

BSE SENSEX

52,880

S&amp;P CNX

15,834

CMP: INR655

TP: INR758 (+16%)

Buy

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## Stock Info

Bloomberg	GOAGRO IN
Equity Shares (m)	192
M.Cap.(INRb)/(USDb)	125.7 / 1.7
52-Week Range (INR)	668 / 432
1, 6, 12 Rel. Per (%)	15/12/4
12M Avg Val (INR M)	123
Free float (%)	29.3

## Financials Snapshot (INR b)

Y/E Mar	FY21	FY22E	FY23E
Sales	62.7	74.8	85.6
EBITDA	5.6	6.9	7.6
Adj. PAT	3.1	4.2	4.6
EBITDA (%)	9.0	9.3	8.9
EPS (INR)	16.3	21.6	24.1
EPS Gr. (%)	25.0	32.3	11.7
BV/Sh. (INR)	107	120	135

## Ratios

Net D/E	0.4	0.4	0.3
RoE (%)	16.1	19.1	18.9
RoCE (%)	12.2	14.0	14.6
Payout (%)	49.0	39.3	37.3

## Valuations

P/E (x)	40.1	30.3	27.1
EV/EBITDA (x)	24.6	20.0	18.1
Div Yield (%)	1.2	1.3	1.4
FCF Yield (%)	(2.1)	1.7	2.0

## Rising palm oil prices expected to taper

In this note, we have analyzed the recent trends in palm oil prices, the parameters driving these prices, and the corresponding impact on the Palm Oil business of GOAGRO – the revenue/EBITDA contribution for which stood at 12%/17% (as of FY21). Here are the key highlights:

### Higher demand from Bio-Diesel segment fuels palm oil prices

- Global palm oil prices have seen a sharp rally, primarily due to higher demand from the Bio-Diesel segment (primarily the US market) and increased demand from China. However, with expansion in plantations, coupled with the easing of logistic issues, the outlook for palm oil production remains strong. As a result, Jun'21 palm oil prices fell 12% MoM. Palm oil prices were flat on a YTD basis and up 55% YoY to USD1,017/mt.
- Prices of major vegetable oils, such as palm and soybean, have likely already peaked at multi-year highs in 2021 – primarily due to production hiccups, recovering food consumption, and an upbeat outlook for biofuel demand.
- The US Department of Agriculture (USDA) has announced USD700m in aid to biofuel producers as a part of a package to assist industries recovering from financial headwinds due to the coronavirus pandemic.
- This assistance was announced in the backdrop of biofuel groups advocating for relief after the pandemic slashed fuel demand and sank consumption of biofuels such as Ethanol. The USDA said it plans to implement the aid within the next 60 days (before end-Aug'21).

### China demand pushes palm oil prices

- China is buying huge quantities of palm oil, pumping up prices of the hard oil that India imports from Indonesia and Malaysia, to meet its domestic demand. In CY21, China's palm oil imports increased 6% YoY to 7.2mmt (v/s 6.8mmt in FY20).
- The shortage in global oilseed production has been a major reason for the prices of vegetable oils shooting up, coupled with strong price support on increased demand from China.
- However, China is expected to lower its palm oil purchases over the 2021–22 marketing year, spanning Oct'21–Sep'22, as it looks to ramp up domestic edible oil production. This is being done to reduce the reliance on vegetable oil imports.
- China's Agriculture Outlook Committee (CAOC) lowered its forecast for 2021–22 palm oil imports to 4.2mmt from the 2020–21 estimate of 4.5mmt.

### Production recovery in Indonesia and Malaysia

- As per industry reports, palm oil production and ending inventory stocks in Indonesia and Malaysia have surged since Apr'21, primarily on increased fertilizer use (leading to improved productivity), favorable weather conditions, and easing labor shortage.
- Indonesia is expected to see recovery in palm oil production output as wet weather conditions, which had delayed harvesting and milling activity until January, have now subsided.

