

Company update and
target price change

Agriculture

Target price: Rs555

Target price revision

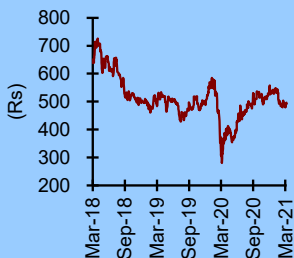
Rs555 from Rs575

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



Godrej Agrovet

ADD

Maintained

Commodity price inflation to boost revenues

Rs492

Analysing the price curve of commodities that influence Godrej Agrovet's (GAVL) revenues, we note: 1) the 68% increase in prices of palm oil in past one year is likely to drive revenues and profitability the Vegetable oil segment; 2) the ~8% YoY increase in milk prices will boost revenues from cattle feed, but will impact profitability of the dairy segment; 3) shrimp prices have increased from US\$11.35/kg in Oct'20 to US\$11.93/kg in Feb'21 and this is likely to boost revenues from shrimp feed; and 4) revival in prices of chicken and egg (after decline due to bird flu) will increase revenues from poultry and poultry feed. We model most segments of GAVL to recover in FY22E given favourable base of FY21. We remain confident of value creation (RoE > cost of equity) and maintain ADD with a DCF-based target price of Rs555 (26x FY23E; earlier TP: Rs575).

- ▶ **Revival in shrimp prices to drive revenues from shrimp feed:** Shrimp prices have revived from a low of US\$11.35/kg in Oct'20 to US\$11.93/kg in Feb'21. This will increase profitability for all players in the shrimp value chain such as farmers, feed manufacturers and processing companies. We expect GAVL's revenues and profitability from shrimp feed (~8% of sales) to increase given higher shrimp prices.
- ▶ **Increase in milk prices to help cattle feed, but will hurt dairy segment:** Higher milk procurement prices will likely boost revenue growth in the cattle feed segment (20% of revenues), but will impact profitability of the dairy segment (~20% of sales).
- ▶ **Higher palm oil prices to benefit Vegetable oil segment:** The palm oil segment accounts for ~10% of sales and its revenues and profitability are directly linked to prices of palm oil, which have increased by 68% YoY. The increase in prices will drive profitability upward.
- ▶ **Revival in chicken and egg prices to benefit poultry feed and poultry business:** Prices of chicken and egg had declined post outbreak of bird flu in Q4FY21. While that is likely to impact revenues for Q4FY21, we believe the subsequent revival in prices is likely to boost revenues from poultry feed (~25% of sales). It will also boost poultry segment revenues.
- ▶ **Maintain ADD:** We expect GAVL to report revenue and PAT CAGRs of 4.9% and 12% respectively, over FY20-FY23E. Return ratios (average RoE 18% over FY21E-FY23E) are also expected to be higher than the cost of capital. We maintain **ADD** on the stock with a DCF-based target price of Rs555 (26x FY23E EPS). Key risks: failure of new products and prolonged slowdown in out-of-home consumption.

Market Cap	Rs95bn/US\$1.3bn	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)	568/298	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)	29.9	30.2	25.1	21.3
Daily Volume (US\$'000)	1,180	CEPS (Rs)	24.2	24.5	28.8	33.0
Absolute Return 3m (%)	(7.6)	EV/EBITDA (x)	21.7	18.1	15.7	13.9
Absolute Return 12m (%)	56.7	Dividend Yield (%)	1.1	1.1	1.2	1.4
Sensex Return 3m (%)	4.3	RoCE (%)	11.9	14.1	15.8	16.6
Sensex Return 12m (%)	65.6	RoE (%)	16.5	16.4	17.8	18.5

Please refer to important disclosures at the end of this report

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Analysing key commodity prices

We analyse the price curve of commodities that have a bearing on Godrej Agrovet's (GAVL) revenues. We note increase in prices of shrimp, milk and palm oil is likely to increase revenues. Revival in prices of chicken and egg is likely to benefit revenues of poultry and poultry feed segments.

