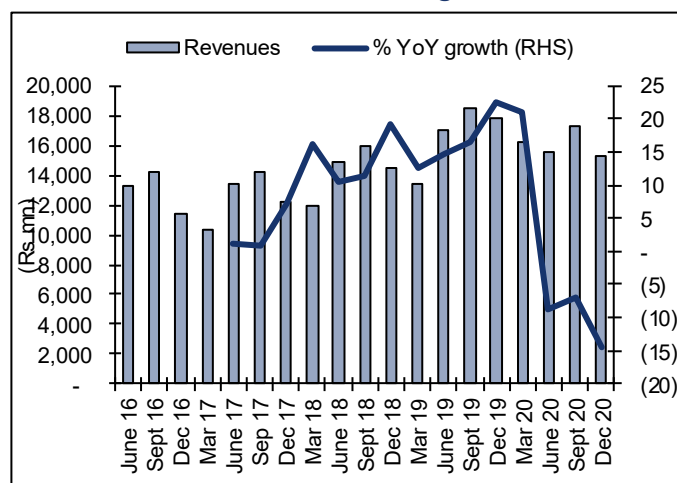
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**Table 1: Q3FY21 financial performance***(Rs mn, year ending March 31)*

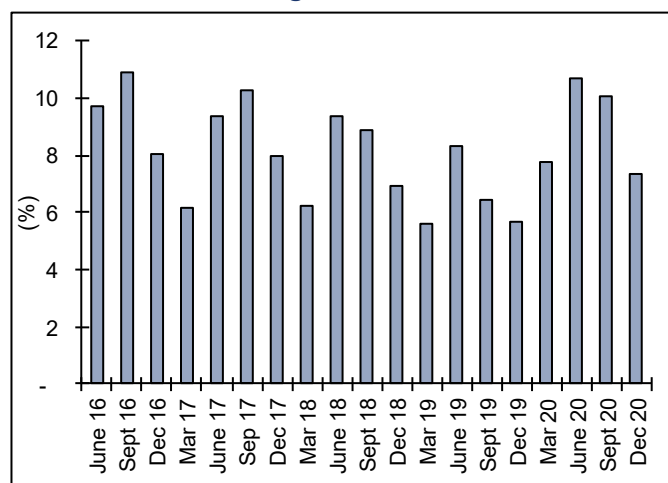
Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)
<b>Revenue</b>	<b>15,262</b>	<b>17,827</b>	<b>(14.4)</b>	<b>17,239</b>	<b>(11.5)</b>
<b>Expenditure</b>					
Raw materials	11,318	14,180	(20.2)	12,622	(10.3)
% of revenue	74.2	79.5		73.2	
Employee cost	994	924	7.6	987	0.7
% of revenue	6.5	5.2		5.7	
Other expenditure	1,825	1,717	6.3	1,899	(3.9)
% of revenue	12.0	9.6		11.0	
Total expenditure	14,137	16,821	(16.0)	15,508	(8.8)
<b>EBITDA</b>					
<b>EBITDA</b>	<b>1,124</b>	<b>1,006</b>	<b>11.7</b>	<b>1,732</b>	<b>(35.1)</b>
<b>EBITDA margin</b>	<b>7.4</b>	<b>5.6</b>		<b>10.0</b>	
Other income	131	93	40.2	83	57.4
Profit from Associates	99	59	67.9	173	(42.7)
<b>PBDIT</b>	<b>1,354</b>	<b>1,158</b>	<b>16.9</b>	<b>1,987</b>	<b>(31.9)</b>
Depreciation	390.3	370.7	5.3	390.7	(0.1)
<b>PBIT</b>	<b>964</b>	<b>788</b>	<b>22.4</b>	<b>1,597</b>	<b>(39.6)</b>
Interest	63	108	(41.9)	96	(34.8)
<b>PBT</b>	<b>901</b>	<b>680</b>	<b>32.6</b>	<b>1,501</b>	<b>(39.9)</b>
Prov for tax	220	168	30.8	345	(36.2)
% of PBT	24.4	24.8		23.0	
<b>Adjusted PAT</b>	<b>681</b>	<b>511</b>	<b>33.1</b>	<b>1,155</b>	<b>(41.1)</b>
Extra ordinary items	(4)	(9)	(52.7)	4	(215.8)
Minority Interest	62	(5)	(1,393.8)	83	(25.5)
<b>Reported PAT</b>	<b>614</b>	<b>507</b>	<b>21.2</b>	<b>1,076</b>	<b>(42.9)</b>

