

BUY

Target Price: Rs 506

Godrej Industries

MISCELLANEOUS

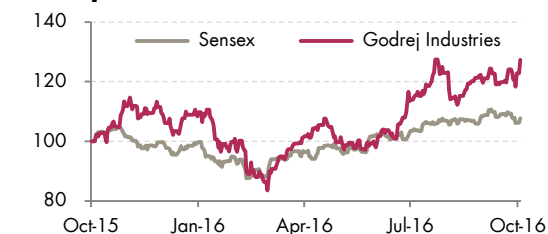
Potential USD 2 bn Agrovet for free !!

CMP : Rs 446
Potential Upside : 14%

MARKET DATA

No. of Shares : 336 mn
Market Cap : Rs 149 bn
Free Float : 25%
Avg. daily vol (6mth) : 405,823 shares
52-w High / Low : Rs 450 / Rs 290
Bloomberg : GDSP IB Equity
Promoter holding : 75%
FII / DII : 15% / 3%

Price performance



Financial summary (consolidated)

Y/E	Sales	EBITDA	Adj PAT	EPS	Change			RoCE	EV/E	
Mar	(Rs mn)	(Rs mn)	(Rs mn)	(Rs)	YOY (%)	P/E (x)	RoE (%)	(%)	(x)	DPS (Rs)
FY15	92,305	4,816	2,101	6.3	(19.4)	71.1	7.0	5.7	42.7	0.2
FY16	107,532	6,308	2,484	7.4	18.2	60.2	7.4	6.0	34.4	1.0
FY17E	120,272	7,625	2,997	8.9	20.7	49.8	8.3	6.4	27.6	1.1
FY18E	132,868	8,892	3,673	10.9	22.6	40.7	9.4	7.1	23.3	1.3

Source: Company, Axis Capital

Key drivers

	FY16	FY17E	FY18E
Agrovet	40	54	64
Chemicals	11	12	13
Consumer products	90	103	114
Properties	27	32	41

Investment summary...

Godrej Industries (GIL) offers a secular play centered around urban and rural consumption - **Consumers** through 24% stake in Godrej Consumer Products (GCPL), 61% in **Agriculture** through Godrej Agrovet (GAVL), 57% in **Real Estate** through Godrej Properties (GPL), **Chemicals** in standalone entity, and **urban retail** through Nature's Basket.

- ♦ This portfolio is expected to compound at 25% over the foreseeable future (in line with the management's 10x10 vision)
- ♦ **Key strengths:** Reputed management, strong brand, high growth consumption driven businesses, history of profitable monetization of new businesses (Godrej Sara Lee, Godrej Foods, Aadhar, Godrej Hi-care, etc)

Agrovet valued at Rs 70 bn (FY18E) and Rs 140 bn (FY21E); CMP of GIL implies zero value – anomaly a glaring opportunity; additional trigger - Agrovet IPO

Current value of GCPL + GPL (both at 20% holdco discount) = Rs 143 bn, while the M-Cap of GIL is Rs 149 bn. This implies **other businesses (Agrovet, Chemicals, Nature's Basket and investments) are available virtually free**. Of these, Agrovet is the fastest growing segment for GIL and we believe its value will be almost equal to current m-cap of GIL in next 4-5 years.

GIL's CMP of Rs 446 assigns zero value to high growth business like Agrovet

	GIL's stake (Rs mn)	(Rs/share)	Comments
GCPL	106,514	317	GIL's ~24% stake valued at CMP of Rs 1,640 with 20% holdco discount
Godrej Properties	36,314	108	GIL's 57% stake valued at CMP of Rs 360 with 20% holdco discount
Value of listed entities in GIL	142,828	425	Accounts for 95% of GIL's current value
Agrovet	43,472	129	GIL's 61% stake valued at 22x FY18E PAT
Chemical business	9,155	27	8x FY18E EBITDA
Others	4,000	12	Nature's Basket and other investments
Value of other businesses in GIL	56,627	169	Accounts for 37% of GIL's current value
Less: Debt	20,100	60	
Value of Godrej Industries	199,455	534	

...Investment summary

What makes Agrovet a 'must own' company? [Video interview](#)

We have rarely seen companies where all factors align, viz: (1) secular business, with deep moats; (2) attractive industry dynamics; (3) strong corporate governance; and (4) excellent management team under a great leader, reflected in strong financials. At present, the only way to play GAVL is through GIL.

- ♦ **GAVL will continue its multi year secular growth; tremendous growth potential in each segment:**
 - Leader in animal feed with customer stickiness. Benefits from strong brand, R&D and pan-India distribution
 - Dairy business to benefit as GAVL intends to improve value added products and expand its geographic reach
 - Agri Inputs: GAVL aims to be among the top 10 agri-chem companies in India over the next 3 years led by acquisition of Astec, in-licensing of molecules, launch of rice herbicide, and continuing growth in existing business
 - 1/3rd of India's palm oil plantations are under GAVL. Steady cash generating business – maturity of plantations (currently only 50% mature) and annual addition of acreage are key revenue drivers
- ♦ **Industry attractiveness:** Significant levels of under-penetration across businesses + growth opportunities
- ♦ **Mr. Balram Yadav - the architect of GAVL's success:** Until FY07-08, GAVL was a neglected business (never reported PAT of over Rs 100 mn). Since then, an interesting 8-year journey under the leadership of Mr. Balram Yadav has seen the company transform and enter high growth business with FY16 PAT of Rs 2 bn (loss in FY07). We believe the company will continue its growth trajectory under his dynamic stewardship and a highly motivated team
- ♦ **Strong financials:** 40% PAT CAGR over past 7 years, minimal working capital requirement (negative in animal feed), high RoCE (30%+ even in a downturn), high asset turn (~5x)

