

Godrej Agrovet Limited

IPO Note

(Subscribe for high risk and long term investors)

Analyst:

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IPO details

Key Data	
Issue Opens	4-Oct-17
Issue Closes	6-Oct-17
Equity Shares Offered (in mn.)	25.16
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	450-460
Max. Issue Size (₹ mn)	11,573
Lot Size (Eq. Shares)	32 and multiple thereof

Valuation	@ `450 per share	@ 460 per share
Market Cap (₹ mn)	86,247	88,164
Net Debt (₹ mn)	6,128	6,128
Enterprise Value (₹ mn)	92,375	94,292
EV/ Sales	1.9	1.9
EV/ EBITDA	21.0	21.5
P/B	8.5	8.7
P/E	39.4	40.3

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	138.6	74.8%	119.8	62.5%
Public	46.7	25.2%	46.7	24.4%
Offer for Sale			18.8	9.8%
Fresh Issue			6.3	3.3%
Total	185.3	100.00%	191.7	100.0%

Object of Offer for sale

- Offer for Sale: Each of the Selling Shareholders will be entitled to the respective portion of the proceeds of the Offer for Sale.
- Fresh Issue: Company proposes to utilise the proceeds from the Fresh Issue towards:
 - repayment or prepayment of working capital facilities availed;
 - repayment of commercial papers issued by the Company; and
 - general corporate purposes.

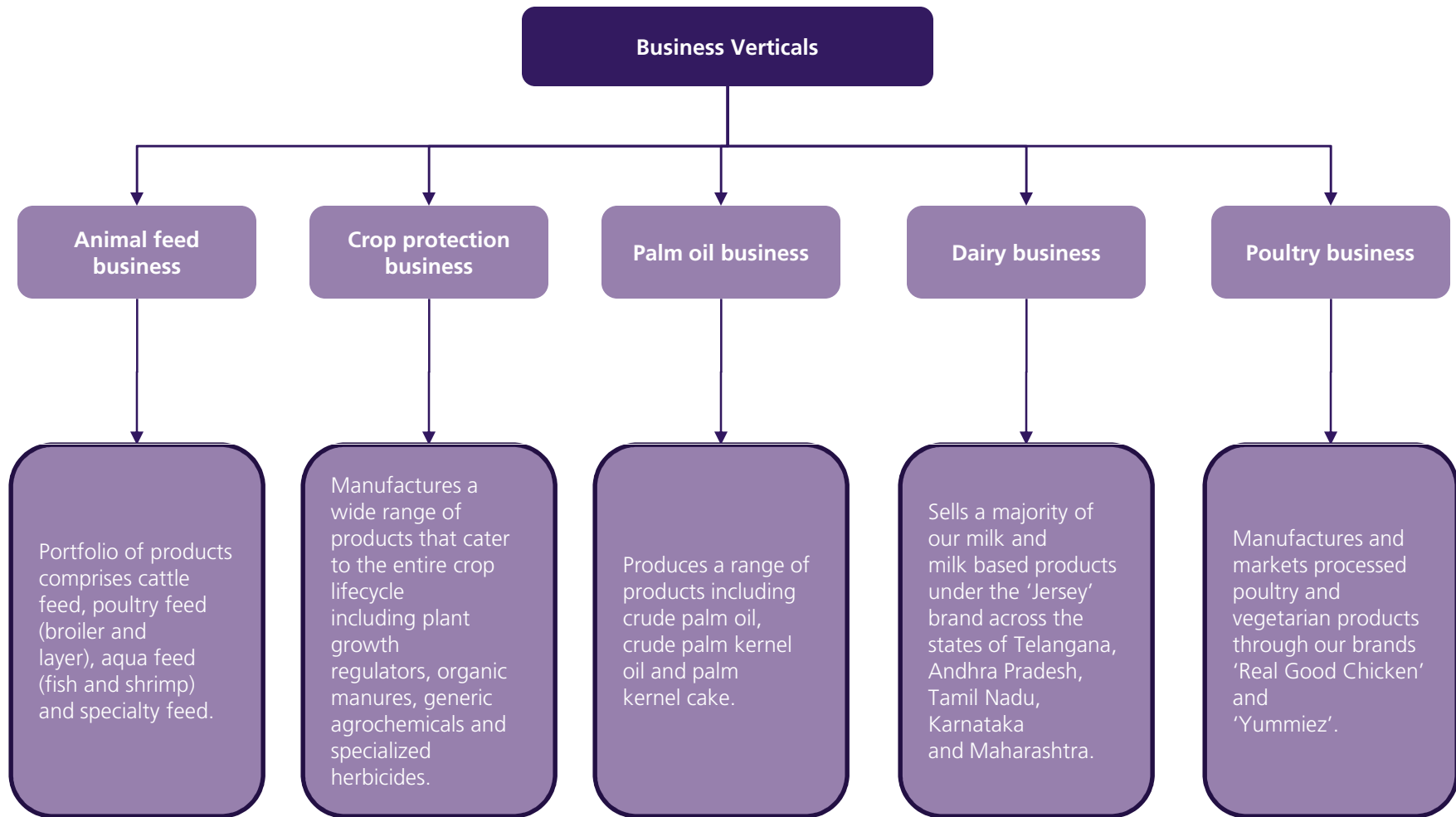
[^]NOTE: Valuation Parameters considered are fully subscribed issue for FY16 financials