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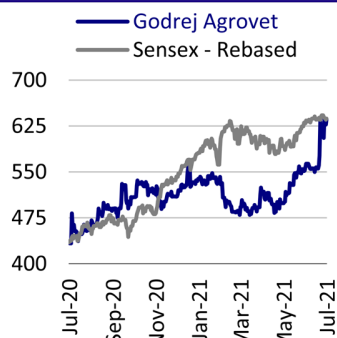
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilalosal.com/Institutional-Equities](http://www.motilalosal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Shareholding pattern (%)**

As On	Mar-21	Dec-20	Mar-20
Promoter	70.7	70.3	70.1
DII	1.7	2.2	2.2
FII	2.8	3.1	3.5
Others	24.8	24.4	24.3

Note: FII includes depository receipts

**Stock Performance (1-year)**

- As per the UN Food and Agriculture Organization (FAO), Indonesia is currently the world's largest palm oil producer, accounting for 58% of global supply (as of FY20). The country's palm oil production increased 10.8% in April (on a month-on-month basis) to 3.5mmt.
- Malaysia accounts for 26% of palm oil production (as of FY20). Malaysian palm oil exports in Apr'21 increased 8.71% month-on-month to 1.28mmt.

**Strong volume coupled with firm prices to drive palm oil biz in FY22**

- In FY21, GOAGRO's palm oil business' performance was affected by whitefly attacks on palm oil plantations, leading to a 20% drop in the arrival of fresh fruit bunches (FFBs) and lower oil content in fruits vis-à-vis previous years.
- However, the drop in the arrival of FFBs was offset by a surge in palm oil prices, by 17% to INR78,943/mt in FY21. Revenue from the Palm Oil business grew 5% to INR7.1b (in FY21). EBIT de-grew 6% to INR837m as business was affected by whitefly attacks.
- The outlook for domestic production remains positive as no whitefly attack has been reported during the season, thereby leading to increased production.
- The Government of India reduced custom duty on crude palm oil to 30.25% (from 35.75%) as prices had surged 55% YoY to USD1,017/mt as of Jun'21 (v/s last year).
- We expect 76% sales and 85% EBITDA CAGRs for the Palm Oil segment over FY21–23E. We assume EBITDA/mt of INR19,348/INR16,947 for FY22/FY23.

**Valuation and view**

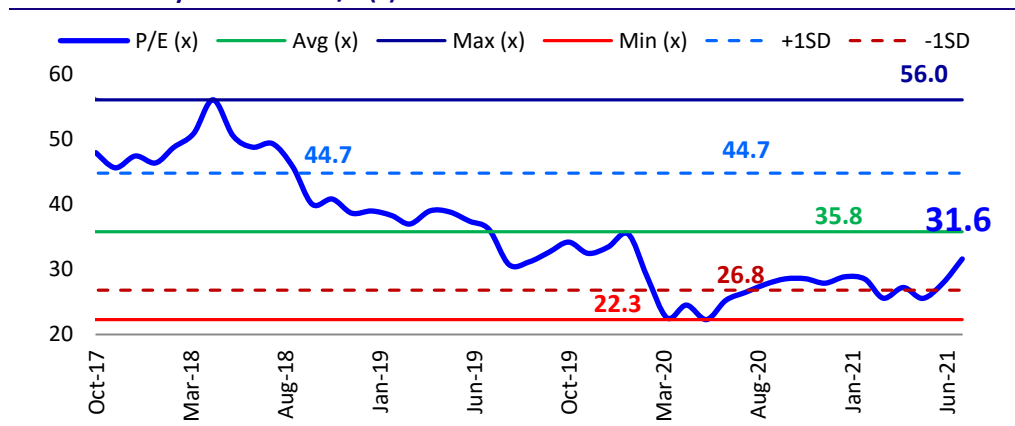
- Palm oil prices had rallied 55% YoY to USD1,017/mt (as of Jun'21) after COVID-19 lockdowns curbed output from plantations in Southeast Asia.
- Furthermore, palm oil prices are expected to correct with increasing production from Indonesia and Malaysia. As per FAO, palm oil production globally is expected to increase 3% to 75.45mmt, driven by the expectation of a 6%/3% production jump to 45mmt/19.6mmt in Indonesia/Malaysia.
- The Crop Protection business is expected to do well, largely owing to: a) expected product launches in the standalone business (over the next 1–2 years), b) better performance from Astec Lifesciences owing to its expertise in Triazole chemistry, and c) the commencement of a new herbicide plant. We expect a 25% revenue CAGR over FY21–23.
- The Animal Feed segment is seeing lower demand from Hotels, Restaurants, and Catering (HORECA) due to the second wave and is still operating at lower capacity utilization v/s pre-COVID levels. This has impacted demand for milk, chicken, and eggs. While recovery in the segment has been marginally postponed, it is expected to deliver a better performance v/s FY21 on a low base. We expect a 39% revenue CAGR over FY21–23. We value the stock on an SoTP basis to arrive at TP of INR758. Maintain Buy.

