

14 August 2024

India | Equity Research | Q1FY25 results review

Godrej Industries

Diversified

Standalone business signalling early signs of revival; higher investment in Godrej Capital

Godrej Industries (GIL) generates major value from its listed subsidiaries and associates viz. Godrej Consumer, Godrej Properties and Godrej Agrovet. As per I-Sec's target prices for Godrej Consumer, Godrej Properties and Godrej Agrovet and 55% holdco discount, GIL's value works out to INR 1,090/share. At the current market prices of listed subsidiaries and associates, GIL's value works out to INR 1,260/share. Godrej Group is undergoing a group simplification via ownership realignment of shareholdings in the group. We believe further simplification (if any) of the group may result in value unlocking. Further, it may result in lower holdco discount in the long term. At present, the stock trades at a discount of 62% to the combined market value of subsidiaries and associates. We believe, the subsidiaries as well as associates of Godrej Industries, shall be the net beneficiaries of recovery in end-user industries.

We also model these businesses to benefit with value migration from unorganised to organised sector. Our revised SoTP-based TP for GIL is INR 1,090. We maintain BUY on GIL. Prolonged losses (if any) at Godrej Capital may result in higher holdco discount.

Godrej Industries (GIL) – a holding company

GIL derives major value from its listed subsidiaries and associates, viz. Godrej Consumer, Godrej Properties and Godrej Agrovet. GIL is also running an oleo-chemical business (standalone operations), and its palm oil trading business is a fully-owned subsidiary of Godrej International. GIL has also commenced a housing finance business under Godrej Capital.

Early signs of revival in standalone chemical business

The standalone chemical business' revenue grew 28.5% YoY. It has reported revenue growth, following a weakness in the past four consecutive quarters. Gross margin expanded 1,540bps YoY led by lower commodity prices, in our view. GIL reported profit of INR 1,053mn against a loss of INR 279mn in Q1FY24. Headwinds in the chemical industry may have started to abate, in our view, and possibly led to profits for GIL's chemical business. Segmental exports stood at INR 2,140mn in Q1FY25.

Investment in Godrej Capital

GIL has increased its stake in Godrej Capital to 89.8% – for a total consideration of INR 26,810mn. We believe, prolonged losses (if any) at Godrej Capital may result in higher holdco discount.

Sum of the parts valuation

| Company | Amount (INR mn) |
|--|-----------------|
| Godrej Ind. (Chemical Business) [A] | 29,755 |
| Godrej Consumer 23.7% stake [B] | 219,986 |
| Godrej Properties 47.3% stake [C] | 134,611 |
| Godrej Agrovet 64.9% stake [D] | 40,480 |
| Godrej International [E] | 150 |
| Godrej Capital 89.8% stake [F] | 26,810 |
| Total [A+B+C+D+E+F] | 451,791 |
| Less: Net debt of Godrej Ind. | 85,166 |
| Value attributable to shareholders of Godrej Ind. | 366,626 |
| Value per share (INR) | 1,090 |

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Market Data

| | |
|---------------------|----------|
| Market Cap (INR) | 299bn |
| Market Cap (USD) | 3,566mn |
| Bloomberg Code | GDSP IN |
| Reuters Code | GODI.BO |
| 52-week Range (INR) | 990 /484 |
| Free Float (%) | 19.0 |
| ADTV-3M (mn) (USD) | 10.7 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|-------|-------|------|
| Absolute | 7.6 | 9.0 | 77.7 |
| Relative to Sensex | (0.9) | (1.4) | 56.9 |

Previous Reports

20-05-2024: [Q4FY24 results review](#)

11-02-2024: [Q3FY24 results review](#)

Trading at discount of 62% to NAV

The stock is trading at a holdco discount of 62% to the combined market valuation of its listed subsidiaries and associates. The average discount is ~57% since the listing of Godrej Agrovet.

Maintain BUY

We value GIL at INR 1,090 as per the SoTP methodology, and based on I-Sec's target prices for GIL's listed subsidiaries and associates, viz. Godrej Consumer, Godrej Properties and Godrej Agrovet. At current market prices of the listed subsidiaries and associates, GIL's value per share works out to INR 1,260. At holdco discount of 20%, 30% and 40% for its respective subsidiaries and associates mentioned above, GIL's value per share works out to INR 1,866, INR 1,622 and INR 1,378, respectively.

