



**SMC Ranking**  
 ★ ★ ★ ☆ ☆ (3/5)

**Issue Highlights**

Industry	AGRI-BUSINESS
Total Issue (Shares) - Offer for sale	18,821,739
Total Issue (Shares) - Fresh Issue	6,337,174
<b>Net Offer to the Public</b>	<b>25,158,913</b>
Issue Size (Rs. Cr.)	1132-1157
Price Band (Rs.)	450-460
Offer Date	4-Oct-17
Close Date	6-Oct-17
Face Value	10
Lot Size	32 Per Equity Share

**Issue Composition**

	In shares
Total Issue for Sale	25,158,913
QIB	12,362,066
NIB	3,708,620
Retail	8,653,446
Employee reservation	434,782

**Shareholding Pattern (%)**

Particulars	Pre-issue	Post-issue
Promoters & promoters group	74.80%	68.92%
QIB	19.97%	19.34%
NIB	3.65%	5.46%
Employee reservation		0.23%
Retail	1.59%	6.05%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

**Objects of the Issue**

- Offer for Sale: Each of the Selling Shareholders will be entitled to the respective portion of the proceeds of the Offer for Sale.
- Fresh Issue: Company proposes to utilise the proceeds from the Fresh Issue towards:
- Repayment or prepayment of working capital facilities availed;
- Repayment of commercial papers issued by the Company; and
- General corporate purposes.

**Book Running Lead Manager**

- Kotak Mahindra Capital Company Limited
- Axis Capital Limited
- Credit suisse Securities ( India) Private Limited

**Name of the registrar** Karvy Computer share Pvt Ltd

**About the Company**

Godrej Agrovvet Limited is a diversified, Research & Development focused agri-business company, dedicated to improving the productivity of Indian farmers by innovating products and services that sustainably increase crop and livestock yields. It holds leading market positions in the different businesses in which it operates - Animal Feed, Crop Protection, Oil Palm, Dairy and Poultry and Processed Foods.

**In animal feed business:** The products that Godrej Agrovvet manufactures and sells in the animal feed business are cattle feed, poultry feed(broiler and layer), aqua feed(fish and shrimp) and speciality feed. The products are produced at 35 facilities and sold through 4000 distributors across India, as of June 30, 2017.

**In crop protection business:** The company manufactures a wide range of products that cater to the entire crop lifecycle including plant growth regulators, organic manures, generic agrochemicals and specialized herbicides. The distribution network of company's crop protection business in India includes approximately 6,000 distributors, as of June 30, 2017.

**In oil palm business:** The company produces a range of products including crude palm oil, crude palm kernel oil and palm kernel cake. It has set up five palm oil mills in India with an aggregate FFB processing capacity of 125 MT per hour and a palm kernel processing capacity of seven MT per hour, as of June 30, 2017.

**In dairy business:** It operates through Subsidiary, Creamline Dairy, the company sells a majority of milk and milk based products under the 'Jersey' brand across the states of Telangana, Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra. As of June 30, 2017, it owned and operated nine milk processing units. As of June 30, 2017, dairy distribution network included approximately 4,000 milk distributors, approximately 3,000 milk product distributors and 50 retail parlors, as well as direct sales to institutional customers.

The company manufactures and markets processed poultry and vegetarian products through its brands 'Real Good Chicken' and 'Yummiez'.

**Strength**

**Pan-India Presence with Extensive Supply and Distribution Network:** The company has a pan-India presence and operations spanning across five business verticals: animal feed, crop protection, oil palm, dairy, and poultry and processed foods. The company's animal feed and crop protection businesses were commenced by erstwhile Godrej Soaps Limited and later acquired by Company. The company believes that its business model with a strong procurement base, diversified product portfolio and large-scale operations enables to achieve economies of scale in sourcing of raw materials and the distribution of products.

**Diversified Businesses with Synergies in Operations:** The company believes that its presence across five business verticals has enabled to grow its revenues over the last five years. The management also believes that it's diversified businesses along with geographic diversification provides a hedge against the risks associated with any particular industry segment or geography while benefiting from the synergies of operating in diverse but related businesses. The company's synergies across diverse businesses provide with the ability to drive growth, optimize capital efficiency and maintain competitive advantage.