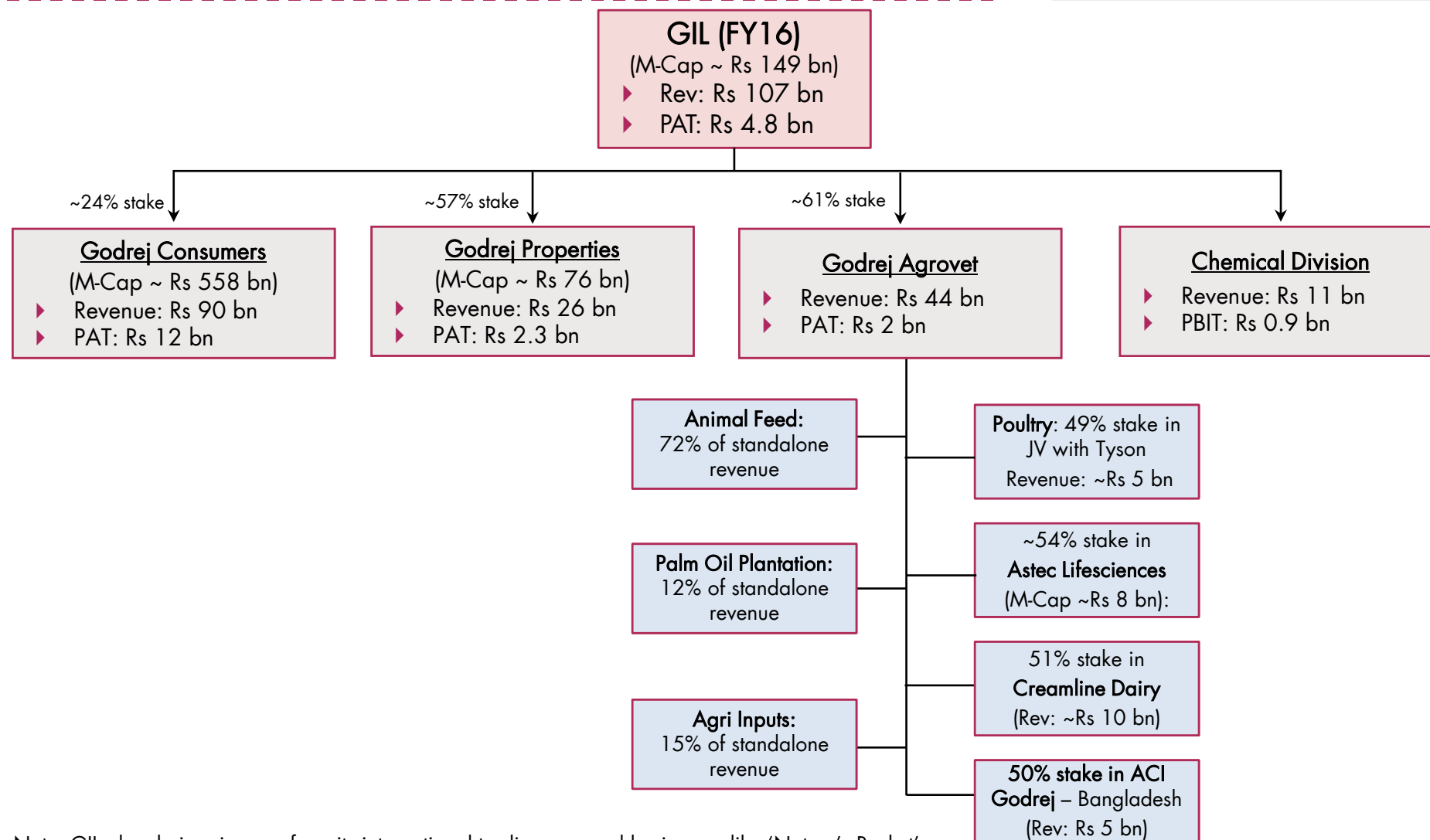
Maintain BUY on GIL with FY18E SoTP-based TP of Rs 506 (post 20% holdco discount for listed entities)

We believe holdco discount of 20% is justified given (1) strong corporate governance, (2) superior capital allocation, and (3) full pass through of dividend (from GCPL and GPL).

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Portfolio of secular businesses with 25% CAGR though FY20E








Note: GIL also derives income from its international trading arm and businesses like 'Nature's Basket'

Consumer-centric businesses with high growth potential

B2C

B2B

	Agrovet	Properties	GCPL	Nature's Basket	Chemicals
Business positioning	<ul style="list-style-type: none"> India's leading agri player: (1) Agri inputs, (2) Animal feed, (3) Palm oil, (4) Dairy High entry barriers in feed due to wide distribution, R&D, pan-India manufacturing, and trusted brand Low capital intensity 	<ul style="list-style-type: none"> Successful pan-India developer Follows asset light JDA model Strong brand name ensures premium pricing and lower cost of debt 	<ul style="list-style-type: none"> Dominant market position in India and in select international geographies GCPL has successfully combined growth with smart equity strategy 	<ul style="list-style-type: none"> Niche player in fresh food and gourmet stores Operating 37 stores across select metros 	<ul style="list-style-type: none"> Largest player of oleo chemicals Sticky customer base Negative working capital
Future prospects	<ul style="list-style-type: none"> Market share gains in animal feed as yield conscious farmers shift to organized players (10% of overall mkt) Increasing acreage and maturity profile of palm oil plantations to drive growth 	<ul style="list-style-type: none"> Access to vast land bank of group cos Strong visibility based on portfolio of ~125 msf Margin to improve led by new projects 	<ul style="list-style-type: none"> Focus on 3x3 strategy (3 categories across 3 geographies) Innovation and brand building driving market share gain Cross pollinating products across geographies 	<ul style="list-style-type: none"> With greater stores achieving maturity, we expect the division to curtail its losses 	<ul style="list-style-type: none"> Capacity ramp-up to drive growth Focus on specialized products to reduce margin cyclicality
♦ FY16-18E growth ♦ FY18E RoE	♦ Rev CAGR: 20% ♦ PAT CAGR: 30% ♦ RoE: 30%	♦ Rev CAGR: 25% ♦ PAT CAGR: 40% ♦ RoE: 15%	♦ Rev CAGR: 12% ♦ PAT CAGR: 16% ♦ RoE: 23%	♦ Rev CAGR: ~25%	♦ Rev: 5% ♦ PAT: 10% ♦ RoE: ~20%
BCG matrix					

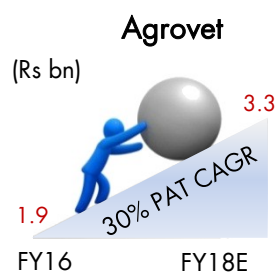
A holdco that will continue to create wealth over the years

Rs 149 bn m-cap, ~40% CAGR over FY01-16 by incubating businesses which have scaled to the next level or hived off profitability

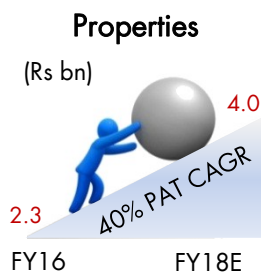
- ♦ Since de-merger of Godrej Soaps into GIL and GCPL in 2001, both companies have consistently gained market cap
 - Over the years, GIL has acquired 24% stake in GCPL (hence associate company)
- ♦ Godrej group has incubated business like GCPL, Properties and Agrovet which have scaled significantly (30-35% PAT CAGR) over FY02-16
- ♦ Profitably hived off business and exited JVs like Aadhar, Medical Diagnostics, Tea, Godrej Foods, Photo-Me, etc
 - Value creation in Godrej Sara Lee and listed Godrej Properties

