

16 August 2023

India | Equity Research | Q1FY24 result review

## Godrej Industries

Diversified

### Investments in Godrej Capital likely to keep holding company discount at higher level

Godrej Industries (GIL) generates major value from its listed subsidiaries and associates viz. Godrej Consumer, Godrej Properties and Godrej Agrovet. As per I-Sec target prices for Godrej Consumer, Godrej Properties and Godrej Agrovet and 50% holdco discount, GIL's value works out to INR 764/share. At current market prices of listed subsidiaries and associates, GIL's value works out to INR 786/share. The stock trades at a discount of 66% to combined market value of subsidiaries and associates. We believe subsidiaries as well as associates of Godrej Industries to be the net beneficiaries of revival in economy. We also model these businesses to benefit with value migration from unorganised to organised sector. We value GIL as per SoTP methodology at TP of INR 764. We maintain **BUY** rating on the stock. Prolonged losses (if any) of Godrej Capital may result in higher holding company 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 oleo-chemical business (standalone operations) and the palm oil trading business is under its 100% subsidiary Godrej International. The company has also commenced housing finance business under Godrej Capital.

### Revenue de-growth in Standalone business

Standalone chemical business revenue lowered by 26.8% YoY. Gross margin expanded 30bps YoY due to lower commodity prices while EBITDA margin contracted 230bps YoY. GIL reported net loss of INR 283mn in Q1FY24. Chemical industry as a whole is facing strong headwinds which visible in GIL's quarterly performance as well.

### Investment in Godrej Capital

GIL has increased its investment in Godrej Capital to 88.1% stake for a total consideration of INR 18,270mn. We believe prolonged losses (if any) of Godrej Capital may result in likely higher holding company discount.

### Trading at discount of 66% to NAV

The stock is trading at a holding company discount of 66% to the combined market valuation of its listed subsidiaries and associates. The average discount is ~56% since the listing of Godrej Agrovet.

### Sum of the parts valuation

Company	Amount (INR mn)
Godrej Inds (Chemical Business) [A]	57,613
Godrej Consumer 23.7% stake [B]	1,33,304
Godrej Properties 47.3% stake [C]	86,637
Godrej Agrovet 64.9% stake [D]	29,934
Godrej International [E]	250
Godrej Capital 88.1% stake [F]	18,270
<b>Total [A+B+C+D+E+F]</b>	<b>3,26,007</b>
Less: Net debt of Godrej Inds	68,751
<b>Value attributable to shareholders of Godrej Inds</b>	<b>2,57,256</b>
<b>Value per share (INR)</b>	<b>764</b>

Source: I-Sec research

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#### Market Data

Market Cap (INR)	167bn
Market Cap (USD)	2,008mn
Bloomberg Code	GDSP IN
Reuters Code	GODI.BO
52-week Range (INR)	524 /395
Free Float (%)	19.0
ADTV-3M (mn) (USD)	1.4

Price Performance (%)	3m	6m	12m
Absolute	5.0	17.0	6.1
Relative to Sensex	6.4	8.2	11.4

ESG Disclosure	2021	2022	Change
ESG score	57.9	63.4	5.5
Environment	46.2	62.7	16.6
Social	42.6	42.6	-
Governance	84.9	84.9	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

#### Previous Reports

22-05-2023: [Q4FY23 results review](#)

15-02-2023: [Q3FY23 results review](#)

## Maintain BUY

We value GIL at INR 764 as per the SoTP methodology and I-Sec 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 786. At holding company discounts of 20%, 30% and 40%, GIL's value per share works out to INR 1,245, INR 1,092 and INR 939, respectively. We maintain BUY rating on the stock.

