Initiating Coverage

Godrej Agrovet Ltd.

19-March-2021

RETAIL RESEARCH

Godrej Agrovet Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Agro-based	Rs 489	Buy on dips to Rs 466 and add on dips to Rs 419	Rs 513	Rs 559	2 quarters

HDFC Scrip Code	GODAGREQNR
BSE Code	540743
NSE Code	GODREJAGRO
Bloomberg	GOAGRO: IN
CMP Mar 19, 2021	489
Equity Capital (Rs cr)	192
Face Value (Rs)	10
Equity Share O/S (cr)	19.2
Market Cap (Rs cr)	9411
Book Value (Rs)	107
Avg. 52 Wk Volumes	289398
52 Week High	568
52 Week Low	265

Share holding Pattern % (Dec, 2020)	
Promoters	70.3
Institutions	18.9
Non Institutions	10.8
Total	100.0

Fundamental Research Analyst
Kushal Rughani
kushal.rughani@hdfcsec.com

Our Take:

Godrej Agrovet is an integrated play on Agriculture sector with strong presence in Animal Feed (46% of revenue), Crop Protection (17%), Palm Oil (13%) and Dairy (15%) business. The company's segments have been affected by the pandemic, in a mixed manner. While Crop Protection business was less impacted, Dairy, Poultry & Chicken, and Animal Feed businesses were impacted largely by procurement costs, COVID-related disruptions, and supply change issues respectively. Lower Fresh Fruit Brunches production and lower prices impacted the Palm Oil segment. Among the subsidiaries, the worst hit were Godrej Tyson Foods and Creamline Dairy. However, the situation is expected to improve as a result of exit from the lockdown across the country in a graded manner. On the other hand, its other subsidiary, Astec Lifesciences, continued to perform well, attracting foreign multinationals, due to the China+1 factor. Even after disruption in its businesses, the company registered strong operational performance in 9MFY21. Godrej Agrovet posted a 10% decline in revenue, mainly due to 19% decline in animal feeds segment and 17% fall in the dairy business. EBITDA margin witnessed strong 270bps improvement on better gross margin. Animal Feed, Astec Life and Godrej-Tyson businesses registered strong operational performance. The company's PAT showed strong 23% yoy growth to Rs 284cr. Godrej Agrovet's diversified portfolio with leading market positions across agricultural inputs and outputs, careful selection of less-regulated segments, and high-quality management and parentage are some of the key positives for the company. It has an impressive long-term track record of steady growth and generates healthy return ratios.

View & Valuation:

Godrej Agrovet recorded strong margin in 9MFY21, led by better gross margin. Animal Feed, Astec Life and Godrej-Tyson businesses registered strong operational performance. Animal Feed (AF) segment is seeing lower demand as restaurants/hotels are still operating at a much lower capacity utilisation than pre-COVID levels. This has impacted the demand for milk, chicken and eggs. Further, opening up of the economy is critical for demand revival. Crop Protection business is likely to do well in the coming years due to: (i) product launches in the standalone crop protection segment, (ii) strong performance in Astec owing to its expertise in triazole chemistry, and (iii) commencement of a new herbicide plant. Volume growth in the Palm Oil segment is likely to return in FY22 on higher arrival of FFBs (due to higher acreages) and better yields from the commissioning of the new plant with improved technology. Higher Palm Oil prices should aid margin expansion. We estimate 5.5% revenue CAGR, led by Crop Protection and Palm Oil business and recovery in Animal Feed business over FY20-23E.

We expect the company to register 50bps margin expansion in FY21-23E due to better gross margin and sustained cost control measures. Healthy topline coupled with steady margin expansion could lead to 13.5% CAGR in PAT over FY20-23E.

Godrej Agrovet's diversified products across less regulated agricultural inputs and outputs, leading market positions across all of them and high-quality management and parentage, makes it a proxy to ride the theme of Indian agriculture. Also the business is asset-light and consequently generates healthy cash flows and return ratios.

We recommend a BUY on Godrej Agrovet on dips to Rs 466 and add more on dips to Rs 419 for base case fair value of Rs 513 (13.5x FY23E EV/EBITDA) and bull case fair value of Rs 559 (14.7x FY23E EV/EBITDA).

