

6th December, 2017

CMP – ₹546.65/-

View – Positive

Company Background And Business Model

Godrej Agrovet was incorporated in 1991 in the state of Gujarat. Godrej Agrovet Limited (GAVL), is a diversified, R&D focused agri-business company with operations across five business verticals viz. animal feed, crop protection, oil palm, dairy, and poultry & processed foods. GAVL is the largest crude palm oil producer in India, in terms of market share, & the leader in compound cattle feed in India as of March 2017. Godrej Agrovet Ltd has joint ventures Godrej Tyson Foods Ltd, a food processing firm, and ACI Godrej Agrovet Pvt. Ltd, which runs a poultry products business in Bangladesh. The Company made significant investments to enhance R&D capabilities over the years.

Important Statistics (₹crs)

M.Cap	10484
52 Week H/L (₹)	629.8/524.0
NSE Code	GODREJAGRO
BSE Code	540743

Investment Argument

- **Diversified business model to drive future growth** – Operations across five business verticals has enabled GAVL to grow revenues over the last five years. Diversified product portfolios, across various categories provides the companies with a larger target market in terms of crops and/or geographies, as pest incidence and weather conditions are variable and different products would be required in varying degrees in these locations. Further, diversified players with a larger basket of products become less vulnerable to crop/location specific risks. The diversified business model along with geographic diversification provides a hedge against the risks associated with any segment. This helped to drive growth, optimize capital efficiency and maintain competitive advantage. Existing inter-linkages between businesses also helped to maximize the potential synergies amongst them. For example, the animal feed team frequently collaborates with dairy, and poultry and processed foods businesses for sale of compound feed to the farmers. Additionally, some of the biomass produced from the oil palm business is used as an animal feed ingredient, which provides additional source of revenue to oil palm business as well as strengthens the cost competitiveness of the animal feed business. Given the uncertainty in the domestic market owing to the dependence on monsoons, players present in export markets achieve some level of risk mitigation through diversification.
- **Strong R&D capabilities aid to growth** – GAVL is focused on improving productivity of farmers by innovating products and services that sustainably increase crop and livestock yields. The Company made significant investments to enhance their R&D capabilities over the years and believe that emphasis on R&D has been critical to their success. Hence GAVL has been able to identify market trends and introduce a range of innovative and value-added products in the market to cater to the evolving needs of customers.
- **Animal feed Business** – Accounts for 53% of the topline & 36% to the EBIT, with segment margins in range of ~6-7%. Its product portfolio comprises of cattle feed, poultry feed (broiler and layer), aqua feed (fish and shrimp) and specialty feed. It has a strong distribution network for the animal feed business with ~4,000 distributors across India. The company is also present in this space with its 50:50 JV, ACI Godrej, which produces cattle, poultry and fish feed in Bangladesh. The focus for this segment is on achieving cost leadership by improving the operational efficiency of animal feed business through R&D as well as cost rationalization initiatives thereby improving profit margins and market share.
- **Crop Protection Business** – Accounts for 16% of the topline & 37% to the EBIT, with segment margins in the range of ~20-22%. The company's product portfolio is spread across the entire crop lifecycle including plant growth regulators, organic manures, generic agrochemicals and specialized herbicides. Continuing the business growth story, GAVL acquired promoter holding in Astec Life Sciences Limited in 2015. The distribution network of Company's crop protection business in India includes approximately 6,000 distributors, as of FY17. With good monsoons, the rabi season is expected to be strong and benefit crop protection business in H2FY2018. Further, the company launched three new products under the crop protection business this year and has guided for launch two to three new products every year. The focus for this segment is on introducing new products. R&D initiatives have increasingly focused on off patented chemistry synthesis, which will help in

Financials

(₹ crs)

	FY17	H1FY18
Sales	4911.08	2769.93
EBITDA	438.01	271.96
EBITDA Margin	8.92%	9.82%
Reported PAT	272.93	161.09
PAT Margin (%)	5.56%	5.82%
EPS (₹)	13.91	8.27
Book Value	0.68	0.7
ROE	21.61%	12.35%

