

BSE SENSEX

40,802

S&P CNX

12,048



Stock Info

Bloomberg	GOAGRO IN
Equity Shares (m)	192
M.Cap.(INRb)/(USDb)	93.3 / 1.3
52-Week Range (INR)	565 / 422
1, 6, 12 Rel. Per (%)	-7/-6/-16
12M Avg Val (INR M)	45
Free float (%)	31.0

Financials Snapshot (INR b)

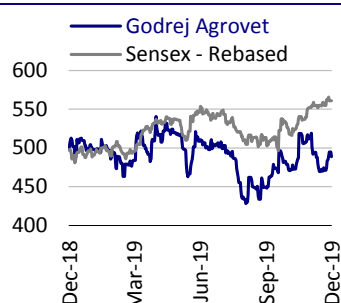
Y/E Mar	2019	2020E	2021E
Net Sales	58.7	69.6	78.9
EBITDA	4.6	4.8	6.6
PAT	2.4	2.6	3.9
EPS (INR)	12.5	13.6	20.1
EBITDA Gr. (%)	2.9	4.6	39.1
EPS Gr. (%)	10.9	8.4	48.1
RoE (%)	15.7	15.1	20.0
RoCE (%)	15.4	14.5	18.4
EV/EBITDA (x)	22.2	21.1	15.1
P/E (x)	38.8	35.8	24.1

Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	69.0	69.0	68.8
DII	2.2	2.7	3.4
FII	3.4	3.3	2.6
Others	25.4	25.1	25.3

Note: FII includes depository receipts

Stock Performance (1-year)


CMP: INR486
TP: INR584 (+20%)
Buy

Palm oil biz on strong footing for FY21...

...aided by higher volume and realization

Indonesia and Malaysia – that account for ~86% of the world's palm oil production – are planning to increase the usage of palm oil for the production of biodiesel. This should eventually lead to palm oil prices increasing as palm oil supply for food and other usages would decrease. In this note, we highlight the event and its impact on GOAGRO.

- Indonesia accounts for 54% of the global palm oil production. The country intends to implement B30 biodiesel (from B20 currently), which in turn would increase its domestic consumption by 3MMT. Thus, the implementation of B30 would incrementally take away 9% of Indonesia's palm oil supply.
- Malaysia accounts for ~32% of the global palm oil production and is also in the process of implementing B20 (from B10 currently), which would increase its domestic consumption by 1MMT (5% of its production).
- Thus, the intention of the two countries (together account for ~86% of the global supply) to use palm oil for biodiesel will divert ~6% of the global supply to biodiesel, resulting in palm oil prices inching up.
- We believe that this event would be a positive for GOAGRO's palm oil division in FY21 (expect segment revenue/EBIT to grow at 34%/91% YoY in FY21). We haven't factored in any material improvement in FY20 as ~60% of the segment's revenue is realized in the 1H of the fiscal year.
- We have a Buy rating on the stock with SOTP-based TP of INR584.

Higher usage of palm oil in biodiesel may increase prices...

- Indonesia and Malaysia are the world's largest palm oil producers and together account for ~86% share of palm oil production globally. According to [media articles](#), both the South-East Asian countries are likely to increase the usage of palm oil for the production of biodiesel, which shall be used for their own consumption.
- The increase in allocation of palm oil toward biodiesel comes on the back of lower palm oil prices. Also, it should aid the two countries in saving precious foreign exchange from the reduction in diesel imports.
- The Indonesian government intends to implement B30 biodiesel (from B20 currently) in 2020, which would increase domestic consumption of crude palm oil by 3MMT. Currently, Indonesia's total palm oil production stands at ~33MMT (54% of global production). Therefore, post implementation of B30, incrementally 9% of Indonesia's supply would be directed toward biodiesel consumption.
- Additionally, Malaysia which accounts for ~32% of the global production is also in the process of implementing B20. The country currently uses B10; the plan is to introduce B20 in stages beginning Jan'20. If B20 is implemented, domestic consumption of crude palm oil in Malaysia will incrementally increase by 1MMT; the country currently produces ~19MMT crude palm oil.