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues	1526	1783	-14.4	1724	-11.5	5,918	6,964	6,477	7,351	8,174
EBITDA	112	101	11.7	173	-35.1	456	489	569	659	758
Depreciation	39	37	5.1	39	-0.5	98	148	163	175	188
Other Income	16	3	446.7	-1	-	53	47	39	44	52
Interest Cost	6	11	-41.7	10	-34.4	34	42	33	29	27
Tax	22	17	31.0	35	-36.2	128	48	109	125	150
PAT	62	52	19.4	107	-42.4	329	306	317	384	447
EPS (Rs)						17.1	15.9	16.5	20.0	23.3
RoE (%)						21.5	17.6	16.3	17.7	18.4
P/E (x)						28.5	30.6	29.6	24.4	21.0
EV/EBITDA (x)						21.2	19.8	17.0	14.7	12.8

(Source: Company, HDFC sec)

Q3FY21 result update

Revenue declined 14% yoy, due to ~23% yoy decline in the Animal Feed revenue (given lower volumes). Palm Oil business has suffered in the quarter due to white fly attack. Low out-of-home consumption and subdued demand from HoReCa segment has adversely impacted sales for the Dairy segment. Restaurants operated at much lower capacities than pre-COVID levels. Therefore, demand for milk, chicken, and eggs is muted, which in turn affects demand for cattle, broiler, and layer feed. However, EBITDA increased 12% yoy, supported by strong recovery shown by the poultry business this year. Gross margin witnessed sharp improvement to 25.8%. Finance costs were down 42% yoy at Rs 6.3cr. Better gross margin, lower finance cost, and higher other income led to 31% yoy growth in net profit at Rs 61.6cr.

Company plans to launch 11 new products in the next 2-3 years. Of these, six are expected to be its own products (comprising 4 herbicides, 1 fungicide and 1 bio-fertilizer) and five are in-licensed.

Company will invest US$ 11-12mn on a fish feed plant in Uttar Pradesh in FY22. It has guided a total of ~Rs 200cr capex for FY22.

In the Palm Oil segment, the plantation area stood at 73,000 hectares (excluding Telangana, which is expected to be added in the future). The increase in customs duty on shrimp feed and the cess on import of crude palm oil are expected to push up domestic production.

Astec Lifesciences Q3 FY21 update

Astec reported 7% yoy decline in revenue to Rs 116cr. Operating margin contracted 330bps yoy to 13.4% due to (1) lower CRAMS business share and (2) higher employee costs as the company on-boarded a new R&D team. Lower revenue and weak margin along with higher tax expenses led to the sharp 31% yoy fall in net profit.

Astec is in the process of setting up a new dedicated R&D centre – which is expected to commission in the next 12 months – with a capital expenditure of Rs 80-100cr. The R&D centre will allow the company to diversify further into newer chemistries and processes, while also giving it access to newer products and markets.

Management said that the construction of the new herbicide plant (Astec) is expected to be completed in Q4 FY21. The company has invested about Rs 90-100cr in the facility. The unit is expected to generate revenue of Rs 150-180cr at full capacity utilisation (which could take a couple of years). Astec's performance was impacted by a sharp fall in realizations for a key product, Tebuconazole, amid higher supply from Chinese players and deferment of few orders, which are expected to be recouped in Q4FY21.

Godrej Agrovet History

Year	Event
1971	Godrej Agrovet began operations as the animal feeds division
2001	Company acquired 100% stake in animal feeds firm from Hindustan Unilever
2004	Godrej Agrovet entered into a JV with ACI, Bangladesh to set up animal feed and poultry business
2005	Acquired 26% stake in Creamline Dairy
2008	Tyson Foods formed 51:49 JV with the company for poultry processing
2011	Forayed into hybrid seeds through subsidiary Godrej Seeds
2012	Temasek invested ~Rs 570cr for 20% stake in the company
2015	Godrej Agrovet acquired 52.3% stake in Astec Life; current stake stands at 62.4%
2017	Launched ~Rs 1160cr IPO in Oct-2017
2019	Increased stake in Godrej-Tyson Foods to 51% w.e.f Mar-2019

Diversified business verticals

Over the past 8 years, Godrej Agrovet has focused on lowering its revenue contribution from the animal feed business (80% in FY12 to ~46% in 9M FY21) through diversification in other segments like palm oil, crop protection and others. Over the past five years, while palm oil and crop protection businesses have grown at a CAGR of ~11% and ~9% respectively, the animal feed business witnessed CAGR of ~7%. Out of all business segments, Crop Protection generates superior margin, followed by the palm oil business. Godrej Agrovet has a pan-India presence and its operations span across five business verticals. It has set up processing facilities and supporting infrastructure as well as R&D to develop a modern operating platform across key agriculture verticals. The nationwide footprint also allows it to leverage its competitive advantages of each location to enhance competitiveness and reduce geographic and political risks in businesses. Since the company has a diversified presence in agriculture business, the impact of COVID-led disruptions on it has been limited. Despite the decline in revenues for 9MFY21 over the corresponding period of the previous fiscal, it has reported healthy operating performance. EBITDA for the same period has grown by 24% (compared to previous year). The impact of COVID was more pronounced on its animal feed and poultry businesses, resulting in a significant decline in demand and prices of live birds. The Dairy segment witnessed a decline in demand from the HORECA segment. Healthy growth witnessed in Astec, Tyson Foods and oil palm businesses supported the topline and margins in 9MFY21.