Segment Wise Sales	FY17	H1FY18
Animal Feed	2620.8	1246.4
Vegetable Oil	506.64	398.09
Crop Protection Business	764.73	538.77
Dairy	1009.9	601
Others	40.98	19.86

EBIT & Margin	FY17	H1FY18
Animal Feed	166.37	82.2
	6.3%	6.6%
Vegetable Oil	102.69	71.41
	20.3%	17.9%
Crop Protection Business	170.8	123.73
	22.3%	23.0%
Dairy	36.67	28.72
	3.6%	4.8%
Others	-11.21	-3.53
	-27.4%	-17.8%

	Q2FY18	Q2FY17
Net Sales	1425.82	1415.61
EBITDA	146.12	154.06
EBITDA Margin	10.25%	10.88%
Reported PAT	85.02	81.9
PAT Margin (%)	5.96%	5.79%
EPS (₹)	4.32	3.63

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expanding our product portfolio. GAVL also intend to achieve deeper market penetration and extend target crop segment with niche plant growth regulators.

- **Oil Palm Business** – This business accounts for 10% of the topline & 22% to the EBIT, with segment margins in the range of ~19-20%. This is a regulated business under the PPP model with gross margins at ~20%. The internal consumption of biomass from this segment into the cattle feed segment help optimise costs. GAVL operates with an aggregate FFB processing capacity of 125 MT per hour and a palm kernel processing capacity of 7 MT per hour. In the oil palm business, the company has a strong market share of 35% in India and access to nearly 20% of India's oil plantations. Higher oil prices and improvement in yield should benefit this segment in the near term. The focus for this segment 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 per hectare at laboratory in Chintampalli, Andhra Pradesh.

- **Dairy Business** – This business accounts for 21% of the topline & 7.3% to the EBIT, with segment margins in the range of ~3-4%. In With ambition of expanding presence in the "Animal Protein" space further, GAVL acquired controlling stake in Cream Line Dairy Products Limited - a leading Dairy player in South India. The company has significant presence in Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra, under the "Jersey" Brand name. Its value-added product portfolio includes Curd, Flavoured Yogurt, and Ice Cream. Dairy distribution network includes approximately 4,000 milk distributors, ~2,500 milk product distributors and 50 retail parlours, as well as direct sales to institutional customers. The focus for this segment is to introduce new products and increase product reach. It intends to continue to provide variants of existing, and new, value-added poultry products.

Segment Wise Sales	Q2FY18	Q2FY17
Animal Feed	611.89	685.91
Vegetable Oil	267.18	219.72
Crop Protection Business	259.28	257.35
Dairy	292.77	257.23
Others	3.39	6.71
EBIT & Margins		
Animal Feed	4.64%	5.25%
Vegetable Oil	23.05%	22.35%
Crop Protection Business	24.97%	26.12%
Dairy	1.52%	4.75%
Others	25.37%	-54.99%

Valuations

At its CMP of ₹546.65/-, the stock trades at a PE of ~34.2x its FY18 estimated annualised EPS of ₹16/-. GAVL is focused on improving productivity of farmers by innovating products and services that sustainably increase crop and livestock yields. The Company made significant investments to enhance their R&D capabilities over the years and believe that emphasis on R&D has been critical to their success. The company aims to improve market share across all business verticals. Since several sectors in which GAVL operate are largely unorganized, we believe that cost leadership will be a key enabler for GAVL to increase the market share. **The company has evolved from cattle feed to an animal protein player. We are POSITIVE on the company's long-term growth prospects.**

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Disclosure of Interest Statement in Godrej Agrovet Ltd. as on December 6th, 2017

Name of the Security	Godrej Agrovet Ltd.
Name of the analyst	Shivani Vivek Vishwanathan
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / NO	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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Broking relationship with company covered	NIL
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