

Godrej Agrovet

ADD
Maintained

Bird flu scare in India- Near term impact likely but
market share gains in medium-long term

Rs540

Company update and TP
change

Agriculture

Target price: Rs575

Target price revision

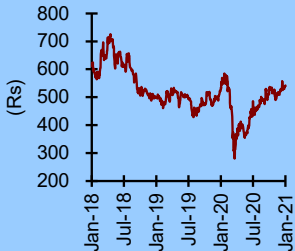
Rs575 from Rs560

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
FII	3.5	3.5	15.3
Others	24.3	24.1	12.6

Source: BSE

Price chart



With several states facing concerns of bird flu, we believe animal feed and poultry segments of Godrej Agrovet are likely to be impacted in near term. However, we also expect organised players such as Godrej Agrovet to gain market share from unorganised players as consumers are willing to pay premium for hygienic and packaged products. Key learnings from Bird flu epidemics in 2006 and 2008 – (1) There was impact on consumption and prices of chicken/eggs for ~12 months post outbreak of disease but consumption as well as prices recovered after the disease was controlled and (2) The profitability of poultry industry was impacted for ~3-4 quarters in 2006 and 2008. We remain confident of value creation (RoE > Cost of Equity) by Godrej Agrovet and maintain our ADD rating with a DCF-based revised target price of Rs575 (28x FY22E; Earlier TP-Rs560).

- ▶ **Bird Flu in India:** Several states such as Himachal Pradesh, Rajasthan, Madhya Pradesh and Kerala have reported bird flu (H5N1 or H5N8) cases. As this disease can spread from birds to poultry, the bird flu concerns are likely to hurt poultry businesses across India in next 2-3 quarters.
- ▶ **Likely impact of Bird flu:** We expect the consumption of poultry products (chicken/eggs) and the prices of these products may decline. The demand for poultry feed may also decline. The profitability of entire value chain (poultry companies, poultry feed companies and farmers) is likely to be impacted in Q4FY21 and H1FY22.
- ▶ **Learnings from Bird flu epidemics in 2006 and 2008:** India suffered Bird flu pandemics in 2006 as well as 2008. The consumption and prices of poultry products declined immediately after outbreak of the epidemic. However, the consumption and prices both recovered after the disease was controlled. We believe the impact on profitability of poultry companies was less than one year.
- ▶ **Value migration towards organised players in medium term:** As the consumers are willing to pay for hygienic and packaged products, the organised players tend to gain market share during such epidemic. We expect some near-term impact on animal feed and poultry segment of Godrej Agrovet but also believe it can gain market share in medium-long term as well as recover profitability.
- ▶ **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 Rs575 (28x FY22E P/E).

Market Cap	Rs104bn/US\$1.4bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	GODE.BO/GOAGRO IN	Net Revenue (Rs mn)	58,707	69,640	70,837	79,560
Shares Outstanding (mn)	192.1	Net Profit (Rs mn)	2,156	3,163	3,404	3,987
52-week Range (Rs)	585/280	Dil. EPS (Rs)	11.2	16.5	17.7	20.8
Free Float (%)	29.9	% Chg YoY	(1.0)	46.7	7.6	17.1
FII (%)	15.3	P/E (x)	48.1	32.8	30.5	26.0
Daily Volume (US\$'000)	1,420	CEPS (Rs)	16.3	24.2	26.0	29.9
Absolute Return 3m (%)	2.1	EV/EBITDA (x)	25.3	23.6	18.2	16.2
Absolute Return 12m (%)	3.4	Dividend Yield (%)	0.8	1.0	1.0	1.1
Sensex Return 3m (%)	22.6	RoCE (%)	14.5	11.9	15.1	15.8
Sensex Return 12m (%)	20.5	RoE (%)	19.1	16.5	17.8	18.5