**Strong R&D Capabilities:** The company believes that emphasis on R&D has been critical to its success and a differentiating factor from competitors. It undertakes dedicated R&D in existing products primarily with a focus to improve yields and process efficiencies. It offers a variety of cattle feed for the entire lifecycle of the cattle.

**Strong Parentage and Established Brands:** It is a part of the Godrej group, which is among India's oldest and most prominent corporate groups. The company believes that the 'Godrej' brand is recognizable in India due to its long established presence in the Indian market, the diversified businesses in which the Godrej group operates and the trust company believes it has developed over the course of its operating history. The company believes that the strength of the 'Godrej' brand and its association with trust, quality and reliability helps in many aspects of various businesses, particularly businesses that involve direct sales to retail consumers.

**Experienced Promoters and Management Team:** It has a strong management team with significant industry experience. The company's Promoters include Mr. Adi Godrej and Mr. Nadir Godrej, each of whom have approximately 40 years of experience in successfully creating shareholder value across businesses in a diverse range of industries. It believes that company's experienced management has demonstrated the ability to successfully build and integrate various operating activities through their years of experience.

## Strategy

**Animal Feed Business:** The animal feed industry in India is largely unorganized and competes with multiple players in each geography in which the company operates. The company's strategy for animal feed business is to focus on achieving cost leadership by improving the operational efficiency of animal feed business through R&D as well as cost rationalization initiatives. Its R&D efforts are also focused on developing innovative livestock nutrition products that gives the product differentiation, which it believes will help in improving its profit margins and market share.

**Crop Protection Business:** The company's strategy for growing crop protection business is primarily focused on expanding its product portfolio. The company has introduced new products in crop protection business and plans to continue focus on introducing new products. Its R&D initiatives have increasingly focused on off patented chemistry synthesis, which it believes will help in expanding product portfolio. The Company also plans to focus on increasing the market share of existing core products by developing products for additional crops and increasing geographic presence.

**Dairy Business:** It has undertaken several marketing initiatives to increase market shares in existing markets by leveraging upon the strong marketing network as well as in-house expertise of the Godrej group. The company focuses on innovation to grow value-added product portfolio and on developing new products to distinguish itself from competitors as well as to introduce new products based on consumer preferences and demand. The company currently procures milk from 52 districts across six states and proposes to increase its milk procurement by setting up new collection centers to deepen its presence in existing areas as well as access new areas to procure milk. It also seeks to strengthen its existing relationships with milk farmers and vendors through methods including providing farmers with cattle feed, assisting with veterinary health-care and vaccinations.

## Risk factors

**Unfavourable local and global weather patterns may have an adverse effect on its business, results of operations and financial condition:** As an agri-based company, its businesses are sensitive to weather conditions, including extremes such as drought and natural disasters. There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. Consequently, the occurrence of any such unfavorable weather patterns may adversely affect business, results of operations and financial condition.

**The company operates in five business verticals and inability to manage diversified operations may have an adverse effect on business, results of operations and financial condition:** It operates in five business verticals, on its own and through its subsidiaries, joint ventures and associates: animal feed, crop protection, oil palm, dairy, and poultry and processed food. As a result of operating such diverse businesses, company's management requires considerable expertise and skill to manage and allocate an appropriate amount of time and attention to each business.

**A significant portion of revenue from animal feed business and any reduction in demand or in the production of such products could have an adverse effect:** The company derives a significant portion of revenue from animal feed business, which primarily comprises the sale of cattle, poultry (broiler and layer), aqua (fish and shrimp) and specialty feed. Consequently, any reduction in demand or a temporary or permanent discontinuation of manufacturing of such products could have an adverse effect on business, results of operations and financial condition.

**Certain of businesses are subject to seasonal variations that could result in fluctuations in results of operations:** The company's businesses are subject to seasonal variations. For example, in animal feed business, the company sells lower volumes of cattle feed during the monsoons due to the availability of green fodder. In poultry and processed foods business, the demand for poultry products is higher in the second half of financial year since the consumption of poultry meat and eggs are higher during winter months, while the sale of such products is lower during certain religious festivals.