M-Cap creation to continue led by ~25% PAT CAGR and value unlocking from GAVL

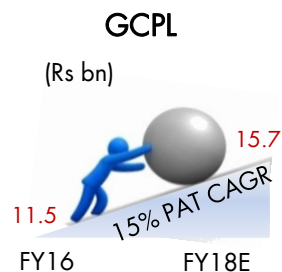
Agrovet and Properties to grow at a faster pace



Dominance in animal feed to continue. Agri inputs and Dairy to aid growth. Morphing into a farm to fork play



Asset light business. PAT to double over FY16-18 as focus is on execution



Volume growth across categories and premiumization to drive growth

GIL: Portfolio of secular B2C business viz. - Agri, FMCG and Properties (asset light)

- ♦ Portfolio of businesses to compound at ~25% through FY20E led by strong growth in Agrovet and Properties
- ♦ Listing of GAVL to unlock further value

Value of GCPL+GPL (excl. holdco disc) > GIL; other businesses free !!

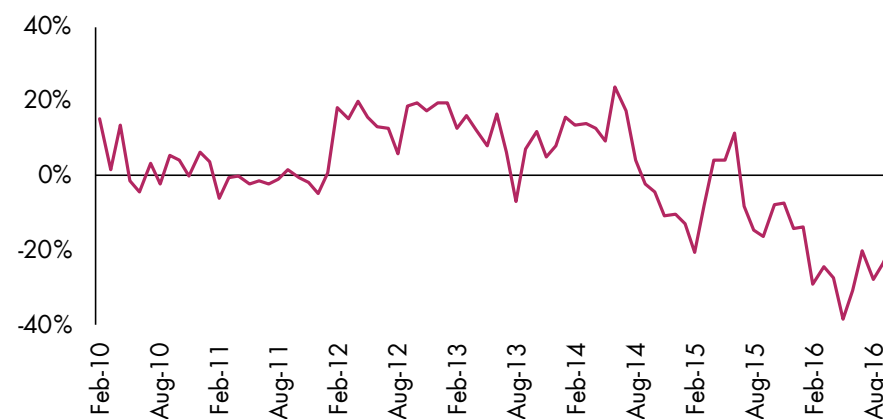
Value of GCPL + GPL (excluding holdco discount) > market cap of GIL...

	(Rs mn)
Value of GCPL	132,423
Value of GPL	43,149
Total	175,572
Value of GIL	149,000
Discount ascribed	18%

Source: Axis Capital

- ♦ Current value of GCPL + GPL = Rs 175 bn (excl. holdco discount). M-Cap of GIL is Rs 149 bn
- ♦ CMP implies negative value for GAVL, chemical division, other investments like Nature's Basket
- ♦ Agrovet's m-cap will be almost equal to the current mcap of GIL over the next 5 years

...Negative value ascribed to other businesses (GAVL, chemicals, Nature's Basket, international trading)



Source: Axis Capital

- ♦ **Stock prices of GCPL, GPL will continue to compound**
 - GPL displays greater execution and PAT expected to double over FY16-18
 - GCPL's PAT CAGR at ~15%

GIL: SoTP value of Rs 506 per share

SoTP valuation: FY18E

	GIL's stake (Rs mn)	(Rs/ share)	Comments
GCPL	96,478	287	GIL's 24% stake valued at 20% discount to our TP of Rs 1,475
Godrej Properties	37,786	112	GIL's 57% stake valued at 20% discount to our TP of Rs 366
Agrovet	42,687	127	GIL's 61% stake valued at 22x FY18E PAT
Chemicals	9,155	27	8x FY18E EBITDA
Others	4,000	12	Nature's Basket and other investments
Less: Net debt	20,100	60	
Value of Godrej Industries	170,006	506	

Source: Axis Capital

- ♦ Through GIL, an investor gets a basket of secular consumption businesses – FMCG, agri and properties (mainly residential and asset light)
- ♦ We believe GIL should trade at 20% holdco discount given:
 - High level of corporate governance
 - Smart capital allocation and willing to exit businesses that cannot be scaled up
 - GCPL and GPL dividend virtually a pass through

119-year young business group that enjoys trust across stakeholders

Strong focus on creating stakeholder value

- ♦ Corporate governance has been engrained in the group's DNA much before it became a fad. The trust and brand name the group enjoys helps in selling products across categories, and at times at a premium (real estate being a classic example). Moreover, the ethos and values are well entrenched across generations
- ♦ Apart from Pirojsha Godrej Trust, Pragati Kendra (worker welfare), Udayachal school, Godrej Hospital and environment conservation, a lot of the promoters' personal resources goes towards philanthropy
- ♦ R&D has been at the core (world's 1st soap without animal fat and participation in India's space research). Advanced manufacturing plants and pollution control systems in place with focus on conserving resources

Well entrenched values guiding the business

- ♦ Godrej family is close knit and reserved, who live simply yet think richly, won't take undue business risk and moreover have interest of all stakeholders as priority. Integrity in business dealings has been of utmost importance and at the very foundation of the group since its inception. There is a clear demarcation between business and personal accounts
- ♦ **~24% of Godrej & Boyce shares have been donated to 'Pirojsha Godrej Foundation', a public trust. Remarkably none of the family members are trustees.** Pirojsha Godrej Foundation has a significant corpus and moreover gets dividends from Godrej group companies, which goes towards social causes incl. education, health, environment, etc. ~2,000 acres of mangroves in the heart of Mumbai (Vikhroli) are safeguarded through a public trust
- ♦ **4th generation in business – yet united in their decisions:** The large extended family is united in their decisions (weekly family council meeting held every Thursday afternoon). Most members spear-head a separate business, with a professional team to back every business vertical. Emphasis has been laid on individuals and more so on evolution of culture, development of an enlightened and far-sighted industrial philosophy. We do not see greed/ personal ambition to overtake values imbibed by the 119-year young group

Agrovet – valuable asset for GIL

Vision 2020: GAVL's M-Cap of USD 2 bn is almost equal to GIL's current M-Cap

Portfolio of businesses that can post 25% CAGR and has no major downside during a slowdown

Godrej Agrovet: A 'must own' company

10,000 crores is no gag^,
10,000 crores is in the bag

An extract from Nadir Godrej's speech at Agrovet's annual operating plan meeting. We believe GAVL could achieve this revenue by FY20

We have rarely seen companies where all factors align, viz: (1) secular business, with deep moats; (2) attractive industry dynamics; (3) strong corporate governance; and (4) excellent management team under a great leader, reflected in strong financials. At present, the only way to play GAVL is through GIL.