- Following the usage of palm oil by both countries to produce biodiesel, ~6% of the global supply is expected to get diverted toward biodiesel. This may result in prices inching up (palm oil prices have increased ~32% in the last 4 months to USD645/MT).

...but, positive for GOAGRO

- Oil palm plantations in India are regulated. GOAGRO is a participant in the government's Oil Palm Development Program (OPDP), which gives the company access to produce of Fresh Fruit Bunches (FFBs) from farmers in designated areas. Thus, GOAGRO has an asset-light business model, wherein it procures FFBs from farmers and sells it after processing the same.
- GOAGRO procures FFBs from farmers based on the price determined by the government. Additionally, in order to promote the cultivation of oil palm plantation in India, the government has imposed duty on the import of palm oil (currently 40% on crude palm oil).
- Palm oil segment contributed 12%/23% to revenue/EBIT of GOAGRO in FY19 and the company has clocked revenue/EBIT CAGR of 14%/12% over FY14-19.
- However, in 1HFY20, GOAGRO's palm oil segment revenue/EBIT declined 12%/49% YoY. Performance in 1HFY20 was impacted due to (a) decline in palm oil prices and (b) FFBs having lower oil content due to heat waves, which impacted yields.
- However, all these conditions should improve as (a) global palm oil prices are expected to inch up, (b) normal rainfall has been witnessed in the kharif season, and (c) to prevent spillover to neighboring states. GOAGRO has taken corrective actions by narrowing the pricing difference by working with the governments of the two states of Telangana and Andhra Pradesh.
- We haven't baked in any material improvement in the palm oil division's performance for FY20 as ~60% of the segment's revenue is realized in the 1H of the fiscal year. We believe the initiatives undertaken by the company to increase sales volume and the expected increase in global palm oil prices should aid the segment's revenue/EBIT growth of 34%/91% YoY in FY21.

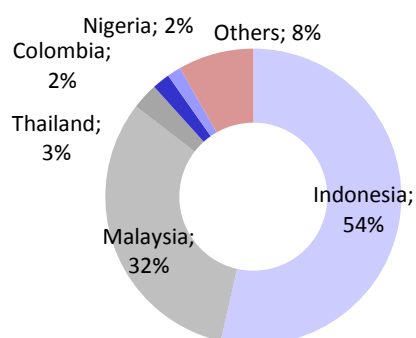
Valuation and view

- We believe management is taking corrective action across its business segments to ensure the revival in growth and margins. Additionally, improvement in palm oil prices should aid improvement in the segment's performance. We expect revenue/EBITDA/PAT to grow at 16%/21%/27% CAGR over FY19-21. Our SOTP-based target price stands at INR584. Maintain **Buy**.

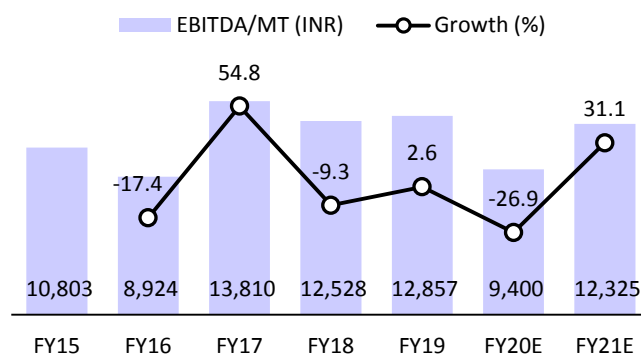
Exhibit 1: Valuation methodology

Particulars	EBITDA FY21E (INR m)	EV/ EBITDA (x)	EV (INR m)	Net Debt (INR m)	Equity Value (INR m)	GOAGRO's share (%)	Value (INR m)	Value/ share (INR)	% Sh.
Standalone:									
Crop Protection	1,856	18.0	33,403		33,403	100%	33,403	174	30%
Palm Oil	1,590	17.0	27,031		27,031	100%	27,031	141	24%
Animal Feed	2,779	16.0	44,461		44,461	100%	44,461	232	40%
Unallocated expenses	(1,188)	7.0	(8,315)		(8,315)	100%	(8,315)	(43)	-7%
Total	5,037	19.2	96,581	1,431	95,149	100%	95,149	495	85%
Subsidiaries:									
Astec (mcap with 20% holdco disc)					5,424	57%	3,116	16	3%
Creamline Dairy	688	17.0	11,696	204	11,492	52%	5,965	31	5%
Godrej Tyson Foods Limited	301	17.0	5,109		5,109	51%	2,606	14	2%
JV/ Associate:									
ACI Godrej Agrovet Private Limited	667	16.0	10,677		10,677	50%	5,339	28	5%
Total	6,693	18.5	124,063		127,851			584	100%
CMP								486	
Upside								20%	

