

## FUNDAMENTAL COVERAGE

# GODREJ INDUSTRIES LTD



BUY | CMP 527.60 | TARGET 597 | POTENTIAL UPSIDE 13%

16 APRIL 2019

### Stock Data

M.Cap (₹ in cr)	17748
Equity (₹ in cr)	33.64
52 wk H/L ₹	656.9/434.1
Face Value ₹	1.00
Div. Yield	0.33%
NSE Code	GODREJIND
BSE Code	500164

### Valuation Data

P/E	28.67
EV/EBITDA	20.22
P/BV	3.29
RONW(%)	11%

### Index Detail

Sensex	39275.64
Nifty	11787.15
Index	S&P BSE 200

### LEAD RATIONALE

Flagship Company of the Godrej group and has a leadership position in the core business of oleo chemicals. It holds 23.8% stake in Godrej Consumer Products, 53.60% in Godrej Properties (GPL), 58% of Godrej Agrovvet (GAVL) and 100% of Natures Basket (NBL). **Healthy promoter pedigree in creating shareholder wealth through long term sustainable consumer brands is expected to aid growth, going forward.**

Company's chemical division has a blend of domestic and international operations with value added chemicals that have steady margins, helps in de-risking the business, which will further improve its leadership position in terms of market share as well as profitability. It produces 160,000 metric tones p.a. from its manufacturing facilities in Valia, Gujarat and Ambarnath Maharashtra. **Despite headwinds, division recorded a revenue growth of 3% in 9M FY 19. Notwithstanding, grow its PBIT by 45% to ₹94 crores on account of better product mix, improved procurement and energy efficiency efforts in both factories.** Looking ahead, **GIL has been able to withstand the headwinds of weak commodity prices and dramatically improve on its profitability with respect of its oleo chemicals business.** Also, company continues to focus on use of renewable energy over the years. Its Valia & Ambarnath plant has installed solar rooftop of 326kW & 198 kW respectively.

### NBL- Increasing acceptability of gourmet and healthy foods, high street locations of stores and online focus - Bode well for gourmet business

Company has set pioneering trends and is truly an Omni-channel player that enjoys great brand loyalty among customers. Company reported Q3FY19 sales at ₹ 89 crore with online business clocked ₹6 crore sales in Q3 FY19, a growth of 29% over the previous year. Also, with opening of **4 new stores in Q3FY19, company has 34 operating stores as on December 31, 2018** across 3 cities viz. Mumbai, Pune and Bangalore. Further, **company targets a thoughtful expansion that entails 3x growth by FY20.** From longer view, with premium gourmet and healthy foods finding, strategic store locations and a renewed online focus, expect that can drive it to a high growth phase.

### **Potential value unlocking in a diversified agri-business**

Prospects for the agri business are strong as it climbs the protein value chain over the next decade. Consolidated revenues for Q3FY19 stood at ₹1459 crs. registering a growth of 19%, through a mix of organic acquisition of **Astec Life sciences and Cream line Dairy**. Integration of both the acquisitions is progressing well and will add significant value to GAVL. Looking ahead, company is poised to see potential growth **prospects with 20-25% PAT CAGR over next couple of years** owing to **market share gains in animal feed, better margin on higher R&D, benefits accruing from recent acquisitions, and improving operational efficiencies and financial prudence.**

- › Animal Feed segment reported strong volume growth of 12.5% in Q3 FY19.
- › Vegetable oil segment revenue registered a growth of 34% in Q3 on the back of strong fresh fruit bunch volume growth
- › Crop protection segment revenue has registered a growth of 48% in Q3FY18 despite the adverse impact in revenue on account of GST. The segment result showed a robust growth of 15%.
- › Dairy segment revenue were flat on Y-O-Y basis

### **Unique business model, strong brand, right mix of industry veterans & marketing strength - Aid growth**

Brand Godrej has helped the GPL to sell significantly on launch and record higher sales despite demonetization; even in extremely weak markets like Gurgaon and recently Noida. Such **performance lends credence that GPL is on track to become one of the largest developers in the country in coming years.**

The company works on an asset light business model. Company witnessed a 89% Q-O-Q growth in value of sales bookings – total booking value stood ₹1504crore in Q3. Company added 1 new projects with saleable area of 1 million sq.ft. in Q3 FY 19.

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From a long term perspective, we believe it can take operations to another level of growth driven by ramp-up in sales led by polarization of demand towards reputed developers, healthy launch pipeline and strong execution in key metros will help capitalize on any uptick in demand, and continued acquisition of new projects on attractive terms. Furthermore, with a change in macroeconomic factors driven by policy initiatives like “Housing For All” by 2022 & Smart Cities and gradual pickup in demand for housing, expect GPL to continue on its high growth trajectory. Focus on building presence in high return markets with a deep focus on execution across project portfolio put company in a strong position to benefit from a robust recovery in the sector and improve market share in the years ahead.

### International operations firming up and renewed rural focus - Build growth momentum in GCPL

After posting strong numbers in Q3, company was optimistic in pickup in consumer demand. As market conditions improve, company is set to increase the pace of new product launches to build on the growth momentum. The investments in brand strengthening & increasing market reach will bode well for the company in the long run. Further, company is on a strong innovation path and expect the past launches as well as cross pollination of brands and distribution expansion will add to the top line growth for next few years. Consolidated revenue in constant currency increased 8% YoY, while EBITDA increased 2% in constant currency terms. Household insecticides improved penetration rates by launching innovative products and awareness campaigns.