**Exhibit 1: Valuation**

Particulars	EBITDA FY23E (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)	% Share
<b>Standalone:</b>									
Crop Protection	2,005	18	36,488		36,488	100%	36,488	190	25
Palm Oil	2,099	18	38,197		38,197	100%	38,197	199	26
Animal Feed	2,941	18	52,939		52,939	100%	52,939	276	36
Unallocated expenses	(1,541)	5	(7,703)		(7,703)	100%	(7,703)	(40)	-5
<b>Total</b>	<b>5,504</b>	<b>22</b>	<b>1,19,921</b>	<b>6,448</b>	<b>1,13,474</b>	<b>100%</b>	<b>1,13,474</b>	<b>591</b>	<b>78</b>
<b>Subsidiaries:</b>									
Astec (mcap with 20% holdco disc)					20,936	57%	12,028	63	8
Creamline Dairy	506	15	7,787	4	7,783	52%	4,040	21	3
Godrej Tyson Foods Limited & Others	776	18	13,961		13,961	51%	7,120	37	5
<b>JV/ Associate:</b>									
ACI Godrej Agrovet Private Limited	1,115	16	17,840		17,840	50%	8,920	46	6
<b>Total</b>	<b>7,900</b>	<b>20</b>	<b>1,59,509</b>		<b>1,73,993</b>			<b>758</b>	<b>100</b>