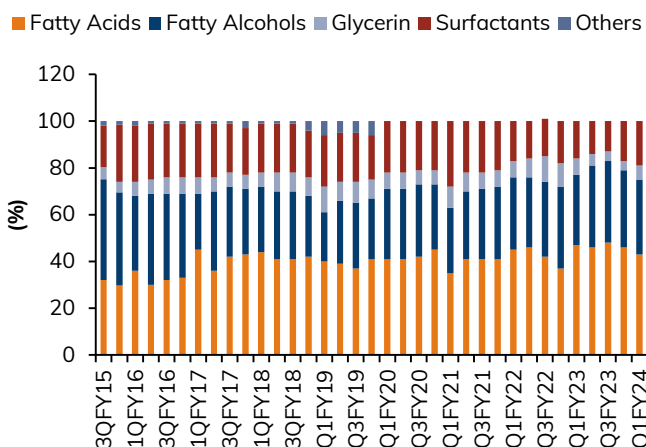
## Chemical business Q1FY24 financials

### Exhibit 1: Q1FY24 performance (standalone / chemical business)

INR mn	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
<b>Net Sales</b>	<b>7,676</b>	<b>10,488</b>	<b>(26.8)</b>	<b>9,005</b>	<b>(14.8)</b>
<b>Expenditure</b>					
Raw Material	5,263	7,225	(27.1)	6,024	(12.6)
% of NS	68.6	68.9		66.9	
Employee cost	311.7	353.9	(11.9)	495	(37.0)
% of NS	4.1	3.4		5.5	
Other expenditure	1,045	1,226	(14.8)	1,438	(27.4)
% of NS	13.6	11.7		16.0	
<b>Total Expenditure</b>	<b>6,620</b>	<b>8,805</b>	<b>(24.8)</b>	<b>7,957</b>	<b>(16.8)</b>
<b>EBITDA</b>	<b>1,057</b>	<b>1,683</b>	<b>(37.2)</b>	<b>1,048</b>	<b>0.8</b>
EBITDA Margin (%)	13.8	16.0		11.6	
Other Income	281	134	109.9	177	58.8
<b>PBDIT</b>	<b>1,337</b>	<b>1,817</b>	<b>(26.4)</b>	<b>1,225</b>	<b>9.2</b>
Depreciation	206	182	13.5	204	1.3
<b>PBIT</b>	<b>1,131</b>	<b>1,635</b>	<b>(30.8)</b>	<b>1,021</b>	<b>10.8</b>
Interest	1,410	1,052	34.0	1,279	10.3
<b>Profit before tax</b>	<b>(279)</b>	<b>583</b>	<b>(147.8)</b>	<b>(258)</b>	<b>8.3</b>
Prov for Tax	-	-	-	-	-
% of PBT	-	-	-	-	-
<b>PAT</b>	<b>(279)</b>	<b>583</b>	<b>(147.8)</b>	<b>(258)</b>	<b>8.3</b>
Extraordinary Item	(4)	(4)	-	(4)	2.5
<b>PAT After extraordinary</b>	<b>(283)</b>	<b>579</b>	<b>(148.9)</b>	<b>(262)</b>	<b>8.2</b>

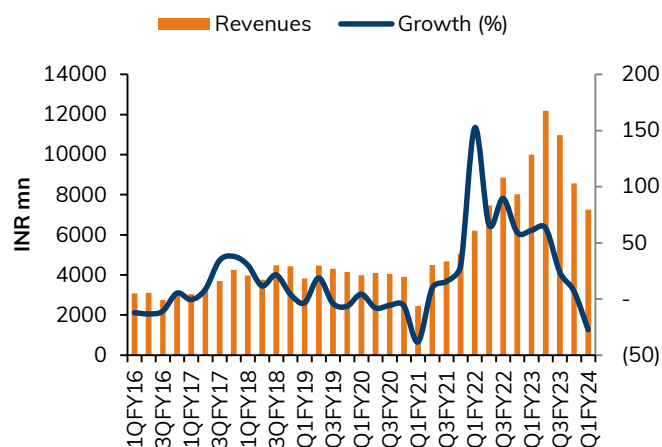
Source: Company data, I-Sec research

### Exhibit 2: Revenue breakup of chemical business



Source: Company data, I-Sec research

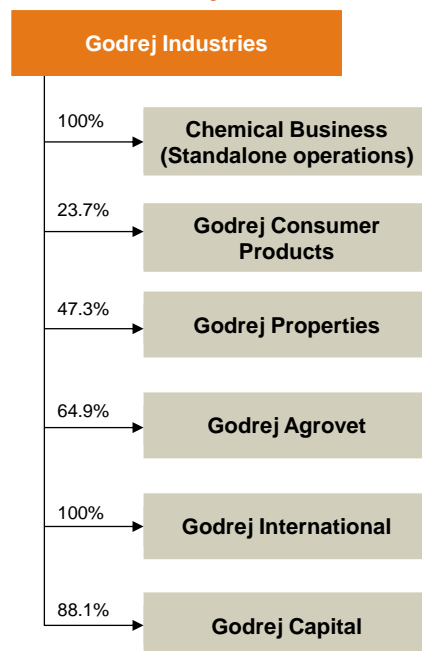
### Exhibit 3: Revenue growth in chemical business