#### Key Financial Data

EV	27443.98
Net Worth	5402.85
BV	160.61
EPS(TTM)	18.40

₹ In crores except EPS

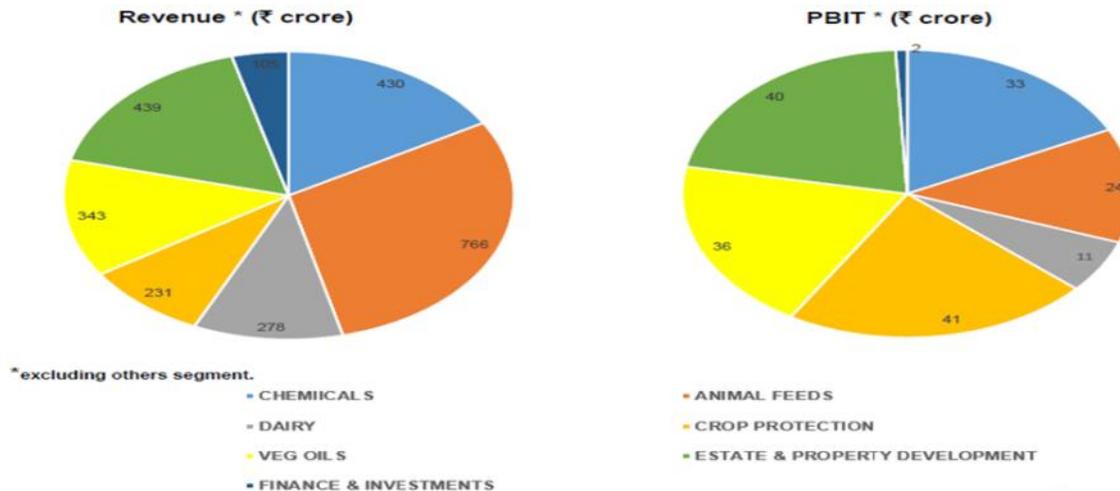
#### Key Financials (₹ in crores)

Particulars	Q3 FY 19	Q3 FY 18	Variation %
Revenue	2473.24	2100.30	17.76
EBITDA	304.23	213.33	42.61
PBT	140.02	70.73	97.96
PAT	121.28	50.54	139.97
EPS	2.29	1.32	73.48

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### SEGMENT-WISE CONTRIBUTION TO FINANCIALS: Q3 FY 2018-19



### APPRECIATION IN INVESTMENT VALUE (As on 31 December 2018)

Company	Business	Holding (%)	Investment at cost (₹ crore)	Market Value ^ of investment (₹ crore)
Godrej Consumer Products (GCPL)	FMCG, Personal and Household Care products	23.8%	1,366	19,756
Godrej Properties (GPL)	Real Estate and Property Development	53.6%	747	7,997
Godrej Agrovet	Animal Feed, Agri-inputs, Poultry, Dairy & Oil Palm	58.0%	326	5,610
Godrej International	International Trading	100%	15	
Godrej International & Trading	International Trading & Investments	100%	4	
Natures Basket	Fresh Food & Gourmet Stores	100%	413	
Others		--	23	
	<b>Total</b>		<b>2,894</b>	

Market Value of GIL's investment in GCPL + GPL + GAVL increased by ₹2,215 crore (7%) on Y-O-Y basis

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### Risks and Concerns

Commodity based businesses are likely to be affected by vagaries of the weather, demand for edible oil, oilseed production, etc. The business is **exposed to commodity price risks relating to raw materials which account for the largest portion of the costs of both the Chemicals and Vegoils businesses.** The Chemicals business growth will also depend on the growth of end user industries like polymer, detergent, cosmetic and personal care.

Macro-economic factors including economic and political developments, natural calamities which affect the industrial sector generally would also affect the businesses of company. Legislative changes resulting in a change in the taxes, duties and levies, whether local or central, also impact business performance and relative competitiveness of the businesses.

### Outlook and Valuation

We have valued GIL using SOTP valuation methodology wherein value the key holdings of GIL using its current market capitalization and assigning a 40% holding company discount. For rest of the businesses i.e. standalone business and NBL, we value as per Market Capitalization/sales valuation technique. Our fair value / target price for GIL comes to ₹597 per share with an investment horizon of 12 months.

VALUATION (₹ in crores except per share)		
Holdings/Businesses	Market Capitalization (₹ in crores)	Implied Value (Estimated)
Godrej Consumer Products	68492.51	6520.48
Godrej Agrovet	10208.31	2368.32
Godrej Properties	21614.56	4634.16
<b>Other Businesses:</b>		
NBL		1500
Others		5046
<b>Total value for GIL</b>		<b>20068.98</b>
<b>Estimated Price/share</b>		<b>597</b>

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### Quarterly Results (₹ in crore except per share)

Particulars	LTM	201812	201809	201806	201803
Net Sales	<b>10132.8</b>	2473.24	2624.02	3031.26	2004.25
<b>EBITDA</b>	<b>1357.4</b>	304.23	393.98	366.06	293.1
Depreciation	<b>180.5</b>	43.31	43.14	41.22	52.81
Operating Income	<b>1176.9</b>	260.92	350.84	324.84	240.29
Misc. Income (Exp.)	<b>1121</b>	246.36	258.23	166.48	449.96
Interest Expenses	<b>482.2</b>	120.9	132.26	126.07	102.95
EBT	<b>694.7</b>	140.02	218.58	198.77	137.34
Taxes	<b>76.6</b>	18.74	28.81	69.83	-40.82
Net Income (Reg)	<b>618.1</b>	121.28	189.77	128.94	178.16
Extraordinary Items	<b>0.5</b>	0	0	0	0.46
<b>Reported Net Income</b>	<b>618.1</b>	121.28	189.77	128.94	178.16
<b>EPS</b>	<b>18.4</b>	3.61	5.64	3.83	5.3
<b>Adjusted EPS</b>	<b>18.4</b>	3.6	5.6	3.8	5.3

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