

Godrej Industries Ltd

₹ 243

Covalent Subsidiaries !**Buy**

Aug 24, 2012

Company Background

Godrej Industries Ltd. (GIL) is a member of the Godrej Group, which was established in 1897 & has since grown into a US\$ 1.9 bn conglomerate. It was called Godrej Soaps until 2001. Thereafter, the consumer products division got de-merged into Godrej Consumer Products, and the residual Godrej Soaps became Godrej Industries. GIL is India's leading manufacturer of oleochemicals and makes more than a hundred chemicals for use in over two dozen industries. It also manufactures edible oils, vanaspati and bakery fats. It also operates in real estate. Besides its three businesses, GIL also runs four divisions — Corporate Finance, Corporate HR, Corporate Audit and Assurance and Research and Development — which operate on behalf of the entire Godrej Group. GIL has built a strong manufacturing base capable of delivering international quality products at competitive prices. It operates two plants, one at Valia in the Indian state of Gujarat and a second at Vikhroli in suburban Mumbai. The company's products are exported to 40 countries in North and South America, Asia, Europe, Australia and Africa, and it leads the Indian market in the production of fatty acids, fatty alcohols and AOS.

Key Highlights

- ➔ Godrej Properties Ltd. a subsidiary in which GIL has a majority shareholding is currently developing landmark projects in 12 cities across India. This real estate arm's upcoming development covers 83 mn square feet of development as residential, commercial and township developments.
- ➔ Another concern of GIL, Godrej Consumer Products Ltd. in which it has close to 22% holding deals with Consumer Products from Mosquito Repellants to Personal Care Products and Air Freshners to Washing Soaps. The Company is among the leader in its segment and has a strong portfolio of various brands like GoodKnight, Godrej No1 etc. It's portfolio even showed strong growth in international market from the acquisitions made in past three years. International business grew strongly with 27% organic growth on back of strong sales growth of 30% (YoY) from Indonesia, Latin America & Europe. The overall International sales has grown by 49% to Rs 518 crore.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	9,737.8	9,925.2	12,533.6
Rev. growth (%)	14.94	1.92	26.28
EBITDA (₹ mn)	1,275.4	1,782.9	2,399.6
Net profit (₹ mn)	180.8	809.6	1,334.3
Shares outstanding (mn)	319.8	317.6	317.6
EPS (₹)	0.6	2.5	4.2
EPS growth (%)	(83.38)	350.80	64.81
P/E (x)	93.0	55.0	43.3
EV/ EBITDA	17.9	28.1	26.4
ROCE (%)	1.18	5.11	8.36

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Info Codes

Reuters	: GODI.BO
Bloomberg	: GDSP@IN
NSE	: GODREJIND
BSE	: 500164

Market Data

52 Wk Range (₹)	: 284 / 168
Shares in Issue (mn)	: 317.6
Mkt. Cap (₹ bn)	: 81.56
BSE 2 Wk Avg Vol	: 36000

Share Holding Pattern (%)

Promoters	: 79.10
DII's	: 03.38
FII's	: 06.11
Others	: 11.41

Investment Theme

Established in 1897 Godrej is one of the oldest Conglomerates in India starting with lock manufacturing GIL grew to its current state. Today the company is well diversified through its own business, subsidiaries & holdings in various sectors from Hair Oils to Real Estate. The current scenario of Real Estate seems positive in the long term and Godrej Properties a subsidiary of GIL hopes to be among the Top 3 Real Estate Giants in India. This augurs well for GIL. The businesses of its other holdings are also growing well. The Consumer Products Business of Godrej Consumer Products is growing internationally and has shown wonderful growth performance in International Business due to the acquisitions it has made in the last 3 to 4 years. We therefore remain bullish on the company and recommend a Buy.

We REAL-E-STATE its Good !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	8746.9	8565.9	(2.07)	11264.2	31.50
Other Income	1591.1	1778.0	11.75	1922.7	8.14
Change in Stocks	(225.5)	173.6	(176.98)	231.6	33.41
Raw Material Con.	5130.6	5004.1	(2.47)	6639.9	32.69
Employee Exp.	829.2	1058.3	27.63	1176.7	11.19
Indirect Taxes	668.8	472.2	(29.40)	691.9	46.53
Other Exp.	2208.5	2200.0	(0.38)	2510.4	14.11
Operating Exp.	9062.6	8561.0	(5.53)	10787.3	26.01
Operating Profit	(315.7)	4.9	(101.55)	476.9	9632.65
Total Interest	827.5	604.7	(26.92)	640.6	5.94
Gross Profit	447.9	1178.2	163.05	1759.0	49.30
Net Dep.	247.3	251.2	1.58	259.9	3.46
Total Taxation	19.8	117.4	492.93	164.8	40.37
Net Profit/Loss	180.8	809.6	347.79	1334.3	64.81