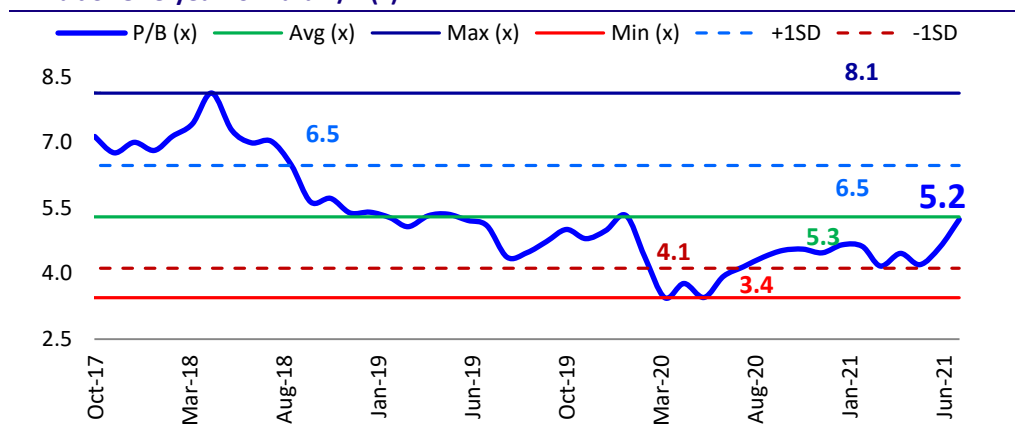
Source: MOFSL

**Exhibit 2: One-year forward P/E (x)**



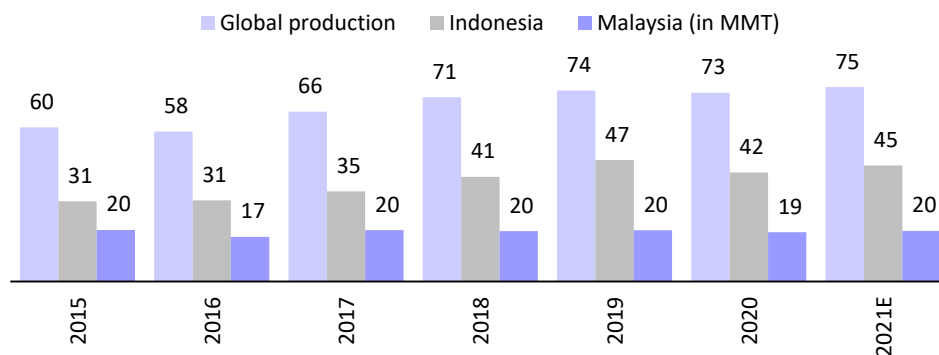
Source: MOFSL

**Exhibit 3: One-year forward P/B (x)**



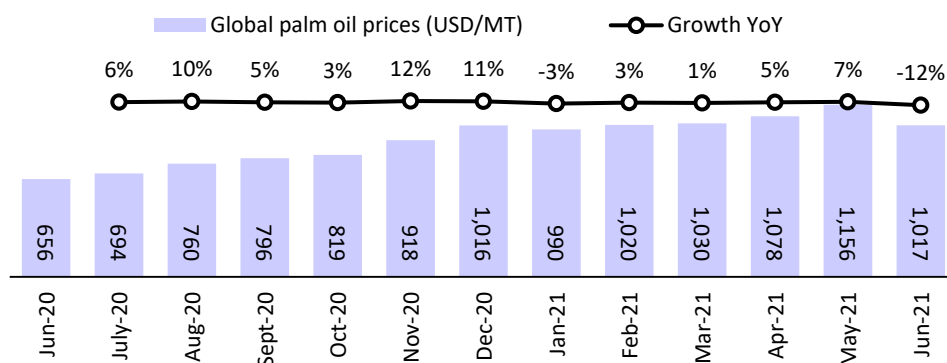
Source: MOFSL

**Exhibit 4: Global palm oil production**



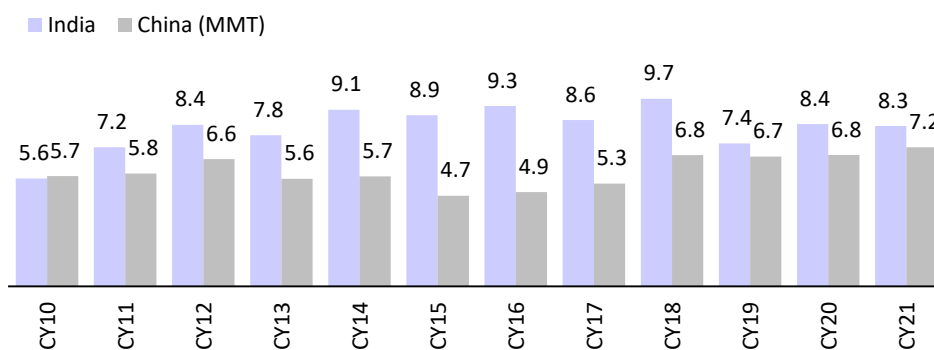
Source: Estimates, FAO, MOFSL

**Exhibit 5: Global trend of palm oil prices**



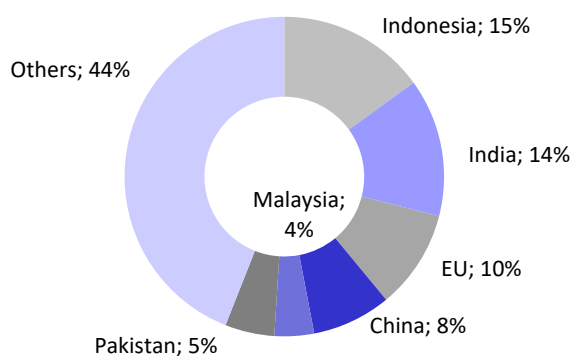
Source: World Bank, MOFSL

**Exhibit 6: India and China's palm oil import data**



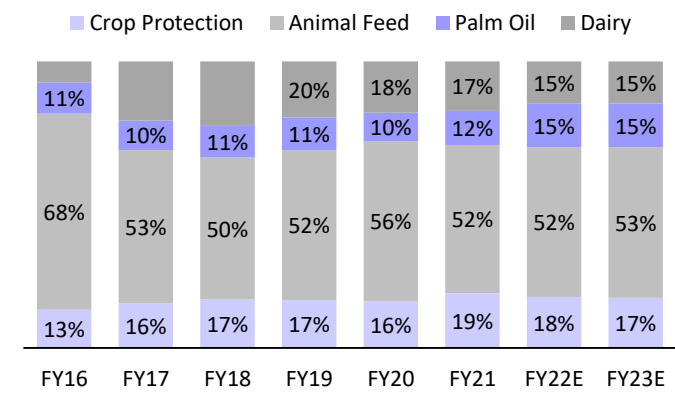
Source: Estimates, FAO, MOFSL

**Exhibit 7: Major palm oil consumers in the world (as of FY21)**



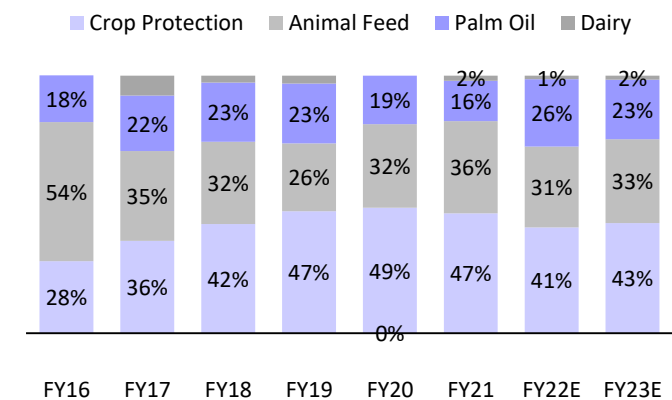
Source: Estimates, FAO, MOFSL

**Exhibit 8: Revenue mix**



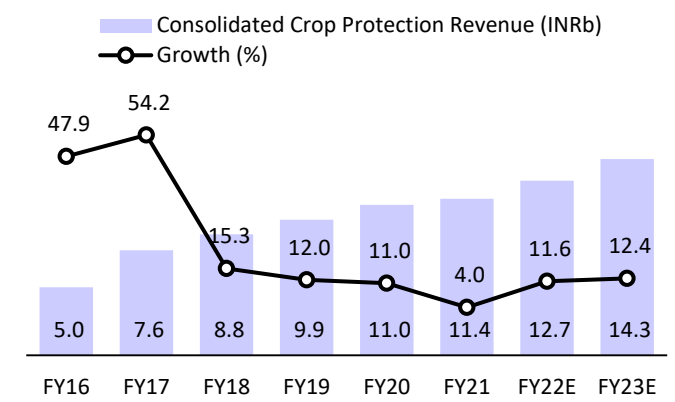
Source: Company, MOFSL

**Exhibit 9: EBIT mix**



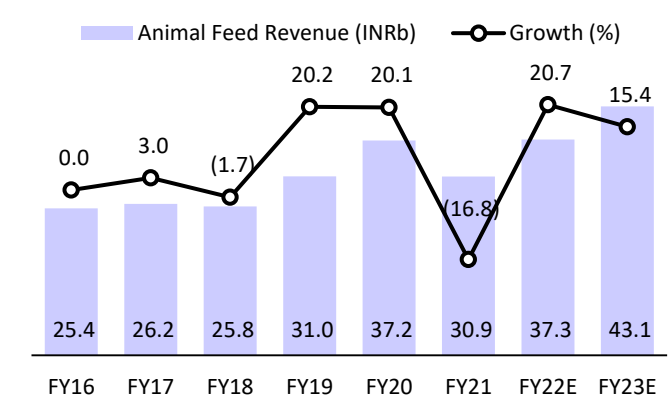
Source: Company, MOFSL

**Exhibit 10: CP biz to record 25% revenue CAGR over FY21–23**



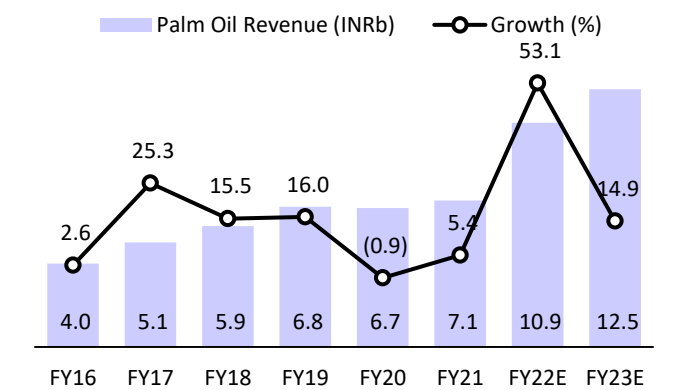