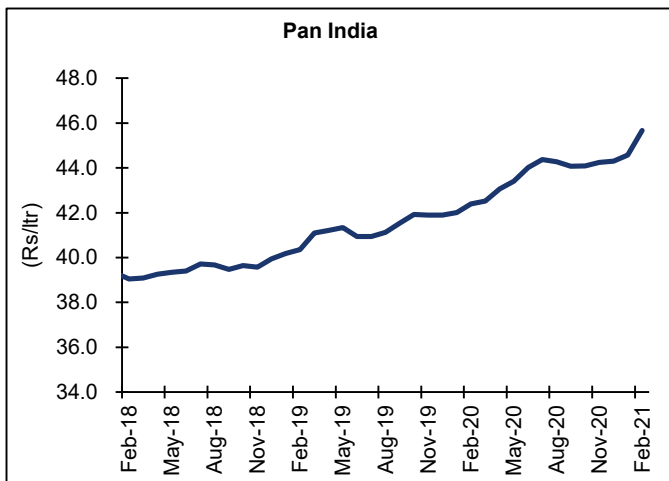
Table 1: Key commodity prices

Commodity	YoY inflation (%)	Segments to benefit/ impact
Shrimp	-15%	Shrimp feed
Palm oil	68%	Palm oil
Chicken	4%	Poultry and Poultry feed
Egg	20%	Poultry and Poultry feed
Milk	8%	Dairy and Cattle feed