Introduction

- ❑ Godrej Agrovet Limited (GAL) incorporated in 1991 with an objective to focus on agricultural businesses. GAL is a leading agri-business company with operations across five business verticals: animal feed, crop protection, oil palm, dairy, and poultry and processed foods. It is the leading compound animal feed company in India, on the basis of installed capacity for the financial year 2016. It is also the largest crude palm oil producer in India, in terms of market share, as of March 31, 2017.
- ❑ In 1994, company entered the poultry business by launching the 'Real Good Chicken' brand, while in 2004, company entered in the animal feed business in Bangladesh by forming a JV (ACI Godrej) with Advanced Chemical Industries Limited. In 2008, company entered into a JV with Tyson India Holding Limited a subsidiary of Tyson Foods Inc., U.S.A to grow its poultry and processed foods business.
- ❑ GAL entered the dairy business with acquisition of 26.0% equity interest in Creamline Dairy in 2005. In 2015 it raised its stake to 51.9% . GAL sells a majority of our milk and milk based products under the 'Jersey' brand across the states of Telangana, Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra.
- ❑ In 2015, it also acquired a majority equity interest in Astec LifeSciences to boost its manufacturing capabilities in agro-chemicals and backward integrate our crop protection business.
- ❑ The company operates a unique business combining agri-business and dairy products. It is an undisputed leader in animal feeds segment with a niche portfolio. Since the foray into dairy business (20% of revenue) it is expanding the business rapidly. It has reported 15.6% revenue CAGR with 200 bps expansion in PAT margin to 5.5% with 20%+ ROE through FY13-17.
- ❑ However, dominance of unorganized sector in the major operating segment of animal feeds makes us cautious of the growth prospects. The company which has seen frequent equity changes going to utilize the IPO proceeds for debt repayment even when it has sufficient reserves. The asking premium of 40.3x its FY17 earnings compared to its segment peers of Avanti Feeds (33x) and HUL (31x) is aggressive. Overall, we find the investment risky and recommend **subscription only for high risk and longer term investors.**