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)	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)
<b>Revenues</b>					
Animal feed	7,833	10,130	(22.7)	7,623	2.7
Vegetable oil	1,878	2,250	(16.6)	2,932	(36.0)
Crop protection	2,209	2,180	1.3	3,328	(33.6)
Dairy	2,567	2,855	(10.1)	2,590	(0.9)
Others	1,615	1,652	(2.2)	1,574	2.6
Intersegment	(840)	(1,240)	(32.3)	(808)	3.9
<b>Total</b>	<b>15,261</b>	<b>17,827</b>	<b>(14.4)</b>	<b>17,239</b>	<b>(11.5)</b>
<b>EBIT</b>					
Animal feed	382	350	9.1	476	(19.8)
Vegetable oil	305	436	(30.0)	414	(26.3)
Crop protection	356	381	(6.5)	745	(52.2)
Dairy	68	(7)	(1,109.0)	41	64.1
Others	61	(176)	(134.5)	64	(5.7)
Intersegment					
<b>Total</b>	<b>1,172</b>	<b>984</b>	<b>19.0</b>	<b>1,742</b>	<b>(32.7)</b>
<b>Revenues as % of Total</b>					
Animal feed	51.3	56.8		44.2	
Vegetable oil	12.3	12.6		17.0	
Crop protection	14.5	12.2		19.3	
Dairy	16.8	16.0		15.0	
Others	10.6	9.3		9.1	
Intersegment	-5.5	-7.0		-4.7	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>	
<b>EBIT as % of Total</b>					
Animal feed	32.6	35.6		27.4	
Vegetable oil	26.1	44.3		23.8	
<b>Crop protection</b>	<b>30.4</b>	<b>38.7</b>		<b>42.8</b>	
<b>Dairy</b>	<b>5.8</b>	<b>-0.7</b>		<b>2.4</b>	
<b>Others</b>	<b>5.2</b>	<b>-17.9</b>		<b>3.7</b>	
Intersegment	0.0	0.0		0.0	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>	
<b>EBIT margin (%)</b>					
Animal feed	4.9	3.5		6.2	
Vegetable oil	16.3	19.4		14.1	
Crop protection	16.1	17.5		22.4	
Dairy	2.6	(0.2)		1.6	
Others	3.8	(10.7)		4.1	
Intersegment	-	-		-	
<b>Total</b>	<b>7.7</b>	<b>5.5</b>		<b>10.1</b>	

Source: Company data, I-Sec research

## Key highlights from Q3FY21 results

- Animal feed segment reported volume decline of 16.5% YoY. Most of the hotels and restaurants are operating at lower capacity utilization. It is resulting in lower demand for cattle feed and poultry feed.
- Lower raw material prices have helped to improve margins of Animal Feed segment.
- White fly attack impacted the palm oil plantations and it resulted in lower arrival of fresh fruit bunches. Hence, Oil palm segment reported revenue decline of 16.6%. Lower yield as well as lower revenues resulted in EBIT decline of 30% YoY.
- Increase in palm oil prices by 33% helped company strong growth in Oil Palm segment in 9MFY21.
- The company is allotted an area of 28,164 hectares for palm oil development by Department of Horticulture, Telangana.
- The company introduced two herbicides during 9MFY21 as *Delete Aqua* and *Impool-X*.
- Astec reported 7.1% revenue growth due to deferment of orders and reduction in prices of one key product.
- Lower institutional and Out-of-home consumption of milk impacted revenues of Creamline Dairy. Revenues of Dairy segment declined 10.1% YoY. Correction in milk prices resulted in higher EBITDA margin.
- The company has re-launched entire dairy product range under the brand 'Godrej Jersey'.
- Lower sales of Live Birds and Godrej Real Good Chicken resulted in 1.8% lower revenues of Godrej Tyson Foods.
- Revenues of ACI Godrej Agrovet Bangladesh were up 25% YoY.
- Due to lower raw material prices for almost all segments, the gross margin expanded 540bps YoY. EBITDA margin was also up 170bps YoY.

## Valuation and risks

We expect Godrej Agrovet (GAVL) to report revenue and PAT CAGRs of 4.9% and 12% over FY20-FY23E, respectively. We expect RoE to improve to 18.5% in FY23E from 16.5% in FY20. We value the stock on DCF basis with a target price of Rs575. At this target price, the implied P/E works out to 25x on FY23E EPS. We maintain ADD rating.

**Table 3: DCF-based valuation**

Particulars	Amt (Rs)
Cost of Equity (%)	10.8
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	35,144
Discounted terminal value (Rs mn)	75,272
Total equity value (Rs mn)	1,10,417
<b>Value per share (Rs)</b>	<b>575</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 4: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>69,640</b>	<b>63,752</b>	<b>71,593</b>	<b>80,424</b>
<b>Operating Expenses</b>	<b>64,756</b>	<b>57,887</b>	<b>64,827</b>	<b>72,784</b>
<b>EBITDA</b>	<b>4,885</b>	<b>5,865</b>	<b>6,766</b>	<b>7,640</b>
% margins	7.0	9.2	9.4	9.5
Depreciation & Amortisation	1,481	1,581	1,762	1,903
Gross Interest	416	604	532	532
Other Income	598	379	435	590
<b>Recurring PBT</b>	<b>3,456</b>	<b>3,917</b>	<b>4,750</b>	<b>5,623</b>
Less: Taxes	481	999	1,211	1,434
Less: Minority Interest	(59)	(64)	(71)	(78)
<b>Net Income (Reported)</b>	<b>3,024</b>	<b>3,125</b>	<b>3,766</b>	<b>4,439</b>
Extraordinaries (Net)	(139)	-	-	-
<b>Recurring Net Income</b>	<b>3,163</b>	<b>3,125</b>	<b>3,766</b>	<b>4,439</b>