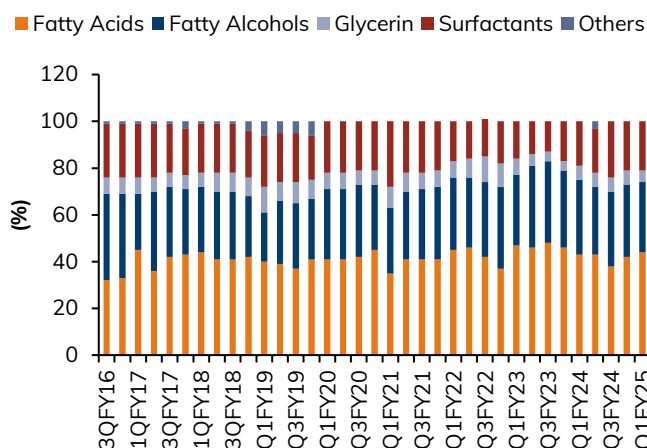
We maintain **BUY** on GIL.

Exhibit 1: Q1FY25 quarterly performance (standalone/chemical business)

| Particulars (INR mn) | Q1FY25 | Q1FY24 | YoY % chg. | Q4FY24 | QoQ % chg. |
|--------------------------------|--------------|--------------|--------------|----------------|-----------------|
| Net Sales | 9,865 | 7,676 | 28.5 | 6,842 | 44.2 |
| Expenditure | | | | | |
| Raw Material | 5,245 | 5,263 | (0.3) | 4,985 | 5.2 |
| % of NS | 53.2 | 68.6 | | 72.9 | |
| Employee cost | 509.5 | 311.7 | 63.5 | 530.7 | (4.0) |
| % of NS | 5.2 | 4.1 | | 7.8 | |
| Other expenditure | 1,380 | 1,045 | 32.0 | 1,328 | 3.9 |
| % of NS | 14.0 | 13.6 | | 19.4 | |
| Total Expenditure | 7,134 | 6,620 | 7.8 | 6,844 | 4.2 |
| EBITDA | 2,730 | 1,057 | 158.4 | (2) | - |
| EBITDA Margin (%) | 27.7 | 13.8 | | (0.0) | |
| Other Income | 314 | 281 | 11.6 | 237 | 32.5 |
| PBDIT | 3,044 | 1,337 | 127.6 | 235 | 1,195.3 |
| Depreciation | 222 | 206 | 7.6 | 216 | 2.9 |
| PBIT | 2,822 | 1,131 | 149.5 | 19 | 14,597.4 |
| Interest | 1,769 | 1,410 | 25.5 | 1,560 | 13.4 |
| Profit before tax | 1,053 | (279) | - | (1,541) | - |
| Prov. for Tax | - | - | - | - | - |
| % of PBT | - | - | - | - | - |
| PAT | 1,053 | (279) | - | (1,541) | - |
| Extraordinary Item | (1) | (4) | - | 7 | - |
| PAT After extraordinary | 1,051 | (283) | - | (1,534) | - |

