

Godrej Industries Ltd.

₹ 275

*Positive Chemistry of Amalgamation***Accum.**

Feb 14, 2014

Company Background

Godrej Industries Ltd. (Godrej) 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. Godrej 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, Godrej also runs four divisions Corporate Finance, Corporate HR, Corporate Audit & Assurance & Research & Development which operate on behalf of the entire Godrej Group. Godrej 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.
- ➔ The Board of Directors of both Godrej Industries Ltd. and its subsidiary Wadala Commodities have okeyed Amalgamation of the later with Godrej Industries at a share swap ratio of 1 share of Godrej for every 108 shares of Wadala Commodities. This ratio tilts towards the benefit of Godrej Industries.
- ➔ There is recent speculation that the amalgamation between Godrej Industries and Wadala Commodities is actually to consolidate the 7 acre Wadala Land Bank of the later into Godrej Industries so that most lands held by the Godrej Group in Mumbai come under a single umbrella which may later be handed over to Godrej properties for development.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	12,533.0	15,631.8	15,790.8
Rev. growth (%)	26.27	24.73	1.02
EBITDA (INR mn)	2,427.8	3,150.0	2,028.2
Net profit (INR mn)	1,334.3	2,015.6	985.9
Shares outstanding (mn)	317.6	317.6	335.2
EPS (INR)	4.2	6.3	2.9
EPS growth (%)	64.81	51.06	(53.65)
P/E (x)	43.3	40.7	100.3
RONW (%)	10.9	18.5	6.7
ROCE (%)	7.0	12.5	4.4

Nishant Chopra

nishantc@indiratrade.com

Previous Reports

Recommended BUY at Rs. 243 on Aug 24, 2014 reached a peak of Rs 325 on Jul 05, 2013 (an appreciation of 34%)

Info Codes

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

Market Data

52 Wk Range (₹)	: 325 / 219
Shares in Issue (mn)	: 335.2
Mkt. Cap (₹ bn)	: 90.45
BSE 2 Wk Avg Vol	: 30000

Share Holding Pattern (%)

Promoters	: 74.89
DII's	: 3.74
FII's	: 10.41
Others	: 10.96

Investment Theme

Starting from just a humble business of Locks, Godrej has ventured into nearly each business segment in the market. Currently it is aggressive in the Real Estate, Its Subsidiary Godrej Properties Ltd. is among the top 3 Real-Estate firms in India. The current Amalgamation with Wadala Commodities also brings in a 7 acre land bank at a prime Location in Wadala. Currently Wadala is one of the flourishing areas of Real Estate business. With this land at its disposal Godrej may plan to develop another project in this area thus encashing the amalgamation which currently appears to be done at a very low swap ratio. Thus continuing its growth story in the Real Estate Segment a little further in the town of Mumbai.

Consolidating its Land Bank

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	11264.2	13650.5	21.18	14334.4	5.01
Other Income	1922.1	2702.3	40.59	2392.4	(11.47)
Change in Stocks	231.6	91.5	(60.49)	(256.4)	(380.22)
Raw Material Con.	6929.3	8706.4	25.65	9345.0	7.33
Employee Exp.	1176.6	1163.3	(1.13)	1197.5	2.94
Indirect Taxes	695.7	780.6	12.20	1009.4	29.31
Other Exp.	2217.2	2644.5	19.27	2890.5	9.30
Operating Exp.	10787.2	13203.3	22.40	14698.8	11.33
Operating Profit	477.0	447.2	(6.25)	(364.4)	(181.48)
Total Interest	640.0	864.2	35.03	696.9	(19.36)
Gross Profit	1759.1	2285.3	29.91	1331.1	(41.75)
Net Dep.	385.4	271.4	(29.58)	335.8	23.73
Total Taxation	39.4	(1.7)	(104.31)	9.4	(652.94)
Net Profit/Loss	1334.3	2015.6	51.06	985.9	(51.09)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	15,574.4	16,329.9	17,287.2	25,426.1
Equity Share capital	317.6	317.6	317.6	335.2
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	9,780.7	10,468.9	11,902.3	15,828.8
Long Term Loans	2,634.2	4,411.1	4,142.4	4,809.5
Short Term Loans	2,841.9	1,132.3	924.9	4,452.6
USES OF FUNDS	15,574.4	16,329.9	17,287.2	25,426.1
Gross Block	6,151.3	6,775.1	7,180.9	7,280.3
Less : Revaluation Reserves	128.6	114.9	105.6	77.2
Less : Accumulated Depreciation	3,388.2	3,633.4	3,865.9	4,066.5
Net Block	2,634.5	3,026.8	3,209.4	3,136.6
Capital Work in Progress	223.1	43.5	1,417.9	4,890.2
Investments	11,476.3	12,337.4	13,538.1	13,392.5
Current Assets	4,645.4	6,064.5	8,495.0	11,137.4
Less : Current Liabilities	3,404.9	6,415.6	9,373.2	7,130.6
Total Net Current Assets	1,240.5	(351.1)	(878.2)	4,006.8
Misc. Expenses not written	0.0	1,273.3	0.0	0.0
NOTE				
Bk Val Unquoted Investments	4,105.2	4,584.7	5,104.2	3,592.7
Mkt Val. Quoted Investments	11,476.3	59,052.7	64,986.1	83,357.2
Contingent Liabilities	649.0	1,217.5	2,663.8	1,829.5
Dividend (%)	150	175	175	175

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	3,561.30	3,459.30	3,559.80	3,645.00
Cost Of Sales	3,416.90	3,161.70	3,174.40	3,494.10
Operating Profit	144.40	297.60	385.40	150.90
Recurring Income	114.00	139.60	182.00	40.50
Adjusted PBDIT	258.40	437.20	567.40	191.40
Financial Expenses	164.00	162.40	225.70	262.20
Depreciation	66.00	54.30	54.90	50.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	28.40	220.50	286.80	(121.40)
Tax Charges	0.00	23.40	0.00	9.00
Adjusted PAT	28.40	197.10	286.80	(130.40)
Non Recurring Items	7.30	250.00	11.60	45.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	35.70	447.10	298.40	(85.40)

52 Week Index Relative Percentage Appreciation



Godrej vs SENSEX

Wadala Commodities Amalgamation

It is said that by the amalgamation of Wadala Commodities with Godrej Industries Ltd. the land bank of Wadala Commodities which is around 7 acres at a prime spot in Wadala would be at the disposal of Godrej Industries, thus adding up to some more land in Mumbai apart from the Vikhroli Land which the company is developing stepwise. At the current swap ratio of Amalgamation the land seems to be acquired at a very low cost.

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

Godrej 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 Godrej appears to be in Real Estate. Its Subsidiary is developing a large landbank of 85 mn sq ft at various key locations in India. Godrej 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 Godrej 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. The recent scheme of amalgamation with Wadala Commodities would be more beneficial as it would bring in around 7 acres of land which Wadala Commodity holds at a prime location at Wadala. This land would bring in more intrinsic value for the company and would be at the companies disposal to develop as it has already started with the Vikhroli Land.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

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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