Godrej Agrovet enjoys a dominant position in the domestic organised animal feed industry with presence across various sub-categories such as cattle, broiler, layer, aqua and other feeds. The company's R&D efforts to achieve cost leadership and competitiveness have supported its volume growth.

Animal Feed Business

The Animal Feed business was started in 1971 as oil extraction business, as a division of Godrej Industries, and was transferred to Godrej Agrovet in 1992. The company also acquired Goldmohur Foods and Feeds from Hindustan UniLever (HUL) in 2001, which made it the market leader in the animal feed industry in India. Godrej Agrovet is one of the largest in the organized space in the compound feed market in India, clocking a sales volume of over 1.3mn MT in FY20. Its diverse portfolio includes products in Cattle, Poultry, Aqua and Specialty Feed. It has over 32 state-of-the-art manufacturing plants, equipped with quality assurance labs, which help farmers improve their farm productivity and profitability.

The company differentiates itself from competitors by building strong brands, whereas competitors are still largely a commodity play. The company has an R&D centre in Bangalore and, in 2015, had set up the Nadir Godrej Centre for Animal Research and Development in Nashik, Maharashtra - a one of its kind animal husbandry research centre in India. Thus, the company relies heavily on R&D. We believe Godrej Agrovet is well-placed in animal feed by virtue of having a high-quality R&D setup. Cattle feed is the fastest-growing segment within the animal feed industry. The company holds about 6% market share within the organised sector. It has developed ‘Prepwell’ for pregnant cows; ‘Calf Starter’ and ‘Calf Grower’ for calves; ‘Milk More’, ‘Bypro’ and Bovino’ for lactating cows. Poultry feed is an important segment within animal feed segment. In the aqua feed segment, Godrej Agrovet markets both fish feed and shrimp feed. The company is a relatively small player in this segment. It plans to invest US$ 11-12mn on a fish feed plant in Uttar Pradesh in FY22.

Animal Feed revenue for 9MFY21 declined by 19% on yoy basis, mainly on account of 16.5% decline in volume due to temporary disruption caused by the pandemic. However, on the positive side, EBIT margin expanded by 160bps to 5.8% vs. 4.2% compared to same period of the previous year. Going forward, we expect this segment to register a revenue growth at 1.5% CAGR over FY20-23E. Revenues in Q4FY21 may be impacted by lower off-take amid onset of bird flu in January 2021.

In 2004, Godrej Agrovet entered into a joint venture (50:50) with ACI, Bangladesh, to manufacture and market animal feed in that country. The JV produces cattle feed, poultry feed and aqua feed and day-old chicks. Its revenue has seen ~21% CAGR over FY10-20, from Rs150 cr to Rs1030 cr, while EBITDA margins have risen from 2.9% in FY13 to 7.3% in FY20. It owns two manufacturing facilities (Sirajganj and Rajshahi) and also has one third party facility close to Dhaka. The manufacturing facilities are equipped with integrated breeding and hatchery operations, backed by a quality assurance laboratory.

Crop Protection Business

Crop Protection business comprises agrochemicals, including herbicides, insecticides, fungicides, plant growth regulators, and organic manure. In this business, the company has a pan-India distribution channel of over >7,000 distributors. Currently, around 52-55% of the revenues are derived from legacy crop protection business, while the remaining ~45% of the revenues are from Astec LifeSciences (Astec). Astec is an Indian manufacturer of agrochemical active ingredients, formulations and intermediate products.

Five years ago, the product portfolio was highly focused on plant growth regulators (PGR) and other niche product categories. However, the company has launched new products across several categories in the past two years.

Godrej Agrovet has a strong market share in plant growth regulators (PGR), soil conditioners, and cotton herbicides. The company is one of the largest players in homobrassinolides (a type of plant growth regulator), under the brand names Double and Combine. It had launched Oryzostar, a rice herbicide, which directly competes with PI Industries' blockbuster brand Nominee Gold.

The company launched 'Hitweed Maxx', which is an in-house herbicide and is a one-stop solution for controlling all major weeds in the cotton crop. It also launched 'Hanabi', through an in-licensing arrangement with Nissan Chemical Corporation, Japan, which is used for managing mites in tea plantations. In addition, other products such as Bloxit, Veteran, Prudens and Rohelus were launched, which will not only enhance the product portfolio but also help enter new crops and markets. The company plans to launch 11 new products in the next 2-3 years. Of these, six are expected to be its own (comprising 4 herbicides, 1 fungicide and 1 bio-fertilizer) while five would be in-licensed products. We expect this segment to register a revenue growth of 7.6% CAGR over FY20-23E.

