

Godrej Industries Ltd. ₹ 392**Not just a Chemical in Realty! Accumulate**

Nov 27, 2015

Company Background

Godrej Industries Ltd. (Godrej) is one of the Godrej Group's holding companies having significant interests in consumer goods, real estate, agriculture and gourmet retail through its subsidiaries and associate companies in 18 countries. The Consumer Products arm is an emerging markets FMCG leader. Godrej Properties turns out to be the second largest Real Estate Company by sales. The Agrovet arm is a diversified, Research & Development backed agri-business company, dedicated to addressing India's key agricultural crises. Nature's Basket is India's foremost retail destination for fine foods from across the world. 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. It 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. The Chemicals division, ranks among India's leading manufacturers of oleochemicals & surfactants which are exported to 80+ countries globally.

Key Highlights

- ➔ About 2,000 employees of Godrej Group shifted to its new global headquarters, Godrej One, freeing space for the largest real estate project in Mumbai - The Trees by Godrej Properties. About 34.2 acres of Vikhroli land is being redeveloped by Godrej Vikhroli Properties (GVPL). GVPL is the 60:40 joint venture between Godrej Properties and Godrej Industries on a profit-sharing basis. Godrej Industries is again a 57% share holder of Godrej Properties.
- ➔ The Chemicals Business exports to 65 countries around the globe and has a Portfolio Comprises a wide range of products, including Fatty Alcohol, Fatty Acids, Surfactants & Glycerin. The business has 37% turnover from exports.
- ➔ The other businesses of the company also are showing good growth with the Real Estate arm's profit growing at 20% y-o-y in a sluggish economy, the Agribusiness profit scoring 29% growth y-o-y and the Consumer Care business remains the highest ranked Indian Co. on Forbes' list of the 'World's 100 Most Innovative Growth Companies 2015.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	15,790.8	16,110.0	17,018.6
Rev. growth (%)	1.02	2.02	5.64
EBITDA (INR mn)	2,028.2	2,672.9	3,284.8
Net profit (INR mn)	985.9	1,254.8	1,567.7
Shares outstanding (mn)	335.2	331.1	335.9
EPS (INR)	2.9	3.8	4.7
EPS growth (%)	(53.65)	28.83	23.17
P/E (x)	99.51	82.51	74.00
RONW (%)	6.54	5.79	9.25
ROCE (%)	4.35	3.27	4.38

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Info Codes

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

Market Data

52 Wk Range (₹)	: 261 / 412
Shares in Issue (mn)	: 335.9
Mkt. Cap (₹ bn)	: 130.99
BSE 2 Wk Avg Vol	: 22000

Share Holding Pattern (%)

Promoters	: 74.81
FII's	: 13.25
DII's	: 3.46
Others	: 8.48

Investment Theme

Starting from just a humble business of Locks, Godrej has ventured into nearly each business segment in the market. With Quality & Transparency as its core values, the Company scales new bounds every year. The growth comes not only comes by core business of chemicals but also through its different arms, the Agrovet, Consumer Care, Real Estate, Food & Beverage & Finance all of which have been demonstrating superb growth year on year. The real growth in the company however is expected from Real Estate Arm of Godrej. Godrej has Land Reserves 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 with income from both ends, profit sharing in development as well as Dividends from Subsidiary in which it holds a 57% stake.

The Real (Estate) Story of a Chemical Business!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	14,276.8	13,946.9	(2.3)	14,125.6	1.3
Other Income	2,433.4	3,033.5	24.7	3,824.5	26.1
Change in Stocks	(256.4)	536.2	(309.1)	(261.3)	(148.7)
Raw Material Con.	9,345.0	9,577.7	2.5	9,135.9	(4.6)
Employee Exp.	1,197.5	1,125.6	(6.0)	1,271.6	13.0
Indirect Taxes	1,029.8	986.6	(4.2)	1,004.3	1.8
Other Exp.	2,890.5	3,216.7	11.3	3,007.5	(6.5)
Operating Exp.	14,719.2	14,370.4	(2.4)	14,680.6	2.2
Operating Profit	(442.4)	(423.5)	(4.3)	(555.0)	31.1
Total Interest	696.9	1,067.2	53.1	1,529.5	43.3
Gross Profit	1,294.1	1,542.8	19.2	1,740.0	12.8
Net Dep.	298.8	236.1	(21.0)	338.7	43.5
Total Taxation	9.4	51.9	452.1	(166.4)	(420.6)
Net Profit/Loss	985.9	1,254.8	27.3	1,567.7	24.9