What makes Agrovet a valuable company?

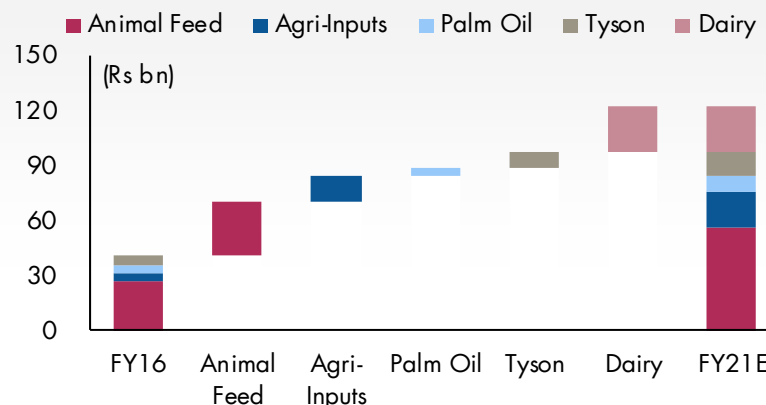
- ♦ **GAVL to continue its multi-year secular growth; tremendous growth potential in each segment:**
 - Leader in animal feed with customer stickiness. Benefits from strong brand, R&D and pan-India distribution
 - Dairy business to benefit as GAVL intends to value-add products and expand its geographic reach
 - Agri Inputs: With the acquisition of Astec, in-licensing of molecules, launch of rice herbicide and continuing growth in existing business, GAVL aims to be among the top 10 agri-chem companies in India over the next 3 years
 - 1/3rd of India's palm oil plantations are under GAVL. Steady cash generating business – maturity of plantations (currently only 50% mature) and annual addition of acreage are key revenue drivers
- ♦ **Industry attractiveness:** Each business segment GAVL operates in is either under-penetrated (animal feed) or in high growth areas (dairy, poultry, agri-inputs)
- ♦ **Mr. Balram Yadav - the architect of GAVL's success:** Until FY07-08, GAVL was a neglected business (never reported PAT of over Rs 100 mn). Since then, an interesting 8-year journey under the leadership of Mr. Balram Yadav has seen the company transform and enter high growth business with FY16 PAT of Rs 2 bn (loss in FY07). We believe the company will continue its growth trajectory under his dynamic stewardship and a highly motivated team
- ♦ **Strong financials:** 40%+ PAT CAGR over past 7 years, minimal working capital requirement, high RoCE (30%+ even in a downturn). high asset turn (~5x)

Great business segments + superb management + strong financials

Vision 2020: Godrej Agrovet – a USD 2 bn company

Rs 110 bn revenue by FY21 (20% CAGR)

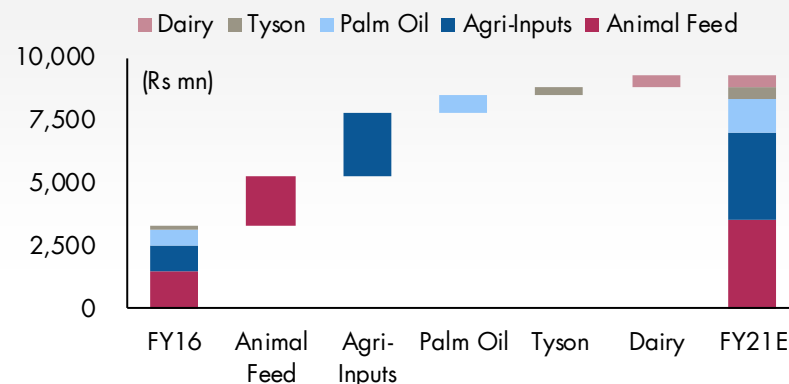
- ♦ **Animal Feed:** ~15% revenue CAGR led by 7-8% p.a. volume growth, as yield conscious farmers shift to compound feed coupled with increase in price realization
- ♦ **Agri Inputs:** 4x increase in revenue on (1) growth in current business, (2) launch of rice herbicide, (3) in-licensed molecules and (4) growth in Astec as it adds manufacturing capabilities



- ♦ **Dairy:** Geographic expansion and greater focus on marketing and branding to drive 25-30% growth
- ♦ **Poultry:** As disposable incomes increase, preference shifts towards organized players and frozen foods
- ♦ **Palm Oil Plantation:** Growth to continue on yearly addition of new acreage and maturity of ~50% juvenile plantations which will start to yield fruit

25% EBIT CAGR over FY16-21E to help GAVL achieve Rs 6 bn PAT by FY21

- ♦ **Animal Feed:** Margin improvement due to uptrading
- ♦ GAVL's R&D ability to use unconventional and cheap RMs
- ♦ **Agri Inputs:** Steady margin



- ♦ **Dairy :** Higher proportion of value-added products and better management practices to improve margin
- ♦ **Poultry:** Higher proportion of packaged foods
- ♦ **Palm Oil Plantation:** Fixed contribution margin business. Using bio mass as a value-added product can aid additional margin expansion

We estimate FY21 consolidated PAT of ~Rs 6 bn. 22x 1-yr fwd multiple implies m-cap of ~Rs 140 bn in FY20

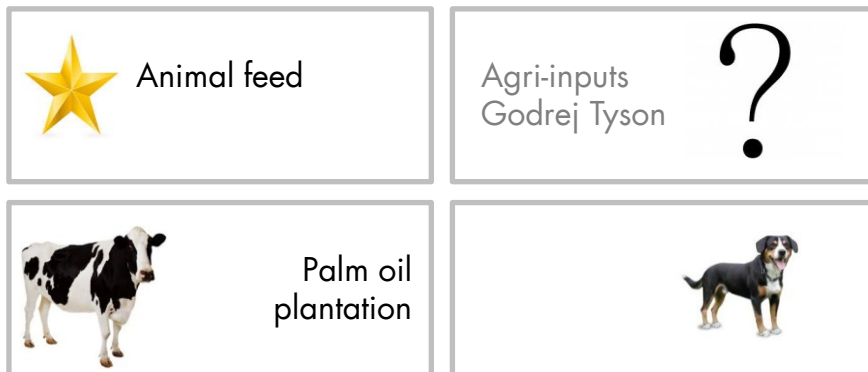
A portfolio of star businesses

Acquisition of Astec Lifesciences and foray into dairy business, coupled with its leadership position in animal feed and cash generating palm oil business to help GAVL's PAT compound at ~25% p.a.