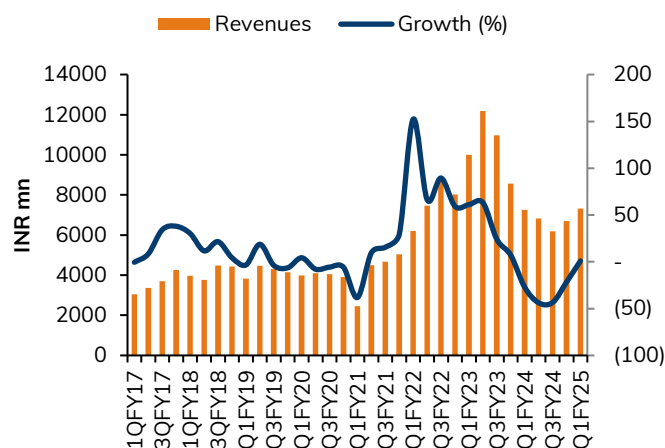
Source: Company data, I-Sec research

Exhibit 2: Revenue breakup of chemical business



Source: Company data, I-Sec research

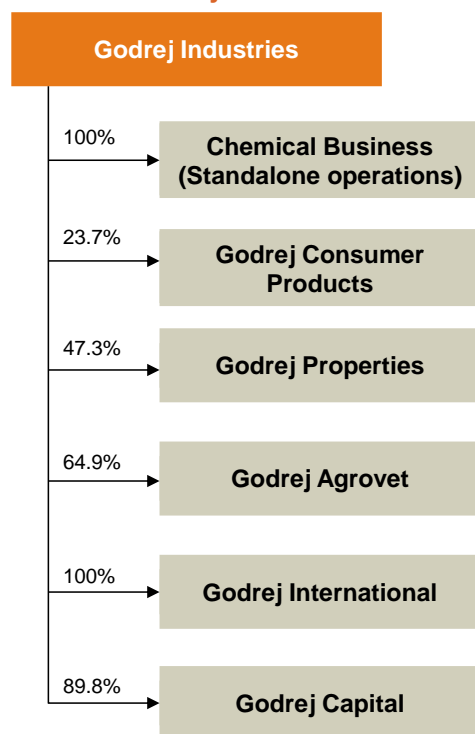
Exhibit 3: Revenue growth in chemical business



Source: Company data, I-Sec research

Valuation

Exhibit 4: Godrej Industries' subsidiaries and associates



Source: Company data, I-Sec research

Maintain BUY

We have valued each of GIL's subsidiaries separately, based on I-Sec's target prices as well as current market prices. We maintain **BUY** rating on GIL with a revised target price of INR 1,090 (earlier INR 1,030).

Exhibit 5: SoTP-based valuation of GIL – I-Sec target prices

| Company | Amount (INRmn) | Per share (INR) | Methodology |
|--|-----------------|-----------------|--|
| Godrej Ind. (Chemical Business) [A] | 29,755 | 88 | 8x FY24 EV/EBITDA |
| Godrej Consumer 23.7% stake [B] | 2,19,986 | 653 | I-Sec Target price & holding company discount of 55% |
| Godrej Properties 47.3% stake [C] | 1,34,611 | 400 | I-Sec Target price & holding company discount of 55% |
| Godrej Agrovet 64.9% stake [D] | 40,480 | 120 | I-Sec Target price & holding company discount of 55% |
| Godrej International [E] | 150 | 0 | At 0.5x FY24 Book Value |
| Godrej Capital 89.8% stake [F] | 26,810 | 80 | 89.8% stake, Valued at investment value |
| Total [A+B+C+D+E+F] | 4,51,791 | 1,342 | |
| Less: Net debt of Godrej Ind. | 85,166 | 253 | |
| Value attributable to shareholders of Godrej Ind. | 3,66,626 | 1,090 | |
| Value per share (INR) | 1,090 | | |

Source: Company data, I-Sec research

Exhibit 6: SoTP-based valuation of GIL – current market prices

| Company | Amount (INR mn) | Per share (INR) | Methodology |
|--|-----------------|-----------------|--|
| Godrej Ind. (Chemical Business) [A] | 29,755 | 88 | 8x FY24 EV/EBITDA |
| Godrej Consumer 23.7% stake [B] | 1,85,121 | 550 | I-Sec Target price & holding company discount of 55% |
| Godrej Properties 47.3% stake [C] | 2,09,764 | 623 | I-Sec Target price & holding company discount of 55% |
| Godrej Agrovet 64.9% stake [D] | 56,558 | 168 | I-Sec Target price & holding company discount of 55% |
| Godrej International [E] | 150 | 0 | At 0.5x FY24 Book Value |
| Godrej Capital 89.8% stake [F] | 26,810 | 80 | 89.8% stake, Valued at investment value |
| Total [A+B+C+D+E+F] | 5,08,159 | 1,509 | |
| Less: Net debt of Godrej Ind. | 85,166 | 253 | |
| Value attributable to shareholders of Godrej Ind. | 4,22,994 | 1,260 | |
| Value per share (INR) | 1,260 | | |