Source: Red Herring Prospectus, Destimoney research

Business operations are divided into three categories



Source: Red Herring Prospectus, Destimoney research

Strengths

- ❑ **Pan-India Presence with Extensive Supply and Distribution Network** : GAL has pan-India presence and operations spanning across five business verticals: animal feed, crop protection, oil palm, dairy, and poultry and processed foods. It has since set up processing facilities and supporting infrastructure as well as R&D to develop a modern operating platform across key agriculture verticals in which it operates. Since several of GAL's facilities are located near major consumption centers, it is able to ensure product freshness by reducing delivery time to customers as well as reduce its transportation costs. Strong procurement base, diversified product portfolio and large-scale operations enables it to achieve economies of scale in sourcing of raw materials and the distribution of products. Its animal feed business distribution network comprises approximately 4,000 distributors, as of June 30, 2017. Its distribution network in India for crop protection products comprises approximately 6,000 distributors, as of June 30, 2017. As of June 30, 2017, its dairy distribution network included approximately 4,000 milk distributors, approximately 3,000 milk product distributors and 50 retail parlors, as well as direct sales to institutional customers.
- ❑ **Diversified Businesses with Synergies in Operations:** Its presence across five business verticals has enabled us to grow our revenues over the last five years. Its diversified businesses along with its geographic diversification provides a hedge against the risks associated with any particular industry segment or geography while benefiting from the synergies of operating in diverse but related businesses.
- ❑ **Strong R&D Capabilities:** GAL's emphasis on R&D has been critical to its success and a differentiating factor from its competitors. It undertakes dedicated R&D in its existing products primarily with a focus to improve yields and process efficiencies. It offers a variety of cattle feed for the entire lifecycle of the cattle. For crop protection business, it has developed products in-house such as 'Vipul', 'Double' and 'Combine' and 'Hitweed', which is an indigenously developed selective cotton herbicide targeting broad-leaf weeds, and works with both, indigenous and genetically modified varieties of cotton. It has spent Rs. 3.22 million, Rs. 18.25 million, Rs.16.88 million and Rs. 29.35 million towards research activities (which does not include salaries and benefits of R&D employees and capital expenditure) during the three months ended June 30, 2017 and the financial years 2017, 2016 and 2015, respectively.
- ❑ **Strong Parentage and Established Brands:** It is a part of the Godrej group, which is among India's oldest and most prominent corporate groups. The strength of the 'Godrej' brand and its association with trust, quality and reliability helps it in many aspects of its various businesses, particularly that involve direct sales to retail consumers. Its provides it with a competitive advantage in attracting talent, benefiting from its global network, exploring potential business opportunities, corporate governance practices and acquiring direct access to senior decision makers.