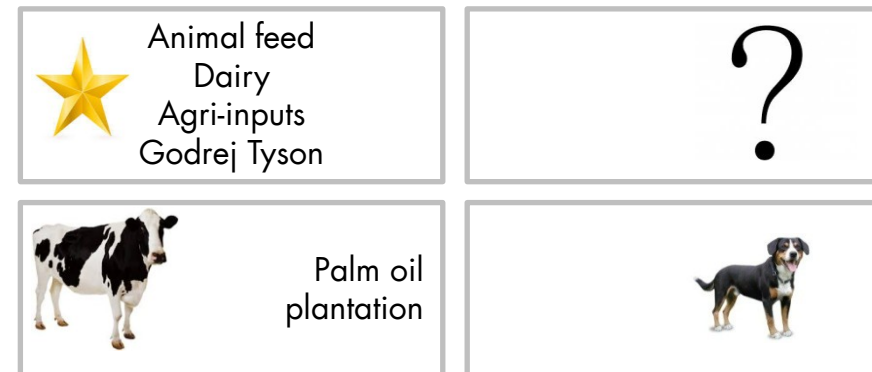
	Animal feed	Agri inputs	Dairy	Palm oil plantation	Godrej Tyson			
Business positioning	<ul style="list-style-type: none">♦ Leader with 8-10% market share♦ Strong distribution♦ Consistent quality along with a trusted brand name leading to customer stickiness	<ul style="list-style-type: none">♦ Niche molecules in herbicides and plant growth regulators	<ul style="list-style-type: none">♦ Agrovet recently increased its stake in Creamline Dairy to 51% (26% earlier) and acquire management control♦ Lucrative industry	<ul style="list-style-type: none">♦ Restricted monopoly where GAVL has access to ~1/3rd of India's palm oil plantations♦ Annual addition of ~5,000 hectares	<ul style="list-style-type: none">♦ One of the largest players in processed chicken, frozen foods♦ Major supplier to QSRs like KFC, McDonalds			
Future prospects	<ul style="list-style-type: none">♦ To maintain market leadership as farmers turn yield conscious♦ Extensive use of R&D to improve yield and also lower cost	<ul style="list-style-type: none">♦ Astec integration, in-licensing opportunities and new product launches to drive growth♦ ~Rs 20 bn of potential revenue over next 5 years	<ul style="list-style-type: none">♦ Geographic expansion and increase the share of value-added products♦ GILAC* to use its vast FMCG experience to drive growth	<ul style="list-style-type: none">♦ Revenue to increase as plantations mature and yield improves♦ R&D to convert fiber into biomass which will improve EBIT margin	<ul style="list-style-type: none">♦ Demand for frozen foods to explode as lifestyle change and income increase♦ Shift in consumer preferences to processed broiler meat			
FY16 (Rs mn)	Revenue	EBIT	Revenue	EBIT	Revenue	EBIT	Revenue	EBIT
FY18E (Rs mn)	26,655	1,525	5,366	991	10,000	925	4,043	619
	34,510	2,071	11,526	2,318	15,000	1,350	5,390	862

Transforming from good to great

FY10-16: Animal feed was the dominant business coupled with steady revenue stream from palm oil division

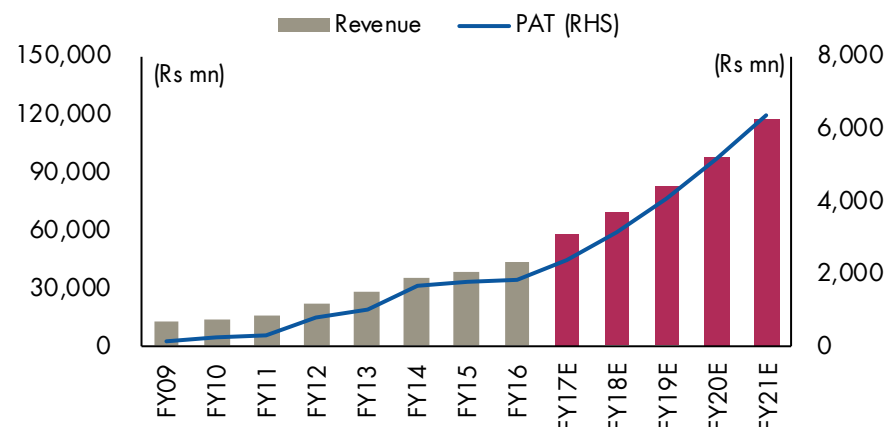


FY16-21: All businesses transforming into stars



- Until recently (prior to Astec acquisition), GAVL was a marginal player in agri-inputs. Other divisions viz: Godrej Tyson and Creamline Dairy were option values
- Agri input division had a few niche molecules and was not a dominant player in its industry unlike animal feed and oil plantations division. With the acquisition of Astec, in-licensing fructifying, and probable launch of bispyribac sodium, we expect the overall agri segment to report revenue of Rs 20 bn by 2020
- Acquisition of majority stake in Creamline Dairy and renewed focus on Godrej Tyson (both consumer facing and high valuation businesses), GAVL is on the path to become a farm to fork company

GAVL: 20% revenue CAGR over FY16-21E, margin improvement





Animal Feed: A business with a moat for GAVL

- ♦ **Users realizing the advantages of compound feed:** As price of final product (eggs, milk, broilers, aqua) increases, the farmer is willing to spend more on better quality feed. Better R&D has resulted in lesser feed for maximum output. With better farm management practices and superior compound feed GAVL has displayed, at its R&D center at Nashik, that yield of milk can dramatically increase. Similarly, the case with eggs and broiler weight
- ♦ **ACI Godrej (50% JV with ACI, Bangladesh)** is the third largest animal feed company in Bangladesh with the largest manufacturing plant in South Asia. We expect the company to leverage its dominance and try to emerge as a No.1 player in Bangladesh
- ♦ **Scale, quality and cost leadership - not easy for other feed companies to break GAVLs moat:** (1) By building silos, GAVL can strategically stock raw-materials when prices are low (usually during harvest) and hold inventory; (2) Strong brand and consistent quality has made GAVL a leader in animal feed; (3) Similarly, GAVL has built strong R&D capability using enzymes and bio products to use low cost unconventional raw-materials (70-80% of sales) to reduce cost

Advantage Agrovet

Strong R&D

- ♦ **Dedicated animal nutrition R&D center:** Use of enzymes and bio-technology to help in quicker digestion and effectively convert plant protein to animal protein.
- ♦ **Use of low cost unconventional raw-material** with enzymes helps in breaking down heavy proteins. Eg: substituting high cost soya/ corn with low cost groundnut, etc.