Godrej Agrovet acquired Astec LifeSciences in 2015

Godrej Agrovet acquired a 45.3% stake from the promoters of Astec LifeSciences (Astec) in August-2015, for ~Rs 160cr. It further raised its stake in Astec by picking up an additional 6.9% equity stake in an open offer. Additionally, the company has bought shares from the open market and now owns 62.4% equity stake.

Founded in 1994 by Ashok Hiremath, Astec is an Indian manufacturer of agrochemical active ingredients, formulations and intermediate products. It is a niche chemical company focused on triazole fungicides and on proprietary off-patent products in the CRAMS segment. It operates in the space of technical and bulk sales in India and also exports to more than 25 countries, mainly in North and South America, Asia, Europe, Australia and Africa. Astec does contract manufacturing work for multinational clients. It has long-standing customer relationships with Indian and global agrochemical majors. Further, it enjoys cost leadership in the manufacturing of key products compared with Indian and Chinese peers, due to proprietary processes developed in-house and backward integration. The company derived ~57% of revenue from exports while the remaining from the domestic market in FY20. It is also working on backward integration for its key products, to de-risk its raw material supply sourcing, away from China. Going forward, we expect this segment to register a revenue growth of 10.3% CAGR over FY20-23E.

Palm Oil Business

Godrej Agrovet has got an entitlement of 2,00,000 hectares from the Indian government to procure fresh fruit bunches of oil palm from farmers cultivating the crop on this area. Of this, the company has developed over ~73,000 hectares across Andhra Pradesh, Goa, Gujarat, Odisha, Tamil Nadu, Karnataka, Maharashtra and Chhattisgarh. In 2015, the company commissioned an oil palm mill in Mizoram, while its new oil palm factory at Seethanagaram, Andhra Pradesh, has the latest technology, which will enable it to increase the oil extraction ratio.

The pricing of fresh fruit bunches of oil palm (paid to farmers) is largely dependent on the oil extraction ratio and the prevalent price of crude palm oil. Any change in the oil extraction ratio results in a change in the pricing formula (in respect of percent of net crude palm oil weighted average price to be paid to the farmers). Despite the white-fly attack, which impacted the palm oil segment and led to lower oil content in fruit plantation in 9MFY21, the revenue growth was supported by higher crude palm oil (CPO) and palm kernel oil (PKO) prices. CPO prices and PKO prices were higher by 33% and 28% yoy in 9MFY21. Going forward, we expect this segment to register a revenue growth of 10.1% CAGR over FY20-23E.

Dairy Business

Godrej Agrovet ventured into the dairy business through the acquisition of a minority stake in Creamline Dairy Products (CDPL) more than a decade ago. Subsequently, the company acquired an additional 25% stake in Dec-2015. Currently Godrej Agrovet owns 51.9% in Cremaline. It has a presence across Telangana, Andhra Pradesh, Tamil Nadu, Karnataka and Nagpur (Maharashtra), where it sells milk and derivatives under the brand name Jersey. It also operates dedicated Jersey milk parlours across South India. Creamline has a processing capacity of 0.8mn litres per day and has over 100 collection centres. It has a dairy distribution network, which includes approximately 4,000 milk distributors, around 3,000 milk product distributors, and 50 retail parlors, as well as direct sales to institutional customers. The company expects to launch 3-4 new products every year and intends to focus on value-added products with a shorter shelf-life and, thus, lower working capital requirements. It has been constantly focusing on expanding its value-added portfolio in the dairy segment, which is currently at ~30%. In 9MFY21, it had launched dairy sweets 'Mysore Pak' and re-launched the entire product portfolio under the new 'Godrej Jersey' logo. Going forward, we expect this segment to register a revenue growth of ~1% CAGR over FY20-23E.

Godrej-Tyson Foods (Ready to Eat)

Godrej Agrovet's processed poultry and vegetarian products business, Godrej Tyson Foods (GTFL), is best known for two brands – Real Good Chicken and Yummiez. The latter offers a range of vegetarian and non-vegetarian ready-to-cook products. Started in 2008, Godrej Tyson is a 51% subsidiary of the company, with the balance stake held by Tyson Foods, one of the world's largest poultry processing companies. GTFL is the second largest player in the processed poultry segment in India. Revenue has remained largely flat around Rs 500cr for the past five years. The flagship brand, Real Good Chicken, has a strong market share in the fresh poultry and meat products segment and is a leader among retail and institutional customers. Going forward, we expect this segment to register a revenue growth of 10.5% CAGR over FY20-23E.