Source: Red Herring Prospectus, Destimoney research

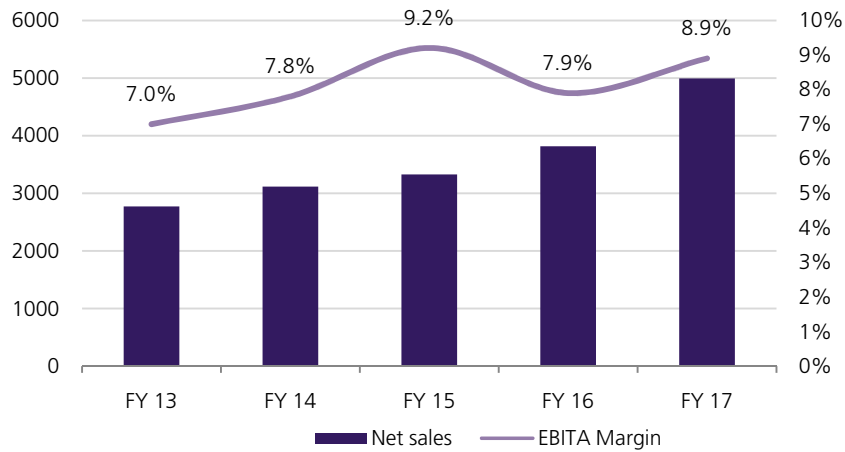
Future Strategies

- ❑ The primary elements of its business strategy are to continue to grow its existing businesses, leverage synergies between its businesses and opportunistically evaluate inorganic opportunities.
- ❑ **Animal Feed Business:** The animal feed industry in India is largely unorganized and GAL competes with multiple players in each geography in which it operates. Its strategy for its animal feed business is to focus on achieving cost leadership by improving the operational efficiency of its animal feed business through R&D as well as cost rationalization initiatives.
- ❑ **Crop Protection Business:** Strategy for growing its crop protection business is primarily focused on expanding its product portfolio. It has introduced new products in its crop protection business and it intends to continue to focus on introducing new products. Its R&D initiatives have increasingly focused on off patented chemistry synthesis, which will help it in expanding its product portfolio.
- ❑ **Oil Palm Business:** Strategy for oil palm business is to grow its presence in certain regions, create additional revenue streams from oil palm biomass and continue to focus on R&D to improve FFB yield. It intends to diversify its oil palm business and create additional revenue streams and lower operational costs, including through the use of oil palm biomass in our animal feed business. It also intends to grow its presence in certain districts of Andhra Pradesh and Tamil Nadu, both organically and inorganically, and increase the area under oil palm, which is accessible to it.
- ❑ **Dairy Business:** Growth strategy for dairy business is to: (i) increase its market share by growing its brand in southern states of India; (ii) increase the sales of its value-added product portfolio; (iii) automate a majority of its operations; and (iv) increase its procurement base.
- ❑ **Poultry and Processed Foods Business:** Strategy for its poultry and processed foods business is to introduce new products and increase its product reach. It sells poultry and processed foods products and have a diverse customer base comprising retail customers, QSRs, fine dining restaurants, food service companies and hotels. It intends to continue to provide variants of existing, and new, value-added poultry products.

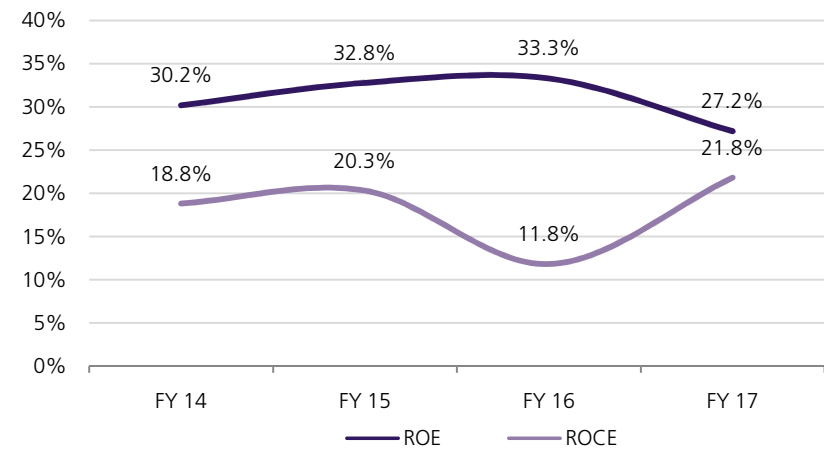
Source: Red Herring Prospectus, Destimoney research