Pan-India reach

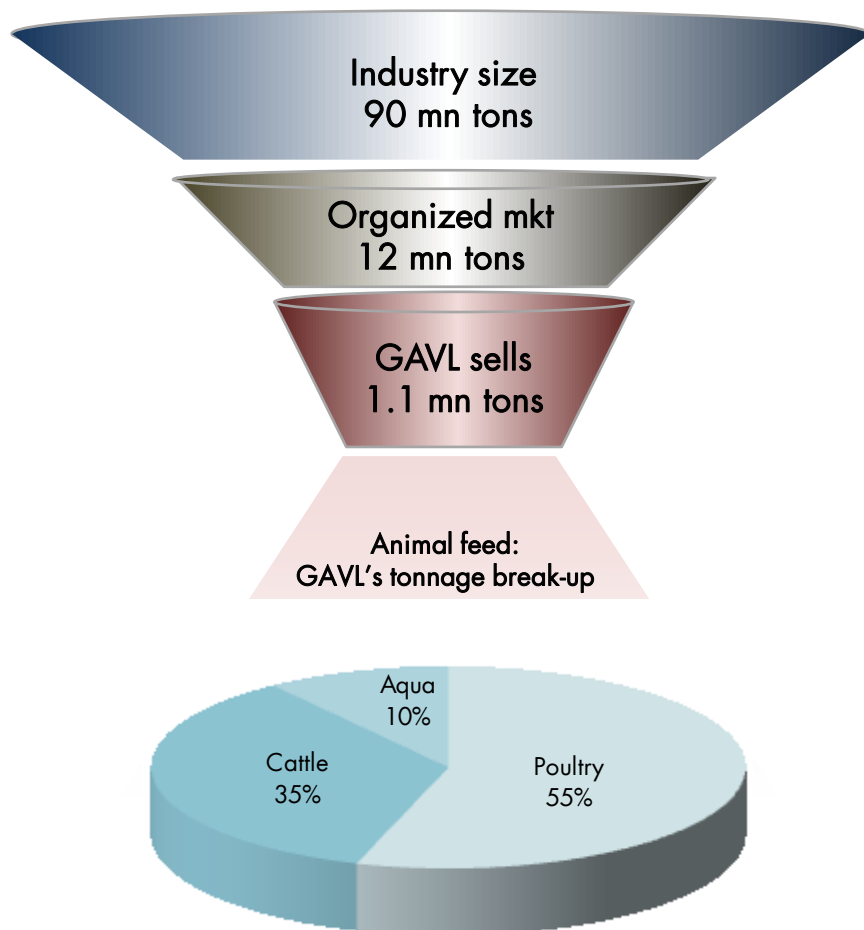
- ♦ **Strong distributor base** with 3,000 distributors; most of them are exclusive and have multi-year relations. 20,000 retail presence across India
- ♦ Feed is a high volume business and in order to save on logistics **GAVL has 34 best in class manufacturing plants** across 30 regions of India

Strong brand with high quality and consistency of feed

- ♦ Each pellet has the same amount of nutrition
- ♦ Moreover, the trust and brand name has ensured that customers/ distributors have remained loyal over the years

Leadership in animal feed business to continue

GAVL is the market leader with 10% share of organized market (~90% being unorganized and fragmented). Huge opportunity exists as yield conscious farmers shift to organized players



Growing faster than the industry

- ◆ Sustainable growth of ~20% pa. over next 5-10 years
 - **Volume growth:** While animal feed industry volumes are expected to grow at historic pace of ~4%, volumes of GAVL would grow at 7-8% due to: (1) organized players gaining ground as farmers/poultry owners increasingly opt for quality animal feed to ensure better yields and (2) strong brand and distribution
 - **Value growth** due to (1) price increase on account of inflation and (2) higher realization on new launches of high yielding products

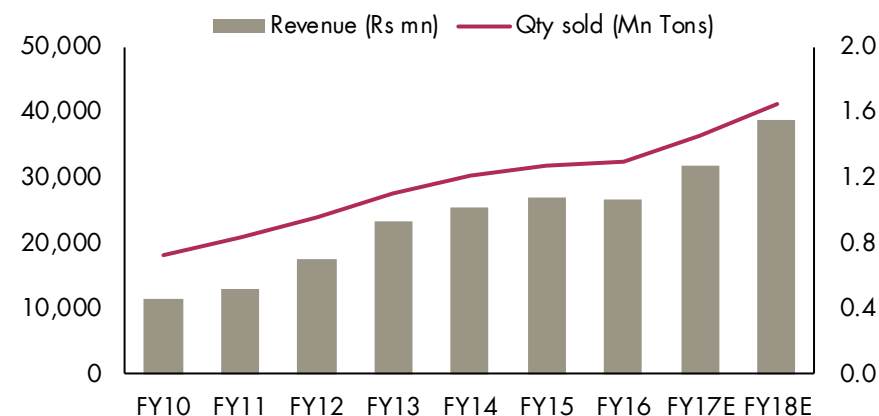
Why GAVL has succeeded in animal feed

- ◆ Business with strong entry barriers
 - Strong R&D
 - Multiple manufacturing plants (34) near consumption centres
 - Pan-India distribution and service network/ support to farmers
 - Trusted brand resulting in customer stickiness

Asset light business with high entry barriers, strong profitability

- ♦ **Strong R&D - use of low cost RM:** The earlier breed of chicken could not consume high protein content/energy feed as it would suffer from hydropericardium (as it has no sweat glands and hence expels heat from the mouth). Now the breed is different and feed is made in such a way that digestion is quick and plant protein gets converted to animal protein more efficiently
 - Similarly, in cattle 30-40% feed is not digested. GAVL hopes to use enzymes whereby higher proportion of the feed is digested resulting in higher produce
 - The division does not extend credit for cattle and poultry feed and hence operates on negative working capital
 - EBIT margin will continue to improve as GAVL is able to improve its product (lesser feed for higher output)

We expect 8-10% growth in feed volume over FY16-18



Source: Company, Axis Capital

Unit economics of 10,000 ton/ month plant

	Cap. Employed (Rs mn)	Rev / p.a (Rs mn)	EBIT (%)	RoCE (%)
Poultry feed	350	3,000	5-6%	47%
Cattle feed	200	1,800	3%	32%
Aqua feed	1,250	4,080	8-9%	26%