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 subsidiary of Godrej Industries (GIL) separately based on I-Sec target prices as well as current market prices. We maintain **BUY** with a revised target price of INR 764 (Earlier INR 731).

### Exhibit 5: SoTP valuation of Godrej Industries (I-Sec target prices)

Company	Amount (INRmn)	Per share (INR)	Methodology
Godrej Inds (Chemical Business) [A]	57,613	171	8x FY23 EV/EBITDA
Godrej Consumer 23.7% stake [B]	1,33,304	396	Isec Target price & holding company discount of 50%
Godrej Properties 47.3% stake [C]	86,637	257	Isec Target price & holding company discount of 50%
Godrej Agrovet 64.9% stake [D]	29,934	89	Isec Target price & holding company discount of 50%
Godrej International [E]	250	1	At 0.5x FY23 Book Value
Godrej Capital 88.1% stake [F]	18,270	54	88.1% stake, Valued at investment value
<b>Total [A+B+C+D+E+F]</b>	<b>3,26,007</b>	<b>969</b>	
Less: Net debt of Godrej Inds	68,751	204	
<b>Value attributable to shareholders of Godrej Inds</b>	<b>2,57,256</b>	<b>764</b>	
<b>Value per share (INR)</b>	<b>764</b>		

Source: Company data, I-Sec research

### Exhibit 6: SoTP valuation of Godrej Industries (current market prices)

Company	Amount (INRmn)	Per share (INR)	Methodology
Godrej Inds (Chemical Business) [A]	57,613	171	8x FY23 EV/EBITDA
Godrej Consumer 23.7% stake [B]	1,25,494	373	Market cap & holding company discount of 50%
Godrej Properties 47.3% stake [C]	1,01,880	303	Market cap & holding company discount of 50%
Godrej Agrovet 64.9% stake [D]	29,828	89	Market cap & holding company discount of 50%
Godrej International [E]	250	1	At 0.5x FY23 Book Value
Godrej Capital 88.1% stake [F]	18,270	54	88.1% stake, Valued at investment value
<b>Total [A+B+C+D+E+F]</b>	<b>3,33,335</b>	<b>990</b>	
Less: Net debt of Godrej Inds	68,751	204	
<b>Value attributable to shareholders of Godrej Inds</b>	<b>2,64,583</b>	<b>786</b>	
Number of Shares (mn)	337		
<b>Value per share (INR)</b>	<b>786</b>		