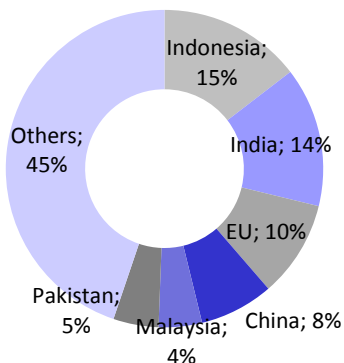
Source: MOFSL

Exhibit 2: Global palm oil production by country (~62MMT)

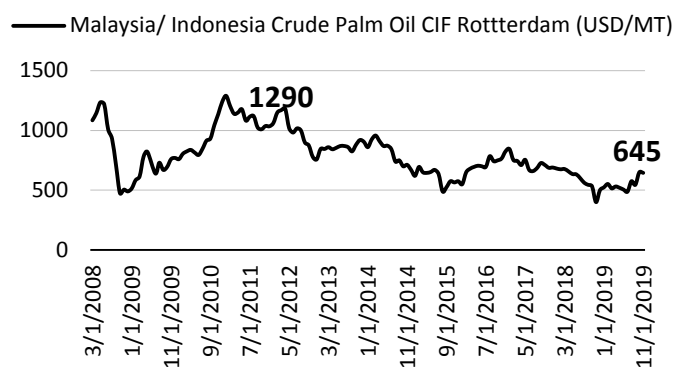
Source: Industry, MOFSL

Exhibit 3: EBITDA/MT in palm oil segment of GOAGRO

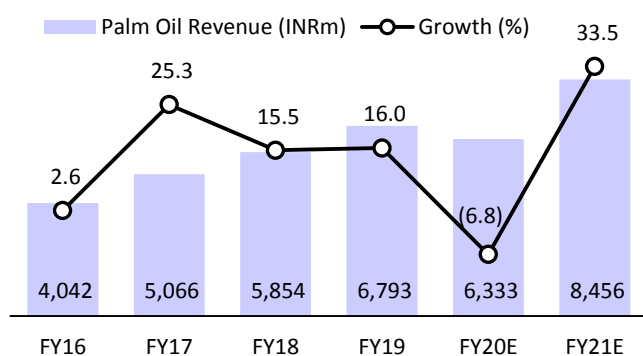