Source: Company, Axis Capital

Asset light business model

- ♦ Fixed asset turns of ~7x
- ♦ Negative working capital. While distributors pay upfront, GAVL enjoys supplier credit due to its brand equity

★ Agri inputs: Ambition to be among top 10 agri-chem companies in India

- Agri inputs division was a marginal player in the agri-chem industry. With the acquisition of Astec, in-licensing fructifying and probable launch of bispyribac sodium, we believe the overall segment can achieve revenue of Rs 20 bn by 2020 (currently ~Rs 5 bn)

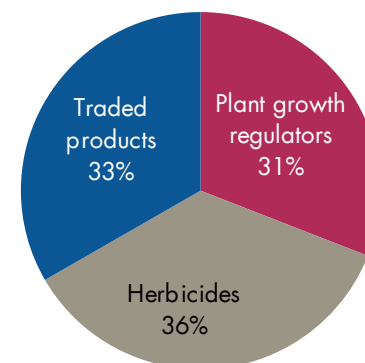
Acquisition, a strategic fit: Astec largely a formulations B2B player to complement GAVL, a B2C company

- GAVL has a strong distribution reach, while Astec has a strong pipeline of formulations and registrations. The acquisition will strengthen GAVL's agri-input division (current revenue of Rs 5.4 bn is 13% of GAVL's revenue) and help it achieve revenue of Rs 20 bn over the next 5 years
 - GAVL intends to sell triozoles under its own brand

Drivers

- Retailing/ marketing Triazole** manufactured by Astec under Godrej brand name
- In-license** molecules from global companies
- Aggressively grow its existing business** of herbicide and plant growth regulators by expanding reach and introducing newer variants (pre-mix and combination)
- Launch of Bispyribac sodium** (rice herbicide) in 2017 – competition to PI's Nominee Gold

Agri input product mix



- Niche molecules in plant growth regulators** like Combine – used by most of the green grape growers. Other products like Vipul, Zymegold, Bountee, Double
- Herbicides** – mainly Hitweed and other products like Impool, Aspire, Cedaar, Delete, Metzin
- Traded products** – to offer a bouquet of products offered to aid sales of plant growth regulators and herbicides

Astec Lifesciences – Responsible Care company

- ♦ **Astec has a strong pipeline of products under development** and intends to launch a few new products annually with emphasis on process innovation and IP generation to create sustainable advantage
- ♦ **Strong client relationship:** Astec has not lost a customer since inception and all customer relationships have grown consistently over the years. Astec has entered into exclusive product supply agreements with global customers which provide committed volumes and high visibility
 - Plant approved by global giants
 - Formidable export business
- ♦ Astec is one of the few companies in India to have the **Responsible Care logo**, complying to health, safety and environmental norms
- ♦ **Strong manufacturing capabilities but no retail presence:** While Astec has some of the best products, it lacked manufacturing capabilities as it did not invest. With GAVL acquiring majority stake, Astec intends to expand its manufacturing base. As part of brownfield expansion, it has already acquired land and permission for a new plant at Mahad. While GAVL will brand and market the product, Astec will complement with its strong manufacturing capabilities
- ♦ Globally, Astec is one of the lowest cost producers of Azoles, cheaper than even Chinese companies. This is mainly because Aztec is backward integrated into multiple steps. Domestic fungicide is Rs 22 bn and Triazole market in India is Rs 7 bn

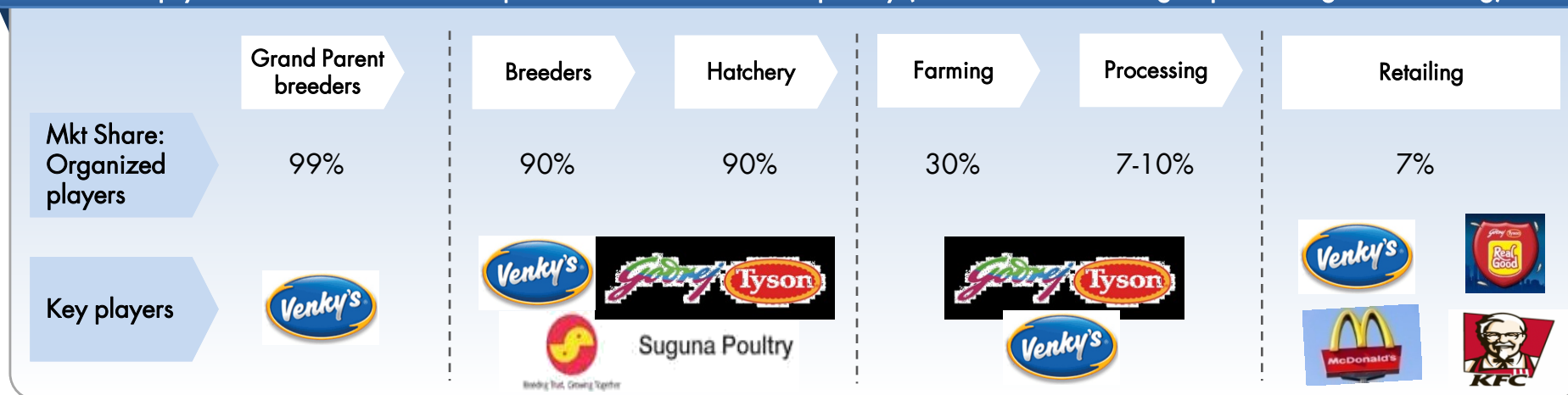


★ Poultry business – Godrej Tyson

Godrej Industries

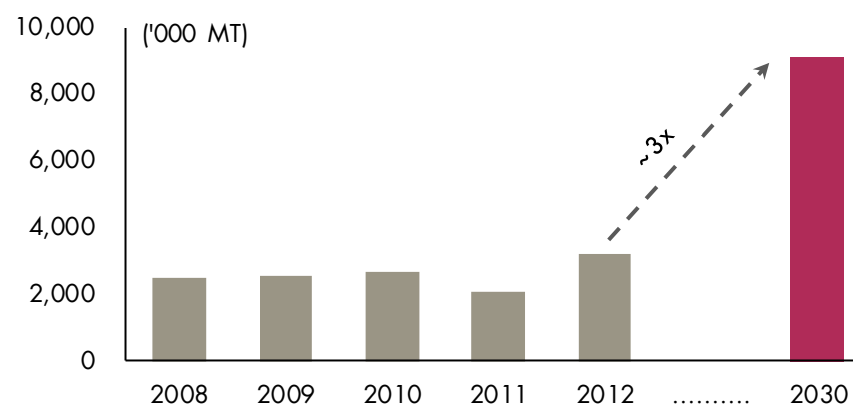
MISCELLANEOUS

Godrej Tyson straddles across most parts of the value chain in poultry (from feed to breeding to processing and retailing)