**If company is unable to introduce new products and respond to changing consumer preferences in a timely and effective manner, the demand for products may decline:** The success of business depends upon ability to anticipate and identify changes in consumer preferences and offer products that consumers require. It constantly seeks to develop research and development capabilities to distinguish itself from competitors to enable to introduce new products and different variant of existing products, based on consumer preferences and demand.

### **Peer comparison**

No listed peers mentioned in RHP.

### **Valuation**

Considering the P/E valuation on the upper end of the price band of Rs. 460, the stock is priced at pre issue P/E of 31.07x on its FY17 EPS of Rs. 14.81. Post issue, the stock is priced at a P/E of 32.13 x on its EPS of Rs. 14.32. Looking at the P/B ratio at Rs. 460 the stock is priced at P/B ratio of 6.74x on the pre issue book value of Rs.68.21 and on the post issue book value of Rs. 81.17 the P/B comes out to 5.67x.

On the lower end of the price band of Rs.450 the stock is priced at pre issue P/E of 30.39x on its FY17 EPS of Rs. 14.81. Post issue, the stock is priced at a P/E of 31.43x on its EPS of Rs. 14.32. Looking at the P/B ratio at Rs. 450, the stock is priced at P/B ratio of 6.60x on the pre issue book value of Rs. 68.21 and on the post issue book value of Rs. 81.17, the P/B comes out to 5.54x.

### **Industry Overview**

According to the CRISIL Research estimates, the animal compound feed industry in India to be valued at approximately Rs.715 to Rs. 725 billion as of the financial year 2017. In terms of sales volume, India is one of the largest global producer of animal feed with an annual production of between 25 million MT and 27 million MT. Going forward, the industry is expected to grow at a CAGR of 13% to 14%, reaching a market size of between Rs 1,060 and Rs 1,070 billion by the financial year 2020.

The poultry industry can be broadly divided into broiler and layer, of which, the broiler segment

represents chicken for meat consumption and the layer segment represents egg laying chickens. Cattle feed forms the second major segment of the animal feed industry in India. A major share of this industry is still unorganized as small scale farmers do not use compound cattle feed and large scale dairy farms that use compound feed are few. In terms of sales volume, the market grew at a CAGR of 6% to 7% between the financial year 2014 and the financial year 2017. The cattle feed industry is expected to grow at a CAGR of 6% to 7%, to reach an estimated 9 million MT to 10 million MT by the financial year 2020. Over the next 3 years, CRISIL Research projects the organized fish feed industry to grow at a CAGR of 3% to 4% to reach 0.8 MT to 0.9 MT and in sales value, it is expected to reach Rs 26 to Rs 27 billion, growing at a CAGR of 8% to 9% by the financial year 2020.

### Outlook

The company is strengthening its agrochemicals retail presence in the country. In the oil palm business vertical, it would focus on developing additional revenue stream by enhancing the value of biomass generated. Moreover, it is planning to expand its food service segment with a joint venture with "Tyson Food" USA. Godrej Tyson, to focus on building brand based business and strengthening its "Real Good Chicken" and "Yummiez brand". Considering the future prospects of packaged food post GST regime, it is expected that the sector would also see good growth going forward. Long term investors may opt the issue.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Issue Closing Date	October 6, 2017
Finalisation of Basis of Allotment with the Designated Stock Exchange	October 12, 2017
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	October 13, 2017
Credit of Equity Shares to demat accounts of Allottees	October 13, 2017
Commencement of trading of the Equity Shares on the Stock Exchanges	October 16, 2017