Financials

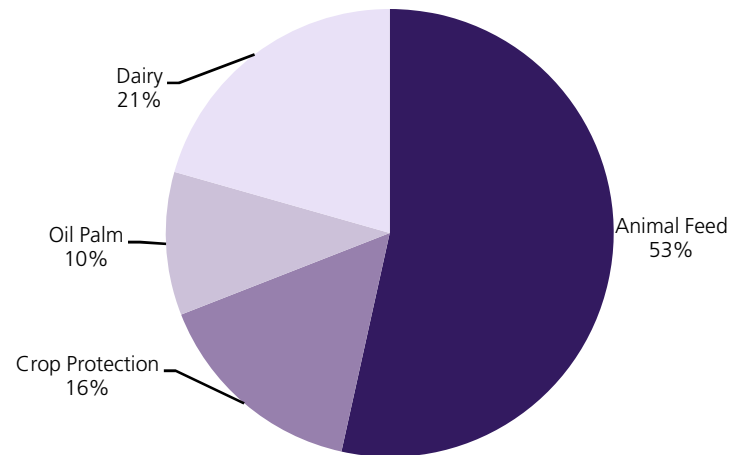
Revenue Trend



ROE and ROCE



Business Mix 'FY17



Source: Red Herring Prospectus, Destimoney research

Consolidated Summary Financials

Income Statement

₹ mn	Q1'FY18	FY17	FY16	FY15
Total Income	13,632.7	49,264.0	37,549.6	33,118.2
Operating Expense	12,389	44,872	34,583	30,058
EBIDTA	1,244	4,392	2,967	3,060
Depreciation	216	747	524	370
Finance Costs	118	863	977	655
Other Income	62	570	627	137
Share of equity-accounted investees, net of tax	107	187	327	170
PBT (before Exceptional item)	1,078	3,540	2,420	2,343
Exceptional Item	-	200	946	364
PBT (after Exceptional item)	1,078	3,740	3,366	2,707
Tax	336	996	755	606
PAT	743	2,744	2,611	2,101
Share of Loss of Associates	-	-	-	-
Minority Interest	-	-	-	-
Net Profit	743	2,744	2,611	2,101

Balance Sheet

mn	Q1'FY18	FY17	FY16	FY15
Liabilities				
Share capital	1,851	1,851	926	926
Reserves and surplus	8,876	8,245	6,906	5,478
Non-controlling interests	2,557	2,545	2,323	0
Long-Term Borrowings	195	206	208	721
Other long term Financial liabilities	174	353	392	45
Deferred tax liabilities(net)	1,641	1,670	1,458	565
Other non-current liabilities	151	152	144	72
Long-Term Provisions	94	50	29	16
Short-Term Borrowing	6,960	6,397	12,607	6,124
Trade payables	9,953	8,405	3,349	2,141
Other Financial Liabilities	2,040	1,687	2,217	1,046
Other current liabilities	312	370	501	275
Short-term provisions	412	215	173	120
Liabilities for current tax (net)	52	-	-	-
Total Liabilities	35,269	32,149	31,232	17,529
Assets				
Net Block	12,352	12,221	10,987	5,225
Capital Work in Progress	466	502	620	1,380
Goodwill	1,949	1,949	1,949	0
Intangible assets	554	561	606	218
Biological assets other than bearer plants	45	47	89	123
Equity accounted investees	1,851	1,755	1,547	1,492
Investments	0	0	0	0
Long term loans and advances	147	150	131	101
Others	46	51	58	18
Deferred tax assets (net)	32	68	117	110
Other tax assets	42	139	86	118
Other Non- Current Asset	643	484	363	174
Inventories	8,077	7,381	6,665	3,888
Current Investments	100	0	593	366
Trade receivables	7,208	5,220	4,545	2,693
Cash & bank balances	397	623	420	175
Short-term loans and advances	134	255	1,389	959
(vi) Others	119	115	547	135
Current Tax assets (Net)	4	4	0	0
Other Current Assets	1,105	626	519	353
Total Assets	35,269	32,149	31,232	17,529

Source: Red Herring Prospectus, Destimoney research

Key Risks

- ❑ Unfavourable local and global weather patterns may have an adverse effect on its business, results of operations and financial condition.
- ❑ GAL operates in five business verticals and its inability to manage its diversified operations may have an adverse effect on its business, results of operations and financial condition.
- ❑ GAL derives a significant portion of its revenue from its animal feed business and any reduction in demand or in the production of such products could have an adverse effect on its business, results of operations and financial condition.
- ❑ GAL do not have long-term agreements with suppliers for its raw materials and an increase in the cost of, or a shortfall in the availability of such raw materials could have an adverse effect on its business and results of operations.
- ❑ The improper handling, processing or storage of raw materials or products, or spoilage of and damage to such raw materials and products, or any real or perceived contamination in its products, could subject us to regulatory and legal action, damage its reputation and have an adverse effect on its business, results of operations and financial condition.

Source: Red Herring Prospectus, Destimoney research

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