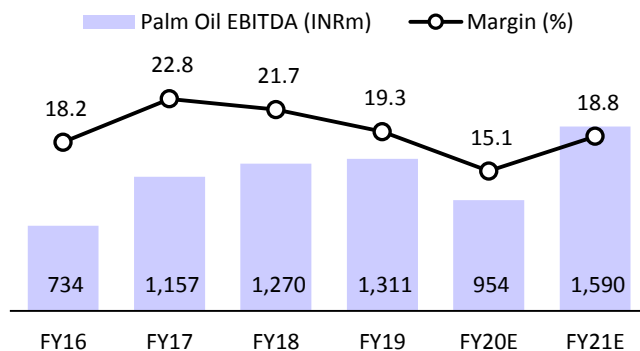
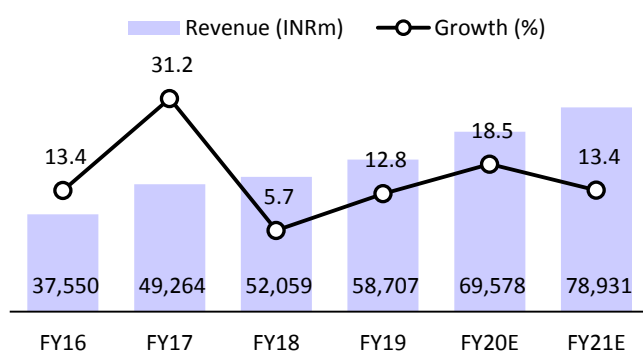
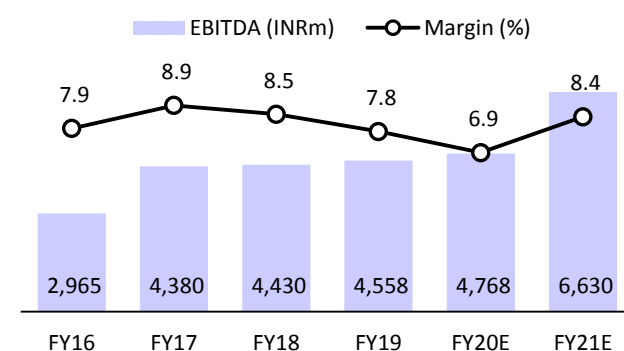
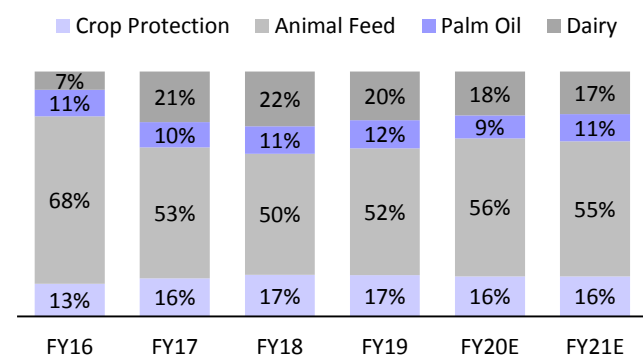
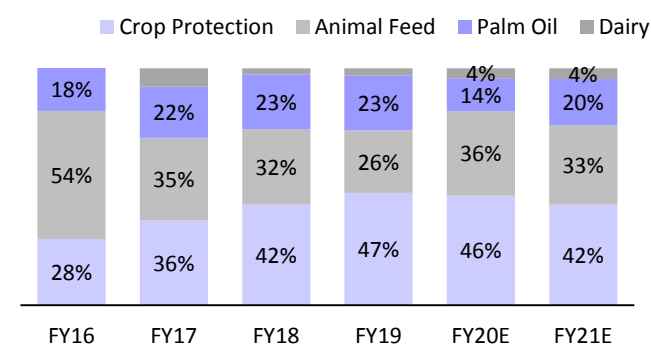
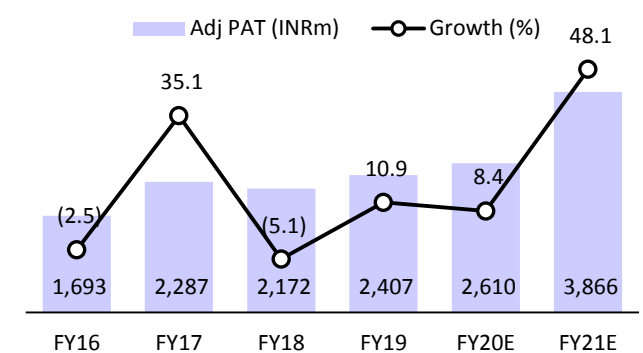
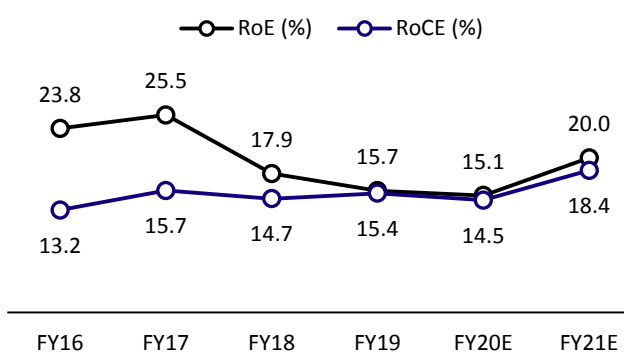
Source: MOFSL