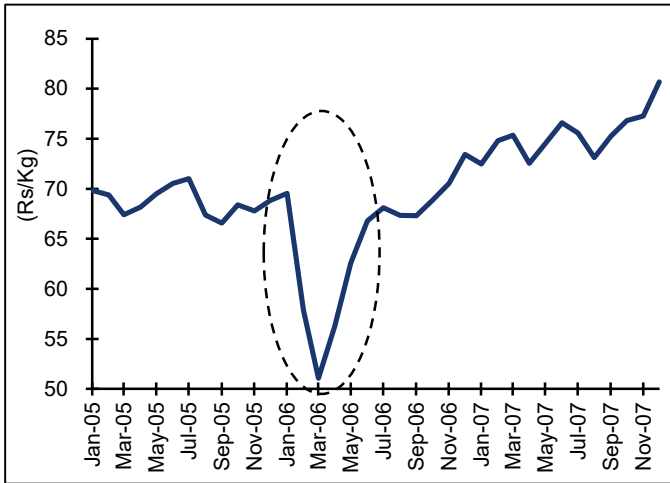
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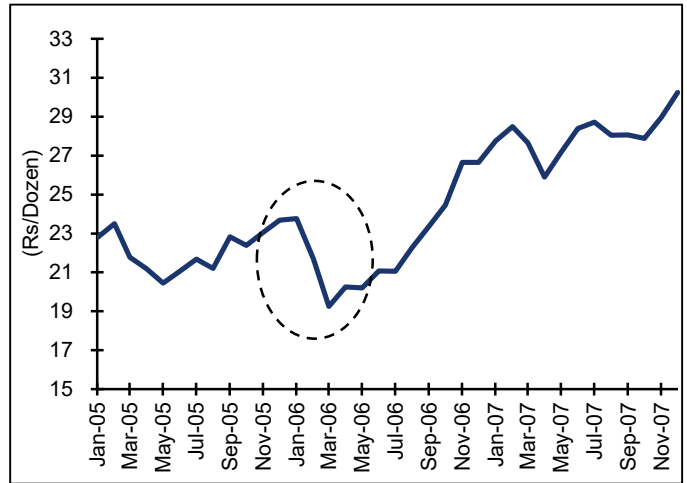
Chicken/Egg prices from 2005-2007

Chart 1: Chicken prices plummeted in H1CY06 but recovered in H2CY06



Source: Company data, Department of Agriculture, I-Sec research

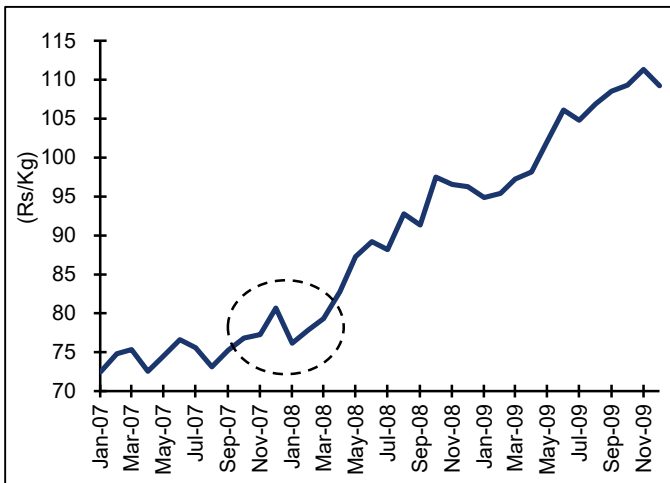
Chart 2: Egg prices declined in H1CY06 but recovered in H2CY06