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	20,746	20,934	23,522	26,822
of which cash & cash eqv.	508	351	714	1,514
Total Current Liabilities & Provisions	16,346	16,894	18,972	21,312
<b>Net Current Assets</b>	<b>4,401</b>	<b>4,039</b>	<b>4,550</b>	<b>5,510</b>
Investments	2,879	2,879	4,379	6,129
Net Fixed Assets	21,565	23,516	24,003	24,351
Capital Work-in-Progress	1,532	-	-	-
<b>Total Assets</b>	<b>30,377</b>	<b>30,434</b>	<b>32,933</b>	<b>35,990</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>8,449</b>	<b>6,649</b>	<b>6,649</b>	<b>6,649</b>
<b>Deferred Tax Liability</b>	<b>(278)</b>	<b>(278)</b>	<b>(278)</b>	<b>(278)</b>
Minority Interest	3,825	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*	16,461	18,318	20,817	23,874
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>18,381</b>	<b>20,239</b>	<b>22,738</b>	<b>25,794</b>
<b>Total Liabilities</b>	<b>30,377</b>	<b>30,434</b>	<b>32,933</b>	<b>35,990</b>

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Mar 20	June 20	Sept 20	Dec 20
Net sales	16,277	15,542	17,239	15,262
% growth (YoY)	21.1	(8.7)	(6.9)	(14.4)
EBITDA	1,263	1,659	1,732	1,124
Margin (%)	7.8	10.7	10.0	7.4
Other income	164	179	256	230
Extraordinaries (Net)	(126)	4	4	(4)
Adjusted Net profit	848	885	1,072	619

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Operating Cashflow</b>	<b>4,123</b>	<b>4,706</b>	<b>5,528</b>	<b>6,342</b>
Working Capital Changes	(2,204)	204	(148)	(160)
Capital Commitments	(2,575)	(2,000)	(2,250)	(2,250)
<b>Free Cashflow</b>	<b>(657)</b>	<b>2,911</b>	<b>3,130</b>	<b>3,932</b>
<b>Cashflow from Investing Activities</b>	<b>(4)</b>	<b>-</b>	<b>(1,500)</b>	<b>(1,750)</b>
Issue of Share Capital	2	-	-	-
Inc (Dec) in Borrowings	2,311	(1,800)	-	-
Dividend paid	(1,076)	(1,267)	(1,267)	(1,383)
<b>Change in Deferred Tax Liability</b>	<b>(2,322)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>210</b>	<b>(157)</b>	<b>363</b>	<b>799</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	16.5	16.3	19.6	23.1
Cash EPS	24.2	24.5	28.8	33.0
Dividend per share (DPS)	5.5	5.5	6.0	7.0
Book Value per share (BV)	94.3	103.9	117.0	132.9
<b>Growth (%)</b>				
Net Sales	18.6	(8.5)	12.3	12.3
EBITDA	7.2	20.1	15.3	12.9
PAT	46.7	(1.2)	20.5	17.9
EPS	46.7	(1.2)	20.5	17.9
<b>Valuation Ratios (x)</b>				
P/E	32.3	32.7	27.1	23.0
P/CEPS	22.0	21.7	18.5	16.1
P/BV	5.6	5.1	4.5	4.0
EV / EBITDA	23.3	19.4	16.8	14.9
EV / Sales	1.6	1.8	1.6	1.4
<b>Operating Ratios</b>				
Raw Material / Sales (%)	77.2	75.0	74.8	74.7
Employee cost / Sales (%)	5.1	5.1	5.1	5.1
SG&A / Sales (%)	1.3	1.3	1.3	1.3
Other Income / PBT (%)	14	6	6	7
Effective Tax Rate (%)	14	26	26	26
Working Capital (days)	20.4	21.1	19.6	18.1
Inventory Turnover (days)	46.4	55.7	55.7	55.7
Receivables (days)	44.8	45.6	45.6	45.6
Payables (days)	67.5	76.7	76.7	76.7
Net D/E (x)	0.6	0.5	0.4	0.2
<b>Profitability Ratios (%)</b>				
Net Income Margins	4.3	4.6	4.9	5.2
RoACE	11.9	14.1	15.8	16.6
RoAE	16.5	16.4	17.8	18.5
Dividend Payout	33.4	33.8	30.6	30.3
Dividend Yield	1.0	1.0	1.1	1.3
EBITDA Margins	7.0	9.2	9.4	9.5

Source: Company data, I-Sec research

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