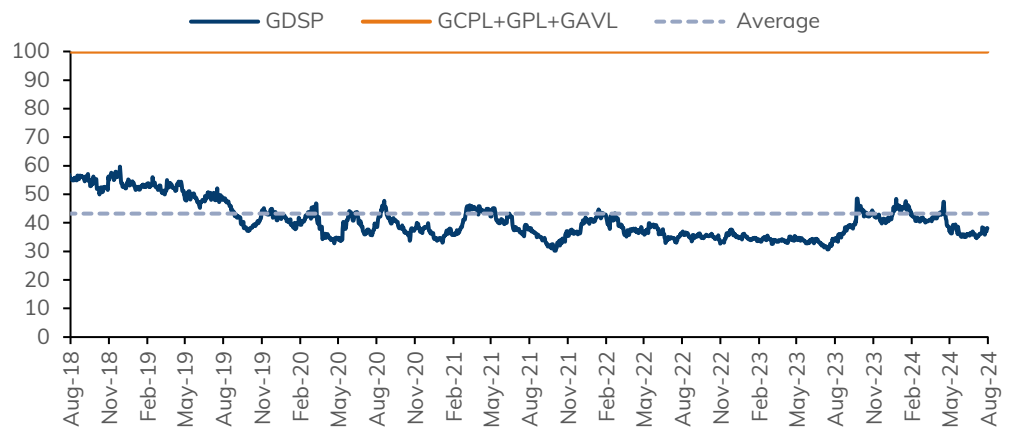
Source: Company data, I-Sec research

Exhibit 7: Sensitivity analysis of SoTP-based valuation of GIL*

| Sensitivity Analysis | Holding company discount (%) | | | | |
|---|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 20% | 30% | 40% | 50% | 60% |
| Company | | | | | |
| Godrej Ind. (Chemical Business) [A] (INR mn) | 29,755 | 29,755 | 29,755 | 29,755 | 29,755 |
| Godrej Consumer 23.7% stake [B] (INR mn) | 2,69,267 | 2,35,609 | 2,01,950 | 1,68,292 | 1,34,634 |
| Godrej Properties 47.3% stake [C] (INR mn) | 3,05,112 | 2,66,973 | 2,28,834 | 1,90,695 | 1,52,556 |
| Godrej Agrovet 64.9% stake [D] (INR mn) | 82,267 | 71,983 | 61,700 | 51,417 | 41,133 |
| Godrej International [E] (INR mn) | 150 | 150 | 150 | 150 | 150 |
| Godrej Capital 89.8% stake [F] (INR mn) | 26,810 | 26,810 | 26,810 | 26,810 | 26,810 |
| Total [A+B+C+D+E+F] (INR mn) | 7,13,361 | 6,31,280 | 5,49,199 | 4,67,119 | 3,85,038 |
| Less: Net debt of Godrej Ind. (INR mn) | 85,166 | 85,166 | 85,166 | 85,166 | 85,166 |
| Value attributable to shareholders of Godrej Ind. (INR mn) | 6,28,195 | 5,46,115 | 4,64,034 | 3,81,953 | 2,99,872 |
| Number of Shares (mn) | 337 | 337 | 337 | 337 | 337 |
| Value per share (INR) | 1,866 | 1,622 | 1,378 | 1,134 | 891 |

Source: Company data, I-Sec research; *Based on current market prices of listed subsidiaries & associates

Exhibit 8: Historical premium/discount to NAV*



Source: Company data, I-Sec research; * Godrej Inds vs Market value of listed subsidiaries and associates

Key risks

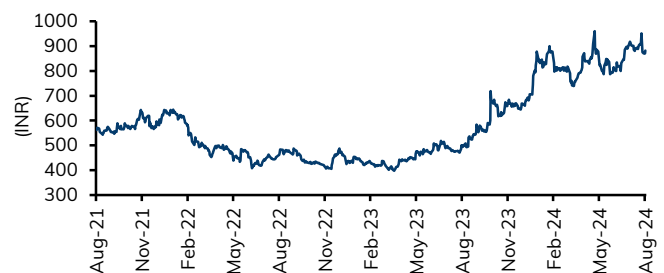
- Step increase in competitive intensity in any of GIL's business segment may impact its valuation.
- Any sudden increase in raw material prices may also impact GIL's valuation.
- Any changes at the ownership level and change in group structure may alter the valuations of different subsidiaries, and therefore, alter GIL's valuation.