Source: Company, MOFSL

**Exhibit 11: Animal Feed biz to see 39% CAGR over FY21–23**



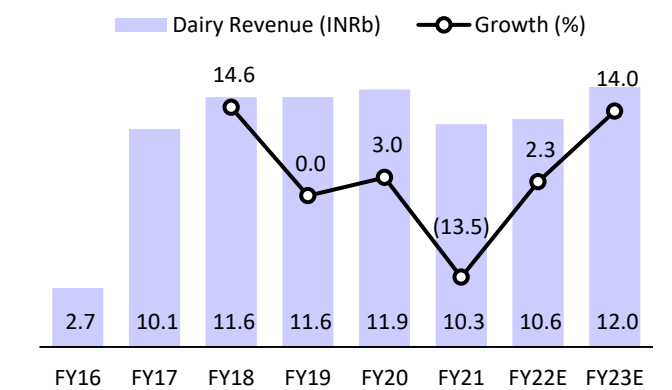
Source: Company, MOFSL

**Exhibit 12: Palm Oil biz to post highest CAGR growth of 76% over FY21–23**



Source: Company, MOFSL

**Exhibit 13: Dairy biz to post 17% revenue CAGR over FY21–23**



Source: Company, MOFSL

## Financials and valuation

Consolidated - Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Total Income from Operations</b>	<b>37,550</b>	<b>49,264</b>	<b>52,059</b>	<b>59,177</b>	<b>68,294</b>	<b>62,667</b>	<b>74,804</b>	<b>85,588</b>
Change (%)	13.4	31.2	5.7	13.7	15.4	-8.2	19.4	14.4
<b>Total Expenditure</b>	<b>34,585</b>	<b>44,884</b>	<b>47,629</b>	<b>54,619</b>	<b>64,189</b>	<b>57,029</b>	<b>67,867</b>	<b>77,979</b>
% of Sales	92.1	91.1	91.5	92.3	94.0	91.0	90.7	91.1
<b>EBITDA</b>	<b>2,965</b>	<b>4,380</b>	<b>4,430</b>	<b>4,558</b>	<b>4,104</b>	<b>5,638</b>	<b>6,936</b>	<b>7,608</b>
Margin (%)	7.9	8.9	8.5	7.7	6.0	9.0	9.3	8.9
Depreciation	524	747	859	982	1,481	1,540	1,520	1,831