Challenges in the past 2-3 years

The challenges faced by the company's businesses during FY17-20 were: (1) growth and margin pressures in animal feed due to low commodity prices and rising input costs; (2) margin erosion in dairy, owing to low selling prices and higher procurement of milk; (3) severe pressure on margins in processed poultry (Godrej Tyson) in FY20, due to low prices of live bird; (4) slowdown in growth and adverse shift in product mix in agrochemicals, as the company attempted to bring working capital under control; and (5) a dip in margins in oil palm in FY20 caused by a fall in prices of crude palm oil.

Godrej Agrovet Ltd.

In 9M FY21, the company posted 10% decline in revenue mainly due to 19% decline in the animal feed segment and 17% fall in the dairy business. EBITDA margin witnessed strong 270bps improvement on better gross margin. Animal Feed, Astec Life and Godrej-Tyson businesses saw strong operational performance.

Quarterly Trend of its Business Verticals

Animal Feed	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Volume (Tons)	324035	332301	350280	294215	267749	279905	292539
Change yoy (%)	7	9	8	-11	-17	-16	-17
Revenue	885	939	1013	881	748	762	783
EBIT	42	43	35	33	48	48	38
EBIT (%)	4.8	4.6	3.5	3.7	6.4	6.2	4.9

Standalone Crop Protection	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	209	200	91	67	208	176	104
EBIT	74	55	18.5	6	60	49.5	23
EBIT (%)	35.4	27.5	20.3	9.0	29.0	28.1	22.2

Astec Life	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenues	77	142	125	181	112	155	116
EBITDA	7	17	24.8	48	30	31.4	19
Margin (%)	9.1	12.0	19.8	26.5	26.3	20.3	16.3

Palm Oil	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	145	237	225	67	157	293	188
EBIT	13	29	43.6	4	7	41.4	31
EBIT (%)	8.8	12.2	19.4	6.0	4.1	14.1	16.2

Dairy	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	320	306	285.5	281	237	259	257
EBIT	7	-1	-1	-6	3	4	7
EBIT (%)	2.1	-0.3	-0.4	-2.1	1.4	1.5	2.7

What could go wrong?

Volatility in raw material, commodity prices and intense competition

Revenue and profitability remain susceptible to volatility in raw material and commodity prices in the animal feed and palm oil businesses. Given the intense competition in the animal feed business, the company's ability to pass on the increase in prices is also restricted. In FY20, high raw material prices in the animal feed and dairy businesses had impacted the margins, despite the company taking price hikes. Also revenue sharing with farmers in the palm oil business is formula driven and linked to international crude palm oil prices and, hence, revenues and margins remain vulnerable to commodity price movements.

Vulnerability to weather conditions and government regulations

Revenue and profitability are vulnerable to weather conditions as well as government regulations. Nonetheless, the company's presence across diverse agri-businesses mitigates the risks to some extent. In FY20, the company's crop protection business witnessed modest year-on-year revenue growth of ~5%, over ~7% in fiscal 2019 and ~12% in fiscal 2018, as growth was impacted by the initially delayed and subsequently extended monsoon. Also regulatory risk persists in crop protection business with respect to ban on products. However, no major contribution from these products in the red category provides comfort. Also the performance of its palm oil business was impacted by extreme heat, which resulted in lower oil extraction from fresh fruit bunches, thus resulting in a decline in the yield.

High working capital intensive operations in crop protection business

The crop protection segment (including Astec) has high working capital requirement with debtor and inventory period of about 8-9 months and supported by creditor period of 5-6 months. With focused efforts on working capital management, Rs 433 crore has been realised in the first half of fiscal 2021 as compared to Rs 299cr over the corresponding period in the previous fiscal. However, any significant bad debt write-offs remain key monitorable. Also, with minimal/negative working capital requirement in other key segments, the overall working capital intensity for the company remains moderate.

Correction in palm oil prices may continue

The pandemic has had an adverse impact on crude palm oil and palm Kernel oil, whose prices are coming down, as restaurants, and smal-scale eateries, joints, Tiffin service in offices, dhabas, etc. remain closed. And most of the domestic consumption in India is soft oil, which is Sunflower, Rice bran oil, cotton seed oil, ground nut oil, and soya oil. Moreover, in the long run, palm oil as a cooking oil alternative seems to have a bleak future in India, due to health hazards associated with its consumption. Rise in health awareness, among urban population, could prove to be a setback.