Exhibit 9: Shareholding pattern

| % | Dec'23 | Mar'24 | Jun'24 |
|-------------------------|--------|--------|--------|
| Promoters | 67.2 | 67.2 | 67.2 |
| Institutional investors | 13.0 | 12.8 | 13.0 |
| MFs and others | 0.8 | 2.7 | 2.9 |
| FIs/Banks | 0.0 | 0.0 | 0.0 |
| Other Institutions | 2.0 | 2.1 | 2.0 |
| FIIIs | 10.2 | 8.0 | 8.1 |
| Others | 19.8 | 20.0 | 19.8 |

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending march)

| | FY21A | FY22A | FY23A | FY24A |
|--|----------------|---------------|---------------|----------------|
| Net Sales | 18,555 | 33,396 | 44,880 | 30,177 |
| Operating Expenses | 17,188 | 29,557 | 37,678 | 26,458 |
| EBITDA | 1,368 | 3,839 | 7,202 | 3,719 |
| EBITDA Margin (%) | 7.4 | 11.5 | 16.0 | 12.3 |
| Depreciation & Amortization | 722 | 748 | 790 | 869 |
| EBIT | 646 | 3,091 | 6,412 | 2,851 |
| Interest expenditure | 2,375 | 3,639 | 4,776 | 5,824 |
| Other Non-operating Income | 641 | 746 | 690 | 948 |
| Recurring PBT | (1,089) | 198 | 2,326 | (2,025) |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | (1) | - | - | - |
| PAT | (1,088) | 198 | 2,326 | (2,025) |
| Less: Minority Interest | - | - | - | - |
| Extraordinaries (Net) | 20 | (656) | (16) | (5) |
| Net Income (Reported) | (1,068) | (458) | 2,310 | (2,030) |
| Net Income (Adjusted) | (1,088) | 198 | 2,326 | (2,025) |

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending march)

| | FY21A | FY22A | FY23A | FY24A |
|--|---------------|---------------|---------------|-----------------|
| Total Current Assets | 21,703 | 19,700 | 11,681 | 9,778 |
| of which cash & cash eqv. | 1,181 | 1,539 | 449 | 413 |
| Total Current Liabilities & Provisions | 8,793 | 10,008 | 10,753 | 7,880 |
| Net Current Assets | 12,909 | 9,692 | 929 | 1,899 |
| Investments | 32,142 | 53,808 | 70,873 | 84,422 |
| Net Fixed Assets | 12,955 | 12,999 | 13,723 | 14,219 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 728 | 381 | 836 | 195 |
| Total Intangible Assets | - | - | - | - |
| Other assets | - | - | - | - |
| Deferred Tax Assets | - | - | - | - |
| Total Assets | 58,734 | 76,880 | 86,359 | 1,00,734 |
| Liabilities | | | | |
| Borrowings | 43,476 | 62,053 | 69,201 | 85,578 |
| Deferred Tax Liability | (5) | (5) | (5) | (5) |
| provisions | - | - | - | - |
| other Liabilities | - | - | - | - |
| Equity Share Capital | 337 | 337 | 337 | 337 |
| Reserves & Surplus | 14,926 | 14,496 | 16,827 | 14,824 |
| Total Net Worth | 15,263 | 14,832 | 17,164 | 15,161 |
| Minority Interest | - | - | - | - |
| Total Liabilities | 58,734 | 76,880 | 86,359 | 1,00,734 |

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending march)

| | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
|---------------------|--------|--------|---------|--------|
| Net Sales | 8,189 | 7,470 | 6,842 | 9,865 |
| % growth (YoY) | (41.0) | (35.1) | (24.0) | 28.5 |
| EBITDA | 1,273 | 1,391 | (2) | 2,730 |
| Margin % | 15.6 | 18.6 | - | 27.7 |
| Other Income | 293 | 137 | 237 | 314 |
| Extraordinaries | (4) | (4) | 7 | (1) |
| Adjusted Net Profit | (65) | (144) | (1,541) | 1,053 |