Exhibit 4: Global palm oil consumption (~65MMT)

Source: Industry, MOFSL

Exhibit 5: Crude palm oil price trend

Source: Bloomberg, MOFSL

Exhibit 6: Expect 12% revenue CAGR over FY19-21 in palm oil biz...**Exhibit 7: ...with EBITDA margin contraction of 50bp****Exhibit 8: Expect consol. revenue CAGR of 16% over FY19-21****Exhibit 9: EBITDA margin should expand 65bp over FY19-21****Exhibit 10: Revenue mix trend****Exhibit 11: EBIT mix trend****Exhibit 12: Expect Adj. PAT at 27% CAGR over FY19-21****Exhibit 13: RoE and RoCE trend**

Source: Company, MOFSL

Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	33,118	37,550	49,264	52,059	58,707	69,578	78,931
Change (%)	6.7	13.4	31.2	5.7	12.8	18.5	13.4
Total Expenditure	30,059	34,585	44,884	47,629	54,149	64,810	72,301
% of Sales	90.8	92.1	91.1	91.5	92.2	93.1	91.6
EBITDA	3,059	2,965	4,380	4,430	4,558	4,768	6,630
Margin (%)	9.2	7.9	8.9	8.5	7.8	6.9	8.4
Depreciation	370	524	747	859	982	1,486	1,552
EBIT	2,690	2,441	3,633	3,571	3,577	3,282	5,078
Int. and Finance Charges	655	977	863	453	339	442	315
Other Income	137	627	590	318	531	464	553
PBT bef. EO Exp.	2,172	2,091	3,360	3,436	3,769	3,305	5,316
EO Items	364	946	200	121	883	0	0
PBT after EO Exp.	2,536	3,037	3,560	3,557	4,652	3,305	5,316
Total Tax	605	754	1,018	1,207	1,280	605	1,338
Tax Rate (%)	23.9	24.8	28.6	33.9	27.5	18.3	25.2
Profit from Associate & MI	-170	-356	55	57	82	89	111
Reported PAT	2,101	2,639	2,487	2,292	3,290	2,610	3,866
Adjusted PAT	1,736	1,693	2,287	2,172	2,407	2,610	3,866
Change (%)	10.9	-2.5	35.1	-5.1	10.9	8.4	48.1
Margin (%)	5.2	4.5	4.6	4.2	4.1	3.8	4.9

Consolidated - Balance Sheet

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	926	926	1,851	1,920	1,920	1,920	1,920
Total Reserves	5,478	6,906	8,237	12,193	14,570	16,139	18,734
Net Worth	6,404	7,832	10,088	14,114	16,490	18,059	20,654
Minority Interest	0	2,323	2,541	2,693	4,010	4,195	4,413
Total Loans	6,848	13,757	6,641	4,098	3,950	3,700	3,450
Deferred Tax Liabilities	565	1,458	1,663	1,730	2,086	2,086	2,086
Capital Employed	13,818	25,369	20,933	22,635	26,536	28,041	30,603
Gross Block	6,417	12,139	14,109	15,185	21,246	23,120	25,420
Less: Accum. Deprn.	975	564	1,329	2,214	3,196	4,681	6,234
Net Fixed Assets	5,443	11,575	12,779	12,971	18,050	18,438	19,186
Goodwill on Consolidation	0	1,949	1,949	1,949	2,649	2,649	2,649
Capital WIP	1,380	638	504	1,904	936	1,312	1,512
Total Investments	1,858	2,140	1,755	1,952	1,165	1,165	1,165
Curr. Assets, Loans&Adv.	8,847	14,930	15,157	16,749	19,536	23,386	26,668
Inventory	3,888	6,665	7,381	7,629	9,517	11,364	12,876
Account Receivables	2,693	4,545	5,219	6,315	7,349	8,578	9,731
Cash and Bank Balance	175	420	538	299	299	661	904
Loans and Advances	2,092	3,299	2,019	2,507	2,371	2,783	3,157
Curr. Liability & Prov.	3,711	5,862	11,212	12,890	15,800	18,909	20,577
Account Payables	2,141	3,349	8,408	9,550	12,394	14,915	16,441
Other Current Liabilities	1,434	2,312	2,496	2,955	2,928	3,479	3,552
Provisions	136	202	308	385	478	515	584
Net Current Assets	5,136	9,067	3,946	3,859	3,735	4,477	6,091
Appl. of Funds	13,818	25,369	20,933	22,635	26,536	28,041	30,603