Shift in dietary preferences away from meat

Chicken live bird prices had crashed at the onset of the COVID outbreak due to reduced demand of chicken. While prices have recovered post March 2020, if the virus outbreak leads to long term changes in dietary preferences, the demand for chicken live bird could be severely affected and so, negatively impact both the broiler feed and GTFL businesses.

Decrease in palm oil import duty by the government

The Government of India plays a vital role in the development of the palm oil industry, by providing various subsidies to farmers, processing companies, and imposing import duties on crude palm oil. More than 90% of the domestic palm oil demand is imported, and therefore, global palm oil prices have a significant bearing on domestic realizations.

High dependence on Andhra Pradesh

Godrej Agrovet is highly dependent on the business environment and market conditions within the state of Andhra Pradesh. 92% of its oil palm plantations are situated within the state of Andhra Pradesh, and the dairy and aqua-feed businesses too derive a large proportion of their sales from the state.

Low margin Dairy Business

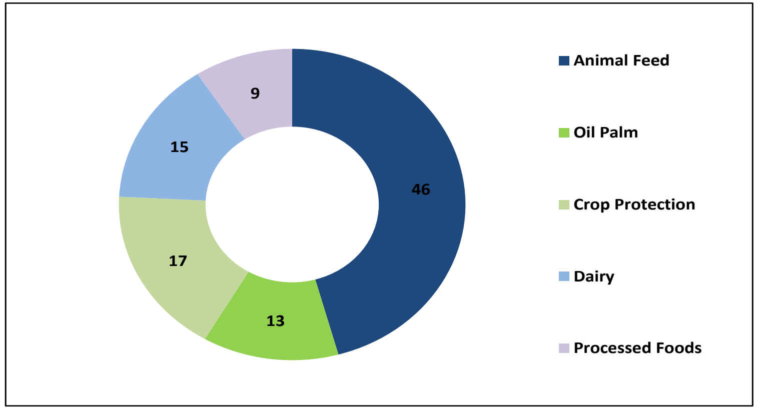
Dairy business earns lower than industry peers margins due to lower proportion of value added products (~30%) and lower direct procurement of milk. Godrej Agrovet is planning to raise the proportion of value added products in its portfolio.

Company Background

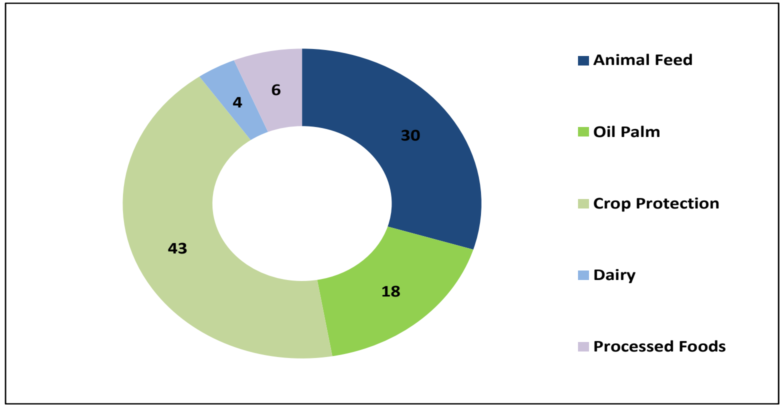
Godrej Agrovet, a part of the Godrej group, has presence across animal feed, vegetable oil (palm oil), crop protection, dairy and poultry and processed meat with about 31 manufacturing facilities and a wide distribution network spread across the country. The company is one of the largest organised animal feed manufacturers in India, offering cattle, layer, broiler, shrimp, fish and other feeds. It is the market leader in Palm Oil plantation industry in India. In addition, the company has interests in animal feed through its joint venture, ACI Godrej Agrovet Pvt Ltd, Bangladesh. The Animal Feed business generates relatively low margins. Thus, the higher-margin agrochemical business has rapidly grown in importance and is further boosted by the acquisition of Astec LifeSciences; it has become the largest contributor to consolidated EBITDA through subsidiary Astec, which is involved in the manufacturing and sale of intermediates, active ingredients and formulations. In the crop protection business, the company has products across insecticides, fungicides and plant growth regulators with a pan-India network of ~7,000 distributors. In the palm oil segment, as of March 2020, Godrej Agrovet had around 73,000 hectares of palm tree plantations across nine states for producing crude palm oil and palm kernel. Creamline Dairy is currently only modestly profitable, while Godrej Tyson Foods reported an EBITDA loss in FY20 due to the adverse market conditions.

Godrej Agrovet Ltd.