<b>EBIT</b>	<b>2,441</b>	<b>3,633</b>	<b>3,571</b>	<b>3,577</b>	<b>2,624</b>	<b>4,098</b>	<b>5,416</b>	<b>5,777</b>
Int. and Finance Charges	977	863	453	339	416	465	515	521
Other Income	627	590	318	531	468	396	415	685
<b>PBT bef. EO Exp.</b>	<b>2,091</b>	<b>3,360</b>	<b>3,436</b>	<b>3,769</b>	<b>2,675</b>	<b>4,029</b>	<b>5,316</b>	<b>5,941</b>
EO Items	946	200	121	883	682	0	0	0
<b>PBT after EO Exp.</b>	<b>3,037</b>	<b>3,560</b>	<b>3,557</b>	<b>4,652</b>	<b>3,357</b>	<b>4,029</b>	<b>5,316</b>	<b>5,941</b>
Total Tax	754	1,018	1,207	1,280	481	1,055	1,338	1,495
Tax Rate (%)	24.8	28.6	33.9	27.5	14.3	26.20	25.17	25.2
Profit from Associate & MI	-356	55	57	82	-185	-164	-172	-190
<b>Reported PAT</b>	<b>2,639</b>	<b>2,487</b>	<b>2,292</b>	<b>3,290</b>	<b>3,062</b>	<b>3,137</b>	<b>4,151</b>	<b>4,635</b>
<b>Adjusted PAT</b>	<b>1,693</b>	<b>2,287</b>	<b>2,172</b>	<b>2,407</b>	<b>2,510</b>	<b>3,137</b>	<b>4,151</b>	<b>4,635</b>
Change (%)	-2.5	35.1	-5.1	10.9	4.3	25.0	32.3	11.7
Margin (%)	4.5	4.6	4.2	4.1	3.7	5.0	5.5	5.4