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)							
EPS	9.0	8.8	11.9	11.3	12.5	13.6	20.1
Cash EPS	11.0	11.5	15.8	15.8	17.6	21.3	28.2
BV/Share	33.4	40.8	52.5	73.5	85.9	94.0	107.6
DPS	3.7	2.1	4.5	4.5	4.5	4.5	5.5
Payout (%)	39.3	18.8	41.9	45.6	31.6	39.9	32.9
Valuation (x)							
P/E			40.8	43.0	38.8	35.8	24.1
Cash P/E			30.8	30.8	27.5	22.8	17.2
P/BV			9.3	6.6	5.7	5.2	4.5
EV/Sales			2.1	1.9	1.7	1.4	1.3
EV/EBITDA			23.3	22.5	22.2	21.1	15.1
Dividend Yield (%)			0.9	0.9	0.9	0.9	1.1
FCF per share			36.6	5.7	-11.4	8.9	8.5
Return Ratios (%)							
RoE	30.0	23.8	25.5	17.9	15.7	15.1	20.0
RoCE	17.5	13.2	15.7	14.7	15.4	14.5	18.4
RoIC	22.4	11.3	12.9	12.9	12.2	10.9	14.6
Working Capital Ratios							
Fixed Asset Turnover (x)	5.2	3.1	3.5	3.4	2.8	3.0	3.1
Asset Turnover (x)	2.4	1.5	2.4	2.3	2.2	2.5	2.6
Inventory (Days)	43	65	55	53	59	60	60
Debtor (Days)	30	44	39	44	46	45	45
Creditor (Days)	24	33	62	67	77	78	76
Leverage Ratio (x)							
Current Ratio	2.4	2.5	1.4	1.3	1.2	1.2	1.3
Interest Cover Ratio	4.1	2.5	4.2	7.9	10.6	7.4	16.1
Net Debt/Equity	1.0	1.6	0.6	0.3	0.2	0.2	0.1

Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
(INR Million)							
OP/(Loss) before Tax	2,706	3,364	3,727	3,717	3,769	3,305	5,316
Depreciation	370	524	747	859	982	1,486	1,552
Interest & Finance Charges	620	885	715	453	-192	-22	-238
Direct Taxes Paid	-557	-456	-800	-837	-1,280	-605	-1,338
(Inc)/Dec in WC	-1,552	-1,024	5,145	-471	326	-195	-1,154
CF from Operations	1,587	3,293	9,534	3,721	3,605	3,968	4,139
Others	-499	-1,610	-561	-183	0	0	0
CF from Operating incl EO	1,088	1,683	8,973	3,538	3,605	3,968	4,139
(Inc)/Dec in FA	-1,094	-1,223	-1,949	-2,448	-5,793	-2,250	-2,500
Free Cash Flow	-5	460	7,024	1,091	-2,188	1,718	1,639
(Pur)/Sale of Investments	-131	581	610	-131	787	0	0
Others	-44	-3,581	366	51	652	560	659
CF from Investments	-1,269	-4,223	-974	-2,528	-4,354	-1,690	-1,841
Issue of Shares	0	39	8	2	0	0	0
Inc/(Dec) in Debt	566	4,168	-7,027	-2,571	-148	-250	-250
Interest Paid	-650	-972	-861	-455	-339	-442	-315
Dividend Paid	-706	-452	0	-1,045	-1,041	-1,041	-1,272
Others	0	0	0	2,818	2,276	-186	-217
CF from Fin. Activity	-790	2,784	-7,881	-1,250	749	-1,918	-2,054
Inc/Dec of Cash	-970	244	119	-240	0	361	243
Opening Balance	1,146	175	419	538	299	300	661
Closing Balance	175	419	538	299	299	661	904

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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