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-17 (3 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	1,363.27	4,926.40	3,754.96
Total expenditure	1,238.88	4,487.19	3458.30
<b>Operating Profit</b>	<b>124.39</b>	<b>439.21</b>	<b>296.66</b>
OPM%	9.12	8.92	7.90
Other Income	6.15	57.05	62.72
<b>PBDIT</b>	<b>130.55</b>	<b>496.26</b>	<b>359.38</b>
Depreciation	21.64	74.67	52.38
<b>PBIT</b>	<b>108.90</b>	<b>421.59</b>	<b>307.00</b>
Interest	11.797	86.342	97.67
<b>PBT</b>	<b>97.11</b>	<b>335.25</b>	<b>209.33</b>
Share of Profit	10.742	18.746	32.66
Exception Item	0	20	94.59
<b>Profit before tax</b>	<b>107.85</b>	<b>374.00</b>	<b>336.58</b>
Tax	33.56	99.60	75.49
<b>Profit after tax</b>	<b>74.29</b>	<b>274.39</b>	<b>261.09</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-17	As on 31-Mar-17	As on 31-Mar-16
<b>Non-current assets</b>			
Goodwill & others	194.87	194.87	194.87
<b>Fixed assets</b>	1,235.19	1,222.05	1,098.73
Non-current investments	0.00	0.00	0.01
tangible asset	55.01	55.88	58.84
Intangible assets under development	0.35	0.23	1.81
Biological assets other than bearer plants	4.53	4.67	8.87
Equity accountees investees	185.10	175.45	154.71
capital Work-in-progress	46.58	50.21	62.02
Financial assets, Loans & others	19.34	20.05	18.87
deferred tax assets	3.17	6.78	11.71
other non current assets	64.30	48.41	36.29
Other tax assets	4.19	13.85	8.64
<b>Total Non- Current Assets</b>	<b>1812.63</b>	<b>1792.46</b>	<b>1655.35</b>
<b>Current assets</b>			
Current Investment	0.00	0.00	0.00
Inventories	807.68	738.07	666.54
Investment	10.01	0.00	59.26
Trade Receivables	720.75	521.98	454.54
Cash and Bank balances	39.68	62.30	41.96
Short-term loans and advances	13.38	25.53	138.93
Current Tax Assets (Net)	0.40	0.41	0.00
Other current assets	122.41	74.11	106.64
<b>Total current assets</b>	<b>1714.32</b>	<b>1422.41</b>	<b>1467.87</b>
<b>Total Assets</b>	<b>3526.95</b>	<b>3214.86</b>	<b>3123.22</b>
<b>Non-current liabilities</b>			
Long-term borrowings & others	36.87	55.97	59.97
Deferred tax liabilities (net)	164.15	167.02	145.81
Other long-term liabilities	0.00	0.00	0.00
Other non current liabilities	15.13	15.24	14.44
Long-term provisions	9.40	5.02	2.88
<b>Total non-current liabilities</b>	<b>225.55</b>	<b>243.24</b>	<b>223.11</b>
<b>Current liabilities</b>			
Short-term borrowings	696.02	639.73	1260.67
Other current liabilities	31.21	37.04	50.05
Short-term provisions	41.18	21.53	17.29
Trade payables	995.33	840.48	334.91
Others	204.02	168.70	221.68
Liabilities for current tax assets	5.19	0.00	0.00
<b>Total current liabilities</b>	<b>1972.95</b>	<b>1707.48</b>	<b>1884.59</b>
<b>Total</b>	<b>2198.50</b>	<b>1950.72</b>	<b>2107.70</b>
<b>NET Worth</b>	<b>1328.45</b>	<b>1264.15</b>	<b>1015.52</b>
Net worth represented by:			
Share capital	185.13	185.13	92.57
Other equity	887.58	824.55	690.64
Non controlling interest	255.74	254.47	232.31
<b>Net Worth</b>	<b>1328.45</b>	<b>1264.15</b>	<b>1015.51</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: [researchfeedback@smcindiaonline.com](mailto:researchfeedback@smcindiaonline.com)



**Corporate Office:**  
11/6B, Shanti Chamber,  
Pusa Road, New Delhi - 110005  
Tel: +91-11-30111000  
[www.smcindiaonline.com](http://www.smcindiaonline.com)

**Mumbai Office:**  
Lotus Corporate Park , A Wing 401 / 402 ,  
4th Floor , Graham Firth Steel Compound,  
Off Western Express Highway, Jay Coach Signal,  
Goreagon (East) Mumbai - 400063  
Tel: 91-22-67341600, Fax: 91-22-28805606

**Kolkata Office:**  
18, Rabindra Sarani,  
Poddar Court, Gate No. - 4, 5th Floor, Kolkata-700001  
Tel: 91-33-39847000, Fax: 91-33-39847004

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