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	17287.2	25426.1	28508.3	36806.6
Equity Share capital	317.6	335.2	331.2	335.9
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	11902.3	15828.8	14018.1	16246.9
Long Term Loans	4142.4	4809.5	8288.0	12400.1
Short Term Loans	924.9	4452.6	5871.0	7823.7
USES OF FUNDS	17287.2	25426.1	28508.3	36806.6
Gross Block	7180.9	7280.3	9600.3	10144.4
Less : Revaluation Reserves	105.6	77.2	0.0	0.0
Less : Accumulated Depreciation	3865.9	4066.5	3454.0	3666.4
Net Block	3209.4	3136.6	6146.3	6478.0
Capital Work in Progress	1417.9	4890.2	3820.0	6669.6
Investments	13538.1	13392.5	20482.6	23777.8
Current Assets	8495.0	10445.1	6536.0	6986.2
Less : Current Liabilities	9373.2	6438.3	8524.6	7105.0
Total Net Current Assets	(878.2)	4006.8	(1988.6)	(118.8)
Misc. Expenses not writtenoff	0.0	0.0	48.0	0.0
NOTE				
Bk Val Unquoted Investments	5104.2	3592.7	4119.9	4807.9
Mkt Val. Quoted Investments	64986.1	83357.2	91806.4	111800.5
Contingent Liabilities	2663.8	1829.5	3218.9	3009.7
Dividend (%)	175.0	175.0	175.0	175.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 14	Mar 15	Jun 15	Sep 15
Net Sales	3,262.2	3,092.2	3,295.3	3,549.3
Cost Of Sales	3,373.7	3,200.2	3,010.0	3,051.1
Operating Profit	(111.5)	(108.0)	285.3	498.2
Other Income	654.8	860.0	46.1	54.5
Adjusted PBDIT	543.3	752.0	331.4	552.7
Financial Expenses	346.7	463.5	469.0	489.7
Depreciation	77.5	72.7	91.3	112.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	119.1	215.8	(228.9)	(49.1)
Tax Charges	0.0	0.0	0.0	0.0
Adjusted PAT	119.1	215.8	(228.9)	(49.1)
Non Recurring Items	0.0	223.2	390.6	652.7
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	119.1	439.0	161.7	603.6

52 Week Index Relative Percentage Appreciation



Godrej vs SENSEX

Risks Associated

One of the companies business is related to Real Estate. 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. Further 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. The company also has significant commodity based businesses which may be affected by vagaries of the weather, demand for edible oil, oilseed production, etc. It is also exposed to commodity price risks relating to raw materials which account for the largest portion of the costs of both the Chemicals and Vegoils businesses. The growth of Chemicals business of the company will also depend on the growth of end user industries like polymer, detergent, cosmetic and personal care. Also if new capacity additions announced earlier go on stream, there could be an over-supply situation in the market which can put pressure on margins.

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 nicely as the parent. The major benefit to Godrej appears to be in Real Estate. Godrej has large Land Reserves of approximately 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. Housing and urban development are key priorities of the new government. The new Government is expected to drive reforms and regulations that are long overdue. The recent policy measures to relax Foreign Direct Investment (FDI) norms, provide housing for all by 2022, create 100 smart cities and approve Real Estate Investment Trusts (REITs) have boosted the confidence of stakeholders. While all of these policies have some direct benefits, the larger benefit is the signalling of intent to support growth in the sector, which in turn will lead to an improvement in sentiment in the sector. We therefore feel the growth in the Real Estate arm will translate into a 2 fold growth in the company.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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