Consolidated - Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	926	1,851	1,920	1,920	1,920	1,921	1,921	1,921
Total Reserves	6,906	8,237	12,193	14,570	16,461	18,590	21,109	24,016
<b>Net Worth</b>	<b>7,832</b>	<b>10,088</b>	<b>14,114</b>	<b>16,490</b>	<b>18,381</b>	<b>20,511</b>	<b>23,029</b>	<b>25,936</b>
Minority Interest	2,323	2,541	2,693	4,010	3,825	4,103	4,458	4,849
Total Loans	13,757	6,641	4,098	3,950	6,185	9,428	9,428	7,928
Deferred Tax Liabilities	1,458	1,663	1,730	2,086	1,751	1,713	1,713	1,713
<b>Capital Employed</b>	<b>25,369</b>	<b>20,933</b>	<b>22,635</b>	<b>26,536</b>	<b>30,142</b>	<b>35,755</b>	<b>38,628</b>	<b>40,426</b>
Gross Block	12,139	14,109	15,185	21,246	23,812	26,551	29,182	31,859
Less: Accum. Deprn.	564	1,329	2,214	3,196	4,677	6,217	7,737	9,568
<b>Net Fixed Assets</b>	<b>11,575</b>	<b>12,779</b>	<b>12,971</b>	<b>18,050</b>	<b>19,136</b>	<b>20,334</b>	<b>21,446</b>	<b>22,291</b>
Goodwill on Consolidation	1,949	1,949	1,949	2,649	2,649	2,649	2,649	2,649
Capital WIP	638	504	1,904	936	1,532	1,414	1,783	1,607
<b>Total Investments</b>	<b>2,140</b>	<b>1,755</b>	<b>1,952</b>	<b>1,165</b>	<b>1,292</b>	<b>1,237</b>	<b>1,237</b>	<b>1,237</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>14,930</b>	<b>15,157</b>	<b>16,749</b>	<b>19,542</b>	<b>22,392</b>	<b>22,355</b>	<b>26,781</b>	<b>30,160</b>
Inventory	6,665	7,381	7,629	9,517	9,436	10,419	12,086	13,887
Account Receivables	4,545	5,219	6,315	7,349	8,539	8,226	9,837	11,255
Cash and Bank Balance	420	538	299	299	508	509	1,118	739
Loans and Advances	3,299	2,019	2,507	2,378	3,910	3,200	3,740	4,279
<b>Curr. Liability &amp; Prov.</b>	<b>5,862</b>	<b>11,212</b>	<b>12,890</b>	<b>15,807</b>	<b>16,859</b>	<b>12,235</b>	<b>15,267</b>	<b>17,518</b>
Account Payables	3,349	8,408	9,550	12,394	12,885	7,326	10,227	11,750
Other Current Liabilities	2,312	2,496	2,955	2,934	3,467	4,206	4,488	5,135
Provisions	202	308	385	478	507	703	553	632
<b>Net Current Assets</b>	<b>9,067</b>	<b>3,946</b>	<b>3,859</b>	<b>3,736</b>	<b>5,533</b>	<b>10,120</b>	<b>11,513</b>	<b>12,642</b>
<b>Appl. of Funds</b>	<b>25,369</b>	<b>20,933</b>	<b>22,635</b>	<b>26,536</b>	<b>30,142</b>	<b>35,755</b>	<b>38,628</b>	<b>40,426</b>