Source: Company data, Department of Agriculture, I-Sec research

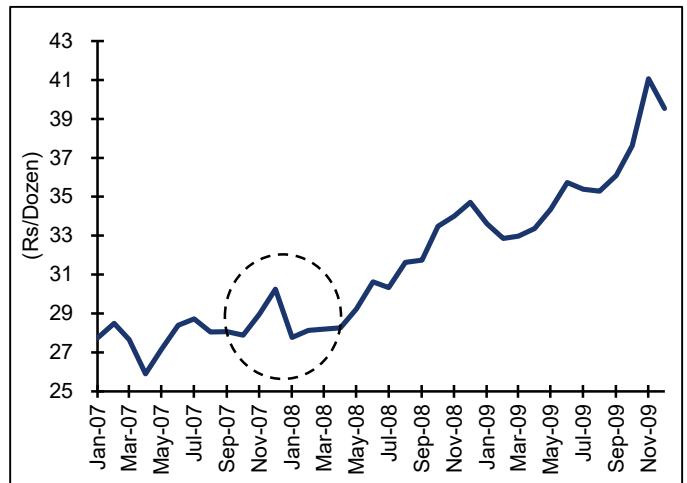
Chicken/Egg prices from 2007-2009

Chart 3: Chicken prices declined in H1CY08 but recovered in H2CY08



Source: Company data, Department of Agriculture, I-Sec research

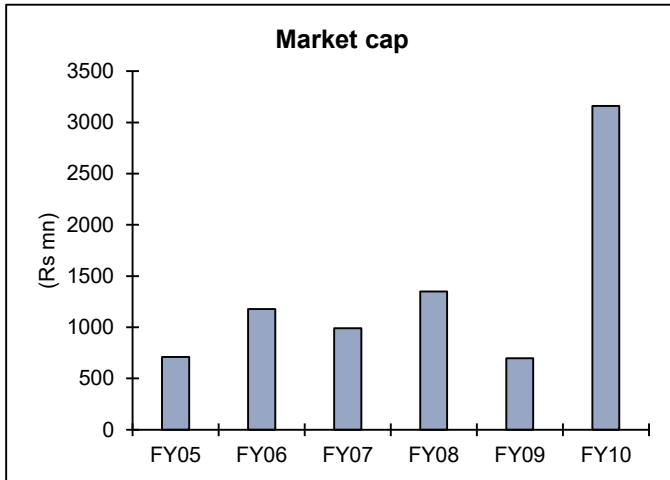
Chart 4: Egg prices declined in H1CY08 but recovered in H2CY08



Source: Company data, Department of Agriculture, I-Sec research

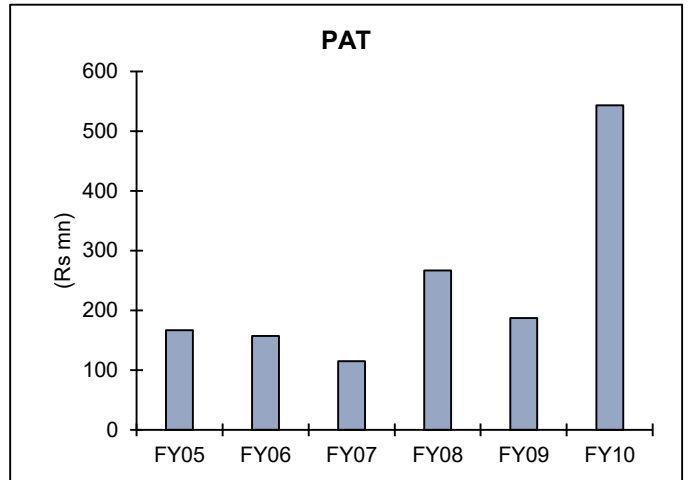
Market cap and profitability of Venkys over FY05-10

Chart 5: Market cap



Source: Company data, Bloomberg, I-Sec research

Chart 6: PAT



Source: Company data, Bloomberg, 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 Rs575. At this target price, the implied P/E works out to 28x on FY22E. Maintain **ADD**.

Table 1: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	10.7
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	36,735
Discounted terminal value (Rs mn)	73,682
Total equity value (Rs mn)	1,10,417
Value per share (Rs)	575

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 & 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
Assets				
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
Liabilities				
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
Per Share Data (Rs)				
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
Growth (%)				
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
Valuation Ratios (x)				
P/E	48.1	32.8	30.5	26.0
P/CEPS	33.0	22.3	20.8	18.0
P/BV	5.6	5.7	5.1	4.5
EV / EBITDA	25.3	23.6	18.2	16.2
EV / Sales	2.0	1.7	1.6	1.5
Operating Ratios				
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
Profitability Ratios (%)				
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	0.8	1.0	1.0	1.1
EBITDA Margins	7.8	7.0	9.0	9.0

Source: Company data, I-Sec research

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