Revenue Mix (%)

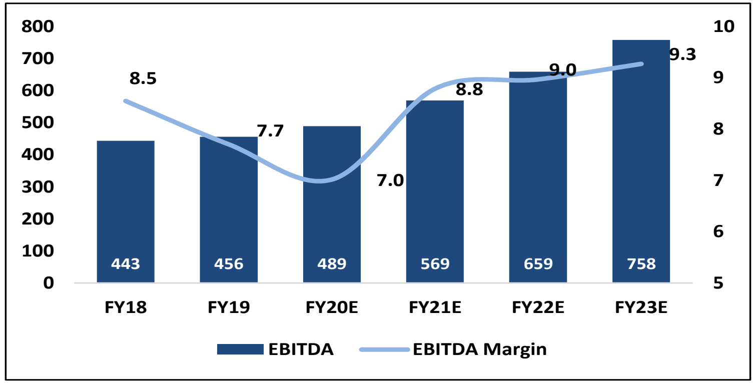


EBIT Mix (%)

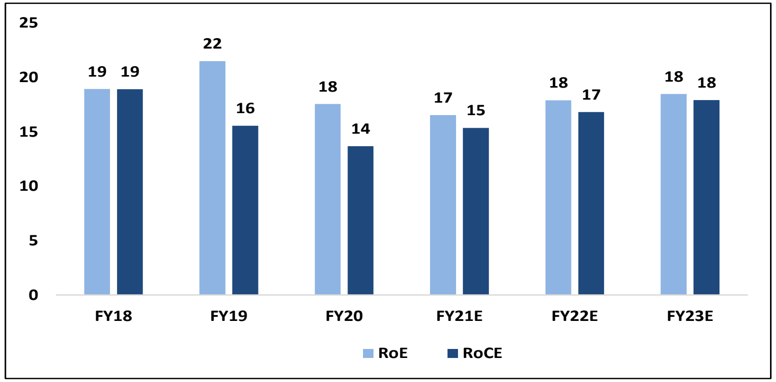


Source: Company, HDFC sec Research

EBITDA and Margin Trend



Strong Return Ratios (%)



Source: Company, HDFC sec Research

Godrej Agrovet Ltd.

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Total Income	**5918**	**6964**	**6477**	**7351**	**8174**
Growth (%)	14.1	17.7	-7	13.5	11.2
Operating Expenses	5462	6475	5907	6692	7416
EBITDA	**456**	**489**	**569**	**659**	**758**
Growth (%)	2.8	7.2	16.4	15.9	15
EBITDA Margin (%)	**7.7**	**7**	**8.8**	**9**	**9.3**
Depreciation	98	148	157	168	181
EBIT	**358**	**341**	**412**	**491**	**576**
Other Income	53	47	39	44	52
Interest expenses	34	42	33	29	27
PBT	477	349	418	508	602
Tax	128	48	111	127	152
RPAT	**329**	**306**	**317**	**384**	**447**
Growth (%)	43.6	-7	3	21	16.5
EPS	17.1	15.9	16.5	20	23.3

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	192	192	192	192	192
Reserves	1457	1646	1853	2104	2386
Shareholders' Funds	**1649**	**1838**	**2045**	**2296**	**2578**
Minority Interest	401	383	383	383	383
Long Term Debt	64	64	54	44	35
Deferred Tax Liabilities	209	175	167	158	150
Long Term Provisions & Others	28	30	32	36	49
Total Source of Funds	**2350**	**2490**	**2680**	**2917**	**3194**
APPLICATION OF FUNDS					
Net Block	1814	1979	1973	2018	1980
Goodwill & Intangible Assets	350	353	353	353	353
Deferred Tax Assets	10	40	40	40	40
Non-Current Investments	196	196	213	238	266
Total Non-Current Assets	**2369**	**2567**	**2579**	**2649**	**2639**
Current Investments	53	58	63	69	74
Inventories	899	886	783	914	1037
Trade Receivables	735	854	804	926	1035
Cash & Equivalents	30	51	222	237	411
Other Current Assets	148	284	310	345	390
Total Current Assets	**1866**	**2132**	**2174**	**2483**	**2938**
Short-Term Borrowings	324	576	507	491	452
Trade Payables	1240	1289	1193	1332	1510
Other Current Liab & Provisions	279	303	324	338	361
Short-Term Provisions	41	43	49	55	60
Total Current Liabilities	**1885**	**2210**	**2073**	**2216**	**2384**
Net Current Assets	-19	-78	101	267	555
Total Application of Funds	**2350**	**2490**	**2680**	**2917**	**3194**