## Financials and valuation

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>8.8</b>	<b>11.9</b>	<b>11.3</b>	<b>12.5</b>	<b>13.1</b>	<b>16.3</b>	<b>21.6</b>	<b>24.1</b>
Cash EPS	11.5	15.8	15.8	17.6	20.8	24.4	29.5	33.7
BV/Share	40.8	52.5	73.5	85.9	95.7	106.8	119.9	135.1
DPS	2.1	4.5	4.5	4.5	5.5	8.0	8.5	9.0
Payout (%)	18.8	41.9	45.6	31.6	41.5	49.0	39.3	37.3
<b>Valuation (x)</b>								
P/E		55.0	57.9	52.2	50.1	40.1	30.3	27.1
Cash P/E		41.5	41.5	37.1	31.5	26.9	22.2	19.5
P/BV		12.5	8.9	7.6	6.8	6.1	5.5	4.8
EV/Sales		2.7	2.5	2.3	2.0	2.2	1.9	1.6
EV/EBITDA		30.7	29.9	29.3	33.0	24.6	20.0	18.1
Dividend Yield (%)		0.7	0.7	0.7	0.8	1.2	1.3	1.4
FCF per share		36.6	5.7	9.0	-1.2	-13.7	11.3	13.0
<b>Return Ratios (%)</b>								
RoE	23.8	25.5	17.9	15.7	14.4	16.1	19.1	18.9
RoCE	13.2	15.7	14.7	15.4	11.8	12.2	14.0	14.6
RoIC	11.3	12.9	12.9	12.2	8.8	10.2	12.1	12.1
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.1	3.5	3.4	2.8	2.9	2.4	2.6	2.7
Asset Turnover (x)	1.5	2.4	2.3	2.2	2.3	1.8	1.9	2.1
Inventory (Days)	65	55	53	59	50	61	59	59
Debtor (Days)	44	39	44	45	46	48	48	48
Creditor (Days)	33	62	67	76	69	43	50	50
<b>Leverage Ratio (x)</b>								
Current Ratio	2.5	1.4	1.3	1.2	1.3	1.8	1.8	1.7
Interest Cover Ratio	2.5	4.2	7.9	10.6	6.3	8.8	10.5	11.1
Net Debt/Equity	1.6	0.6	0.3	0.2	0.3	0.4	0.4	0.3

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	3,364	3,727	3,717	4,773	3,486	4,029	5,316	5,941
Depreciation	524	747	859	982	1,481	1,540	1,520	1,831
Interest & Finance Charges	885	715	453	339	416	69	100	-164
Direct Taxes Paid	-456	-800	-837	-1,097	-969	-1,055	-1,338	-1,495
(Inc)/Dec in WC	-1,024	5,145	-471	633	-2,204	-4,601	-430	-1,117
<b>CF from Operations</b>	<b>3,293</b>	<b>9,534</b>	<b>3,721</b>	<b>5,629</b>	<b>2,210</b>	<b>-18</b>	<b>5,168</b>	<b>4,996</b>
Others	-1,610	-561	-183	-1,152	188	0	0	0
<b>CF from Operating incl EO</b>	<b>1,683</b>	<b>8,973</b>	<b>3,538</b>	<b>4,477</b>	<b>2,398</b>	<b>-18</b>	<b>5,168</b>	<b>4,996</b>
(Inc)/Dec in FA	-1,223	-1,949	-2,448	-2,759	-2,634	-2,621	-3,000	-2,500
<b>Free Cash Flow</b>	<b>460</b>	<b>7,024</b>	<b>1,091</b>	<b>1,719</b>	<b>-236</b>	<b>-2,639</b>	<b>2,168</b>	<b>2,496</b>
(Pur)/Sale of Investments	581	610	-131	0	0	55	0	0
Others	-3,581	366	51	386	82	693	943	1,265
<b>CF from Investments</b>	<b>-4,223</b>	<b>-974</b>	<b>-2,528</b>	<b>-2,372</b>	<b>-2,552</b>	<b>-1,873</b>	<b>-2,057</b>	<b>-1,235</b>
Issue of Shares	39	8	2	0	0	0	0	0
Inc/(Dec) in Debt	4,168	-7,027	-2,571	-680	2,311	3,243	0	-1,500
Interest Paid	-972	-861	-455	-354	-390	-465	-515	-521
Dividend Paid	-452	0	-1,045	-1,076	-1,076	-1,536	-1,632	-1,728
Others	0	0	2,818	4	-481	650	-355	-391
<b>CF from Fin. Activity</b>	<b>2,784</b>	<b>-7,881</b>	<b>-1,250</b>	<b>-2,105</b>	<b>364</b>	<b>1,893</b>	<b>-2,502</b>	<b>-4,140</b>
<b>Inc/Dec of Cash</b>	<b>244</b>	<b>119</b>	<b>-240</b>	<b>0</b>	<b>210</b>	<b>1</b>	<b>608</b>	<b>-379</b>
Opening Balance	175	419	538	299	299	508	509	1,118
<b>Closing Balance</b>	<b>419</b>	<b>538</b>	<b>299</b>	<b>299</b>	<b>508</b>	<b>509</b>	<b>1,118</b>	<b>739</b>

**NOTES**



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

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