Source: Company data, I-Sec research

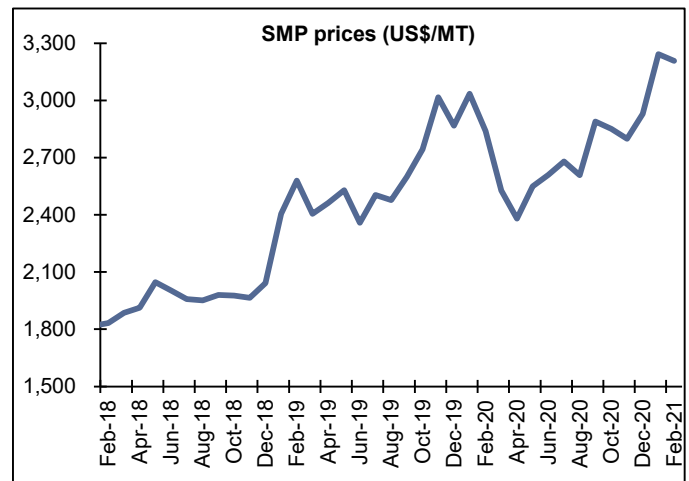
Key commodity prices

Chart 1: Milk prices moving upwards



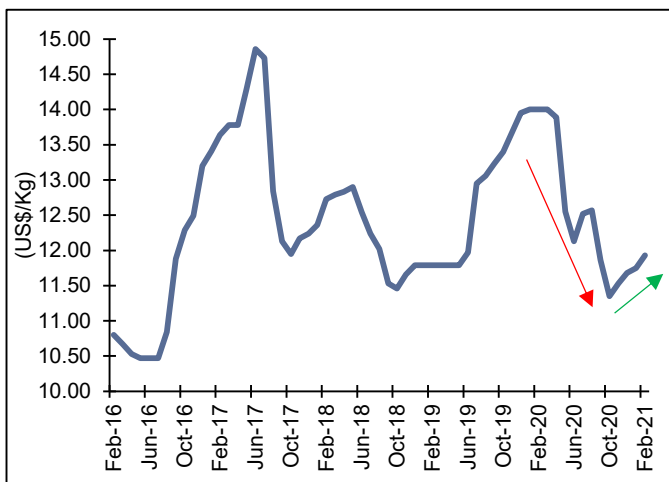
Source: Bloomberg, I-Sec research

Chart 2: Sharp increase in Global SMP prices



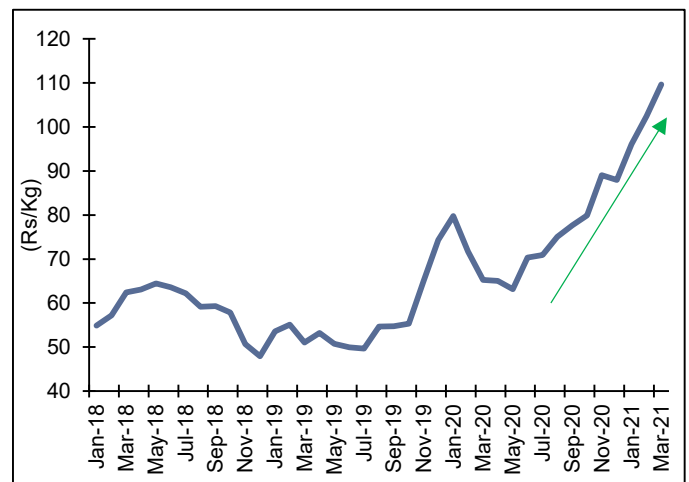
Source: Bloomberg, I-Sec research

Chart 3: Shrimp prices have revived from the lows



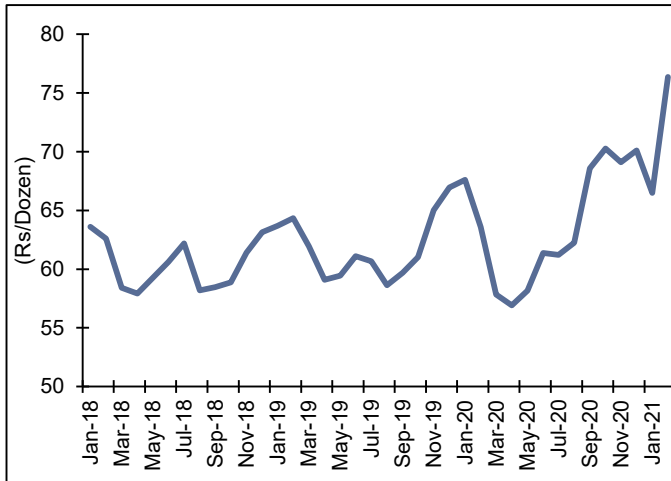
Source: Bloomberg, I-Sec research

Chart 4: Palm oil prices inching upwards



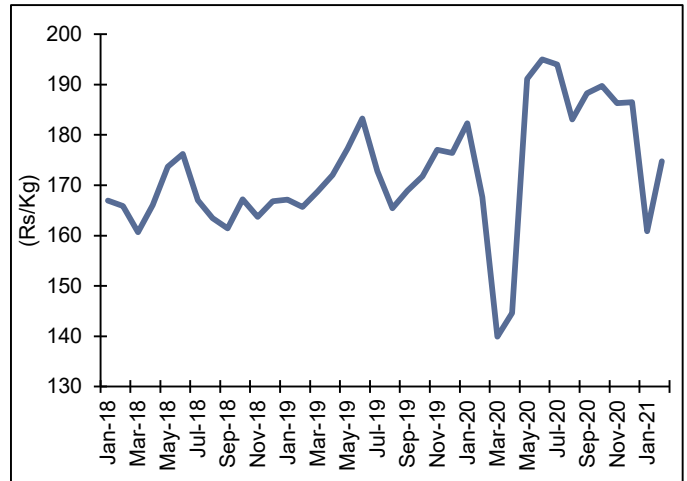
Source: Bloomberg, I-Sec research

Chart 5: Recovery in Egg prices...



Source: Bloomberg, I-Sec research

Chart 6: ... as well as chicken prices



Source: Bloomberg, I-Sec research

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 Rs555, at which the implied P/E works out to 26x on FY23E EPS. Maintain **ADD**.

Table 2: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	11.0
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	34,756
Discounted terminal value (Rs mn)	71,820
Total equity value (Rs mn)	1,06,576
Value per share (Rs)	555

Source: Company data, I-Sec research

Risks

Lower than expected offtake of new products

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 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	69,640	63,752	71,593	80,424
Operating Expenses	64,756	57,887	64,827	72,784
EBITDA	4,885	5,865	6,766	7,640
% 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
Recurring PBT	3,456	3,917	4,750	5,623
Less: Taxes	481	999	1,211	1,434
Less: Minority Interest	(59)	(64)	(71)	(78)
Net Income (Reported)	3,024	3,125	3,766	4,439
Extraordinaries (Net)	(139)	-	-	-
Recurring Net Income	3,163	3,125	3,766	4,439

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
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
Net Current Assets	4,401	4,039	4,550	5,510
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	-	-	-
Total Assets	30,377	30,434	32,933	35,990
Liabilities				
Borrowings	8,449	6,649	6,649	6,649
Deferred Tax Liability	(278)	(278)	(278)	(278)
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.	-	-	-	-
Net Worth	18,381	20,239	22,738	25,794
Total Liabilities	30,377	30,434	32,933	35,990

Source: Company data, I-Sec research

Table 5: 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 6: Cashflow statement

(Rs mn, year ending March 31)

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

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
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
Growth (%)				
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
Valuation Ratios (x)				
P/E	29.9	30.2	25.1	21.3
P/CEPS	20.3	20.1	17.1	14.9
P/BV	5.2	4.7	4.2	3.7
EV / EBITDA	21.7	18.1	15.7	13.9
EV / Sales	1.5	1.7	1.5	1.3
Operating Ratios				
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
Profitability Ratios (%)				
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	1.1	1.1	1.2	1.4
EBITDA Margins	7.0	9.2	9.4	9.5

Source: Company data, I-Sec research

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