Source: Company, HDFC sec Research

Godrej Agrovet Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	477	349	412	501	595
Non-operating & EO items	-53	-47	-39	-44	-52
Interest Expenses	34	42	33	29	27
Depreciation	98	148	163	175	188
Working Capital Change	-58	80	-15	-151	-113
Tax Paid	-128	-48	-109	-125	-150
OPERATING CASH FLOW (a)	**370**	**523**	**445**	**385**	**495**
Capex	-505	-299	-150	-220	-150
Free Cash Flow	-135	224	295	165	345
Investments	2	-30	-17	-25	-28
Non-operating income	53	47	39	44	52
INVESTING CASH FLOW (b)	**-449**	**-283**	**-128**	**-201**	**-126**
Debt Issuance / (Repaid)	93	-31	-16	-14	-5
Interest Expenses	-34	-42	-33	-29	-27
FCFE	-76	151	246	121	313
Share Capital Issuance/MI	132	-18	0	0	0
Dividend	-107	-108	-96	-125	-163
FINANCING CASH FLOW (c)	**83**	**-199**	**-145**	**-168**	**-195**
NET CASH FLOW (a+b+c)	3	42	172	15	174

Source: Company, HDFC sec Research

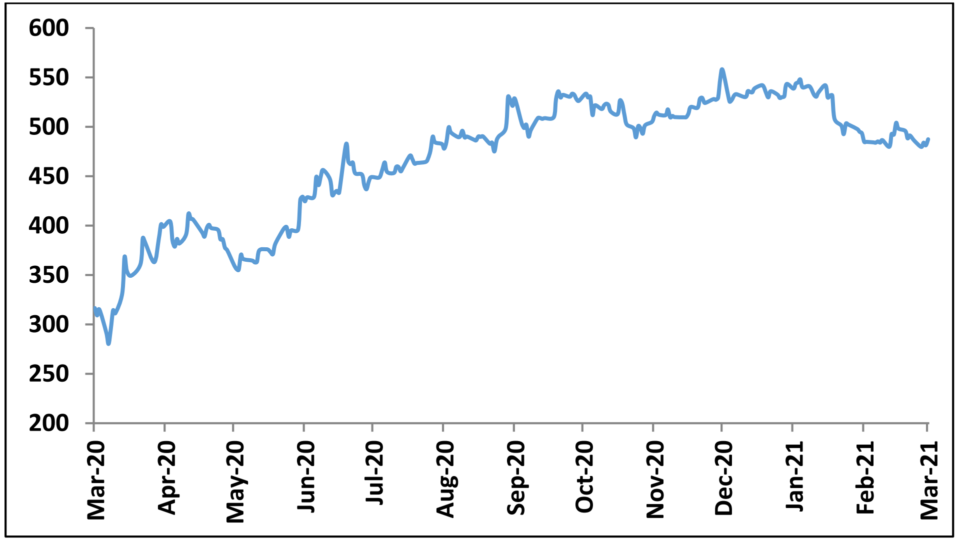
Key Ratios

	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)					
EBITDA Margin	7.7	7	8.8	9	9.3
EBIT Margin	6	4.9	6.3	6.6	7
APAT Margin	5.9	4.3	4.7	5.1	5.4
RoE	21.5	17.6	16.3	17.7	18.4
RoCE	15.6	13.7	15.1	16.6	17.8
Solvency Ratio					
Net Debt/EBITDA (x)	0.7	1.1	0.5	0.3	0
D/E	0.2	0.3	0.3	0.2	0.2
Net D/E	0.2	0.3	0.1	0.1	0
PER SHARE DATA					
EPS	17.1	15.9	16.5	20	23.3
CEPS	22.3	23.7	25	29.1	33.1
BV	86	96	106	120	134
Dividend	4.5	5.5	5	6.5	8.5
Turnover Ratios (days)					
Debtor days	45	45	45	46	46
Inventory days	51	47	44	45	46
Creditors days	87	76	78	77	79
VALUATION					
P/E	28.5	30.6	29.6	24.4	21
P/BV	5.7	5.1	4.6	4.1	3.6
EV/EBITDA	21.2	19.8	17	14.7	12.8
EV / Revenues	1.6	1.4	1.5	1.3	1.2
Dividend Yield (%)	0.9	1.1	1	1.3	1.7
Dividend Payout	26.3	34.5	30.3	32.5	36.5

RETAIL RESEARCH

Godrej Agrovet Ltd.

One Year Price Chart



RETAIL RESEARCH

Disclosure:
I, Kushal Rughani, MBA author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock - No
HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) |NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | IN-DP-372-2018 (CDSL, NSDL) | CDSL DP ID: 12086700 | NSDL DP ID: IN304279 | AMFI RegNo.ARN -13549 | PFRDA Reg. No - POP 11092018 | IRDA Corporate Agent Licence No.CA0062 | Research Analyst Reg. No. INH000002475 | Investment Adviser: INA000011538 | CIN-U67120MH2000PLC152193