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	14,773.9	16,139.9	15,574.4	16,328.8
Equity Share capital	319.8	319.8	317.6	317.6
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	10,097.3	9,810.5	9,780.7	10,469.0
Secured Loans	2,494.9	2,328.2	1,791.9	832.3
Unsecured Loans	1,861.9	3,681.4	3,684.2	4,709.9
USES OF FUNDS	14,773.9	16,139.9	15,574.4	16,328.8
Gross Block	5,582.3	5,734.5	6,100.3	6,724.1
Less : Revaluation Reserves	167.1	141.0	128.6	115.0
Less : Accumulated Depreciation	2,917.4	3,095.9	3,337.2	3,582.4
Net Block	2,497.8	2,497.6	2,634.5	3,026.7
Capital Work in Progress	49.4	248.4	223.1	54.5
Investments	7,754.8	11,481.0	11,476.3	12,337.5
Current Assets	8,174.9	4,521.1	4,645.4	6,058.1
Less : Current Liabilities	3,809.8	2,646.8	3,404.9	5,148.0
Total Net Current Assets	4,365.1	1,874.3	1,240.5	910.1
Misc. Expenses not written	106.8	38.6	0.0	0.0
NOTE				
Bk Val Unquoted Investments	6,269.3	6,177.7	4,105.2	4,584.8
Mkt Val. Quoted Investments	3,519.6	7,572.5	11,476.3	59,052.7
Contingent Liabilities	1,304.0	1,078.1	649.0	814.8
Dividend (%)	125	125	150	175

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 11	Dec 11	Mar 12	Jun 12
Net Sales	3,919.90	3,517.70	3,988.40	3,807.50
Cost Of Sales	3,297.80	3,365.20	3,196.80	3,502.80
Operating Profit	622.10	152.50	791.60	304.70
Recurring Income	509.20	380.60	96.00	82.10
Adjusted PBDIT	1,131.30	533.10	887.60	386.80
Financial Expenses	173.70	178.20	170.80	200.30
Depreciation	70.80	70.50	61.10	54.90
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	886.80	284.40	655.70	131.60
Tax Charges	45.00	(0.60)	0.00	0.00
Adjusted PAT	841.80	285.00	655.70	131.60
Non Recurring Items	0.00	0.10	58.50	0.20
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	841.80	285.10	714.20	131.80

52 Week Index Relative Percentage Appreciation



Godrej vs SENSEX

The Vikroli Property

Godrej Properties Ltd. (GPL) has unprecedented growth opportunities ahead with the scale rapidly increasing with a pan India footprint. GPL registered notable volumes this year, with successful launches in high growth cities and reported healthy construction progress across all existing projects, including Ahmedabad, Gurgaon, Kolkata, Bangalore and Mumbai. Bookings grew by 132% over the previous year to 3.2 million square feet. In line with the same GIL has foreseen the tremendous potential of maximizing the value from developmental activity and entered into an arrangement with Godrej Properties Limited for joint development of the Vikroli property. The LLP will develop approximately 2.8 million square feet on 35 acres of prime land. It will be a mixed use project comprising of grade A commercial office space, residential apartments, high-street retail and a 5 star hotel. The project is spread over 3 phases and planned to be completed in 6 years.

Risks Associated

Changes in law pertaining to the real estate segment can affect the valuation prices of its land bank. With the increasing prices of its related raw materials, it would have a major burden leading to increase in its expenditure, thus affecting its income bucket. With the Government opening the gate for privatization with FDI in Retail, leading world players will entered in to the FMCG segment, giving tough competition to the domestic players. Competition in the industry has been a major problem, not only between different segments but also between own segment as well, as the companies has to pay higher compensation for their own different segments in order to face tough competition from their segments itself. Fluctuations in the foreign exchange currency could also act as a drawback for the companies exporting its products in international markets.

In a Nutshell

GIL manufactures chemicals and is the market leader in some of them. It also has other diversified businesses. Godrej Industries controls an important part of the Indian market in the production of fatty acids, fatty alcohols and AOS. It is the second largest producer of glycerine in the country. It also has various stakes in Companies related to Agrovet, Consumer Care, Real Estate, Food & Beverage and Finance. Nearly all of its subsidiary companies are performing as much nicely as the parent. The major benefit to GIL appears to be in Real Estate. Its Subsidiary is developing a large landbank of 85 mn sq ft at various key locations in India. GIL's has Land Reserves of approximately 17.99 million sq. ft in Metro Cities like Mumbai, Pune, Bangalore, Hyderabad, Kolkata & proposes to develop commercial projects on over 67% of its land reserves through its Real Estate Subsidiary. Looking at the basic model on which Godrej Properties develops land it is clear that when these properties will be developed GIL would not only get a Revenue Share of the property but also a huge chunk of value since it also hold a majority stake in the Real Estate Arm. Further Godrej Consumer Products has made some good acquisitions in the last 3 to 4 years which are also bringing in International Revenue thus raising the intrinsic value.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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