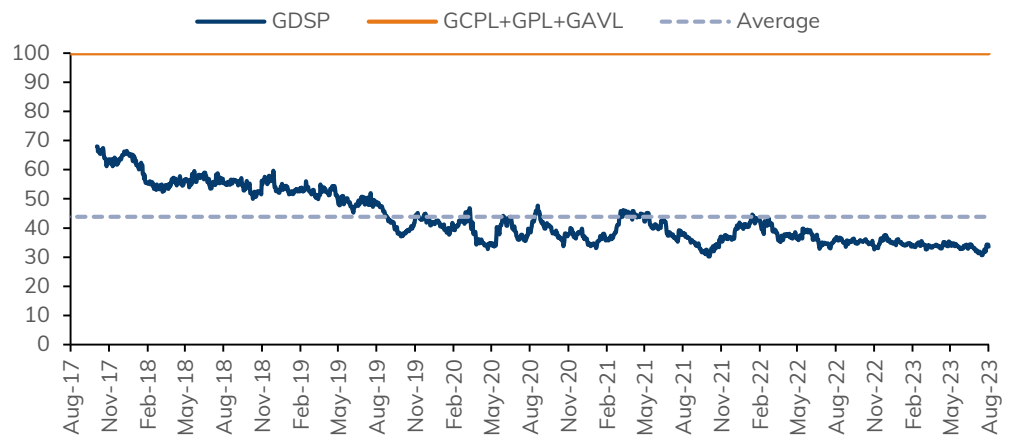
Source: Company data, I-Sec research

**Exhibit 7: Sensitivity analysis of SoTP valuation of Godrej Industries\***

Sensitivity Analysis	Holding company discount (%)				
	20%	30%	40%	50%	60%
<b>Company</b>					
Godrej Inds (Chemical Business) [A]	57,613	57,613	57,613	57,613	57,613
Godrej Consumer 23.7% stake [B]	2,00,790	1,75,691	1,50,593	1,25,494	1,00,395
Godrej Properties 47.3% stake [C]	1,63,009	1,42,633	1,22,256	1,01,880	81,504
Godrej Agrovet 64.9% stake [D]	47,724	41,759	35,793	29,828	23,862
Godrej International [E]	250	250	250	250	250
Godrej Capital 88.1% stake [F]	18,270	18,270	18,270	18,270	18,270
<b>Total [A+B+C+D+E+F]</b>	<b>4,87,656</b>	<b>4,36,215</b>	<b>3,84,775</b>	<b>3,33,335</b>	<b>2,81,894</b>
Less: Net debt of Godrej Inds	68,751	68,751	68,751	68,751	68,751
<b>Value attributable to shareholders of Godrej Inds</b>	<b>4,18,905</b>	<b>3,67,464</b>	<b>3,16,024</b>	<b>2,64,583</b>	<b>2,13,143</b>
Number of Shares (mn)	337	337	337	337	337
<b>Value per share (INR)</b>	<b>1,245</b>	<b>1,092</b>	<b>939</b>	<b>786</b>	<b>633</b>

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 GIL 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 as well as GIL.

**Exhibit 9: Shareholding pattern**

%	Dec'22	Mar'23	Jun'23
Promoters	67.2	67.2	67.2
Institutional investors	12.6	12.5	12.7
MFs and others	2.1	1.4	1.3
FIs/Banks	0.7	0.7	0.6
Insurance	0.0	0.0	0.0
FIIIs	9.8	10.4	10.8
Others	20.2	20.3	20.1

Source: Bloomberg

**Exhibit 10: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY20A	FY21A	FY22A	FY23A
Net Sales	19,687	18,555	33,396	44,880
<b>Operating Expenses</b>	<b>16,757</b>	<b>17,188</b>	<b>29,557</b>	<b>37,678</b>
EBITDA	2,930	1,368	3,839	7,202
<b>EBITDA Margin (%)</b>	<b>14.9</b>	<b>7.4</b>	<b>11.5</b>	<b>16.0</b>
Depreciation & Amortization	686	722	748	790
EBIT	2,244	646	3,091	6,412
Interest expenditure	2,290	2,375	3,639	4,776
Other Non-operating Income	609	641	746	690
Recurring PBT	563	(1,089)	198	2,326
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Less: Taxes</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
PAT	564	(1,088)	198	2,326
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(276)	20	(656)	(16)
Net Income (Reported)	289	(1,068)	(458)	2,310
<b>Net Income (Adjusted)</b>	<b>564</b>	<b>(1,088)</b>	<b>198</b>	<b>2,326</b>

Source Company data, I-Sec research

### Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY20A	FY21A	FY22A	FY23A
Total Current Assets	8,547	21,703	19,700	11,681
of which cash & cash eqv.	3,436	1,181	1,539	449
Total Current Liabilities & Provisions	5,584	8,793	10,008	10,753
<b>Net Current Assets</b>	<b>2,963</b>	<b>12,909</b>	<b>9,692</b>	<b>929</b>
Investments	28,317	32,142	53,808	70,873
Net Fixed Assets	13,168	12,955	12,999	13,723
ROU Assets	-	-	-	-
Capital Work-in-Progress	180	728	381	836
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>44,628</b>	<b>58,734</b>	<b>76,880</b>	<b>86,359</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>28,326</b>	<b>43,476</b>	<b>62,053</b>	<b>69,201</b>
<b>Deferred Tax Liability</b>	<b>(4)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	337	337	337	337
Reserves & Surplus	15,970	14,926	14,496	16,827
<b>Total Net Worth</b>	<b>16,306</b>	<b>15,263</b>	<b>14,832</b>	<b>17,164</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>44,628</b>	<b>58,734</b>	<b>76,880</b>	<b>86,359</b>