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending march)

| | FY21A | FY22A | FY23A | FY24A |
|--|-----------------|-----------------|-----------------|-----------------|
| Operating Cashflow | (12,047) | 3,963 | 10,599 | (8,279) |
| Working Capital Changes | (12,202) | 3,576 | 7,673 | (1,007) |
| Capital Commitments | (1,558) | (543) | (1,794) | 5,387 |
| Free Cashflow | (13,605) | 3,421 | 8,805 | (2,892) |
| Other investing cashflow | (3,825) | (21,667) | (17,065) | (13,549) |
| Cashflow from Investing Activities | (5,383) | (22,209) | (18,859) | (8,162) |
| Issue of Share Capital | 411 | 27 | 22 | 27 |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | 15,151 | 18,576 | 7,148 | 16,378 |
| Dividend paid | (387) | - | - | - |
| Others | - | - | - | - |
| Cash flow from Financing Activities | 15,175 | 18,604 | 7,170 | 16,405 |
| Chg. in Cash & Bank balance | (2,255) | 358 | (1,090) | (37) |
| Closing cash & balance | 1,181 | 1,539 | 449 | 413 |

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending march)

| | FY21A | FY22A | FY23A | FY24A |
|-----------------------------|---------|---------|---------|---------|
| Per Share Data (INR) | | | | |
| Reported EPS | (3.2) | 0.6 | 6.9 | (6.0) |
| Adjusted EPS (Diluted) | (3.2) | 0.6 | 6.9 | (6.0) |
| Cash EPS | (1.1) | 2.8 | 9.3 | (3.4) |
| Dividend per share (DPS) | (1.1) | - | - | - |
| Book Value per share (BV) | 45.3 | 44.1 | 51.0 | 45.0 |
| Dividend Payout (%) | 35.6 | - | - | - |
| Growth (%) | | | | |
| Net Sales | (5.7) | 80.0 | 34.4 | (32.8) |
| EBITDA | (53.3) | 180.7 | 87.6 | (48.4) |
| EPS (INR) | (292.8) | (118.2) | 1,073.4 | (187.1) |
| Valuation Ratios (x) | | | | |
| P/E | (274.9) | 1,509.2 | 128.6 | (147.7) |
| P/CEPS | (816.6) | 316.1 | 96.0 | (258.7) |
| P/BV | 19.6 | 20.2 | 17.4 | 19.7 |
| EV / EBITDA | 226.1 | 79.7 | 41.2 | 80.6 |
| P / Sales | 16.1 | 9.0 | 6.7 | 9.9 |
| Dividend Yield (%) | (0.1) | - | - | - |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 30.7 | 29.7 | 32.1 | 34.0 |
| EBITDA Margins (%) | 7.4 | 11.5 | 16.0 | 12.3 |
| Effective Tax Rate (%) | 0.1 | - | - | - |
| Net Profit Margins (%) | (5.9) | 0.6 | 5.2 | (6.7) |
| NWC / Total Assets (%) | 20.0 | 10.6 | 0.6 | 1.5 |
| Net Debt / Equity (x) | 0.7 | 0.5 | (0.1) | 0.0 |
| Net Debt / EBITDA (x) | 7.4 | 1.7 | (0.3) | 0.2 |
| Profitability Ratios | | | | |
| RoCE (%) | 1.2 | 4.6 | 7.9 | 3.0 |
| RoE (%) | (6.9) | 1.3 | 14.5 | (12.5) |
| RoC (%) | 3.4 | 13.2 | 35.1 | 18.4 |
| Fixed Asset Turnover (x) | 1.1 | 1.9 | 2.5 | 1.8 |
| Inventory Turnover Days | 78 | 89 | 53 | 49 |
| Receivables Days | 48 | 56 | 41 | 34 |
| Payables Days | 52 | 35 | 27 | 23 |

Source Company data, I-Sec research

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