Source Company data, I-Sec research

### Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	13,875	11,512	9,005	7,676
% growth (YoY)	56.2	22.7	6.1	(26.8)
EBITDA	2,358	2,113	1,048	1,057
Margin %	17.0	18.4	11.6	13.8
Other Income	250	129	177	281
Extraordinaries	(4.1)	(4)	(4)	(4.1)
Adjusted Net Profit	1,213	780	(262)	(283)

Source Company data, I-Sec research

### Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY20A	FY21A	FY22A	FY23A
<b>Operating Cashflow</b>	<b>(872)</b>	<b>(12,047)</b>	<b>3,865</b>	<b>10,773</b>
Working Capital Changes	(1,676)	(12,202)	3,576	7,673
Capital Commitments	(468)	(1,558)	(445)	(1,968)
<b>Free Cashflow</b>	<b>(1,340)</b>	<b>(13,605)</b>	<b>3,421</b>	<b>8,805</b>
<b>Other investing cashflow</b>	<b>789</b>	<b>(3,825)</b>	<b>(21,667)</b>	<b>(17,065)</b>
Cashflow from Investing Activities	322	(5,383)	(22,111)	(19,032)
Issue of Share Capital	88	411	27	22
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(878)	15,151	18,576	7,148
Dividend paid	(387)	(387)	-	-
Others	-	-	-	-
Cash flow from Financing Activities	(1,177)	15,175	18,604	7,170
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,727)</b>	<b>(2,255)</b>	<b>358</b>	<b>(1,090)</b>
Closing cash & balance	3,436	1,181	1,539	449

Source Company data, I-Sec research

### Exhibit 15: Key ratios

(Year ending March)

	FY20A	FY21A	FY22A	FY23A
<b>Per Share Data (INR)</b>				
Reported EPS	1.7	(3.2)	0.6	6.9
Adjusted EPS (Diluted)	1.7	(3.2)	0.6	6.9
Cash EPS	3.7	(1.1)	2.8	9.3
Dividend per share (DPS)	(1.1)	(1.1)	-	-
Book Value per share (BV)	48.5	45.3	44.1	51.0
Dividend Payout (%)	(68.6)	35.6	-	-
<b>Growth (%)</b>				
Net Sales	(8.2)	(5.7)	80.0	34.4
EBITDA	(27.7)	(53.3)	180.7	87.6
EPS (INR)	(63.1)	(292.8)	(118.2)	1,073.4
<b>Valuation Ratios (x)</b>				
P/E	295.5	(153.3)	841.6	71.7
P/CEPS	133.3	(455.4)	176.3	53.5
P/BV	10.2	10.9	11.2	9.7
EV / EBITDA	55.7	129.4	45.2	22.9
P / Sales	8.5	9.0	5.0	3.7
Dividend Yield (%)	(0.2)	(0.2)	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	39.3	30.7	29.7	32.1
EBITDA Margins (%)	14.9	7.4	11.5	16.0
Effective Tax Rate (%)	(0.2)	0.1	-	-
Net Profit Margins (%)	2.9	(5.9)	0.6	5.2
NWC / Total Assets (%)	6.6	22.0	12.6	1.1
Net Debt / Equity (x)	(0.2)	0.7	0.5	(0.1)
Net Debt / EBITDA (x)	(1.2)	7.4	1.7	(0.3)
<b>Profitability Ratios</b>				
RoCE (%)	5.0	1.2	4.6	7.9
RoE (%)	3.5	(6.9)	1.3	14.5
RoC (%)	5.0	1.2	4.6	7.9
Fixed Asset Turnover (x)	1.3	1.1	1.9	2.5
Inventory Turnover Days	45	78	89	53
Receivables Days	35	48	56	41
Payables Days	30	52	35	27

Source Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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