- Consumption of poultry is linked to disposable incomes and both have risen ~10% p.a. over the past decade
- India's move towards urbanization and higher disposable income would increase consumption of eggs, poultry and frozen foods
- India's poultry industry has grown faster than most countries, however per capita consumption lags
 - India is the 6th largest producer of chicken meat (10% CAGR in meat consumption over 2000-10) in the world, however per capita consumption lags at ~2 kg/ year vs. 13 kg in China and 50 kg in USA. Similarly, India is the 3rd largest producer of eggs

3x increase in production of poultry meat by 2030



Godrej Tyson – a preferred vendor

- ◆ 49% stake in JV with Tyson Foods (USA)
 - ‘Yummiez’ brand (veg and non-veg frozen foods) to contribute ~ Rs 1 bn; has ~45% gross margin
- ◆ Modern retail and lifestyle changes are helping the company grow. FY16 revenue at Rs 4.6 bn. Processed chicken and frozen foods to drive margin
- ◆ **Product range:** Besides broilers and processed chicken, Godrej Tyson under its brand ‘Yummiez’ retails vegetarian and non-vegetarian frozen foods

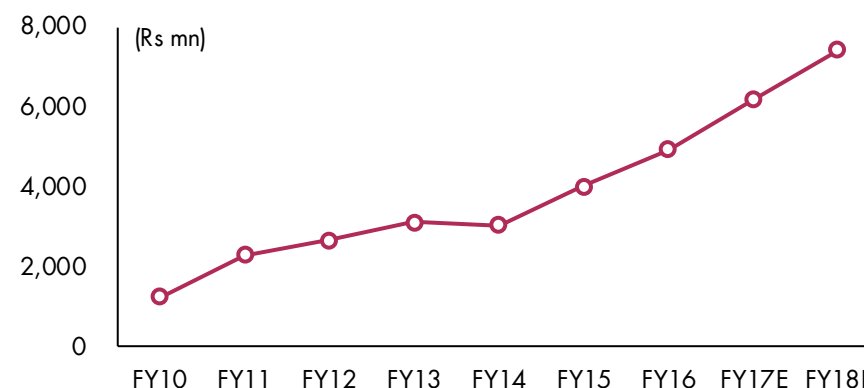
Why Godrej Tyson is a preferred vendor?

- ◆ Godrej Tyson uses blast freezers (costs Rs 4/ kg). Though expensive vs. conventional freezing, it is more effective way to minimize bacterial growth in broilers. Hence, Godrej Tyson is a preferred choice for QSRs like McDonalds, KFC, Pizzahut and hotel chains

Range of vegetarian and non-vegetarian frozen foods, besides broilers and processed chicken



Consistent revenue growth



Source: Company, Axis Capital



Foray into lucrative dairy industry with Creamline acquisition

Godrej Industries

MISCELLANEOUS

Organized dairy industry expected to post 20% CAGR over FY16-20

	2014 Sales (Rs bn)	2014 Share of organized Sector	2020 Sales (Rs bn)	2020 Share of organized Sector	Total Mkt CAGR 2014-2020	Organized Mkt CAGR 2014-2020
Liquid milk	2,621	20%	6,068	26%	15%	21%
UHT milk	26	100%	104	100%	26%	26%
Flavoured milk	13	100%	48	100%	25%	25%
Curd	216	6%	493	7%	15%	20%
Flavoured & Frozen Yoghurt	2	100%	12	100%	32%	32%
Lassi	12	N.A	39	N.A	21%	21%
Buttermilk	14	N.A	43	N.A	21%	21%
Cheese	12	100%	59	100%	31%	31%
Buttermilk	168	13%	382	16%	15%	19%
Ghee	618	18%	1,367	21%	14%	17%
Paneer	293	2%	654	3%	14%	24%
Skimmed milk powder	50	100%	113	100%	15%	15%
Cream	13	N.A	30	N.A	15%	15%
Whey (powder)	3	100%	10	100%	22%	22%
Total	4,061	20%	9,421	26%	15%	20%

Source: IMARC Report

- ♦ India's current milk production at 147 MMT has been growing steadily on account of a steady population growth and rising incomes, milk consumption continues to rise in India. During 2010 to 2014, the organized dairy segment posted CAGR of ~22% and unorganized segment posted ~14% CAGR
- ♦ The dairy industry in India is estimated at Rs 4.1 tr, with the organized sector commanding ~20% market share. As the consumer shift accelerates, revenue share from organized segment could rise to 26% by 2020
- ♦ GAVL owns 51% stake in Creamline Dairy, a South India-focused dairy company

Creamline Dairy – high growth potential



- ◆ Procurement is through company employees who also advise the farmer on feed/ nutrition and other best farm practices. Strong presence in Andhra Pradesh, Vijayawada, Chennai and Bangalore
- ◆ Farmer paid once in 10 days vs. cooperatives who pay once in 15 days

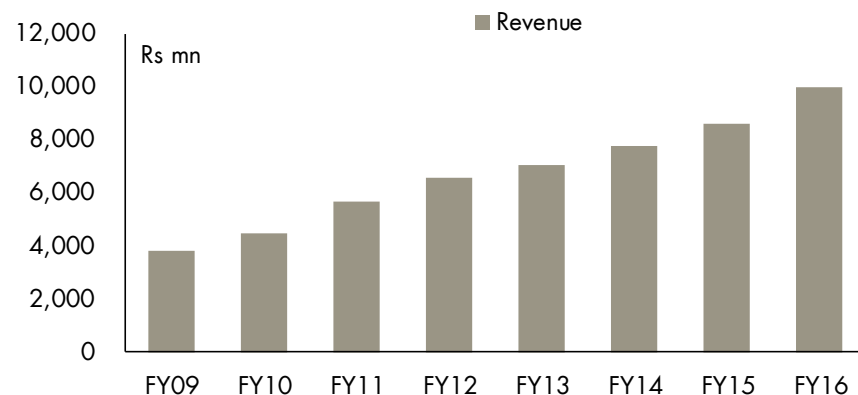
Creamline has 118 chilling centers

7 Processing plants:

Bangalore(2), Chennai, Hyderabad, Ongole, Vijayawada, Nagpur

- ◆ Milk and value-added products sold under Jersey brand
- ◆ 573 distributors, 5,000+ agents and Jersey parlours, in addition to direct institutional sales

Past financials



Source: Company, Axis Capital

Proportion of value-added products increasing



Source: Company



Soan Papdi

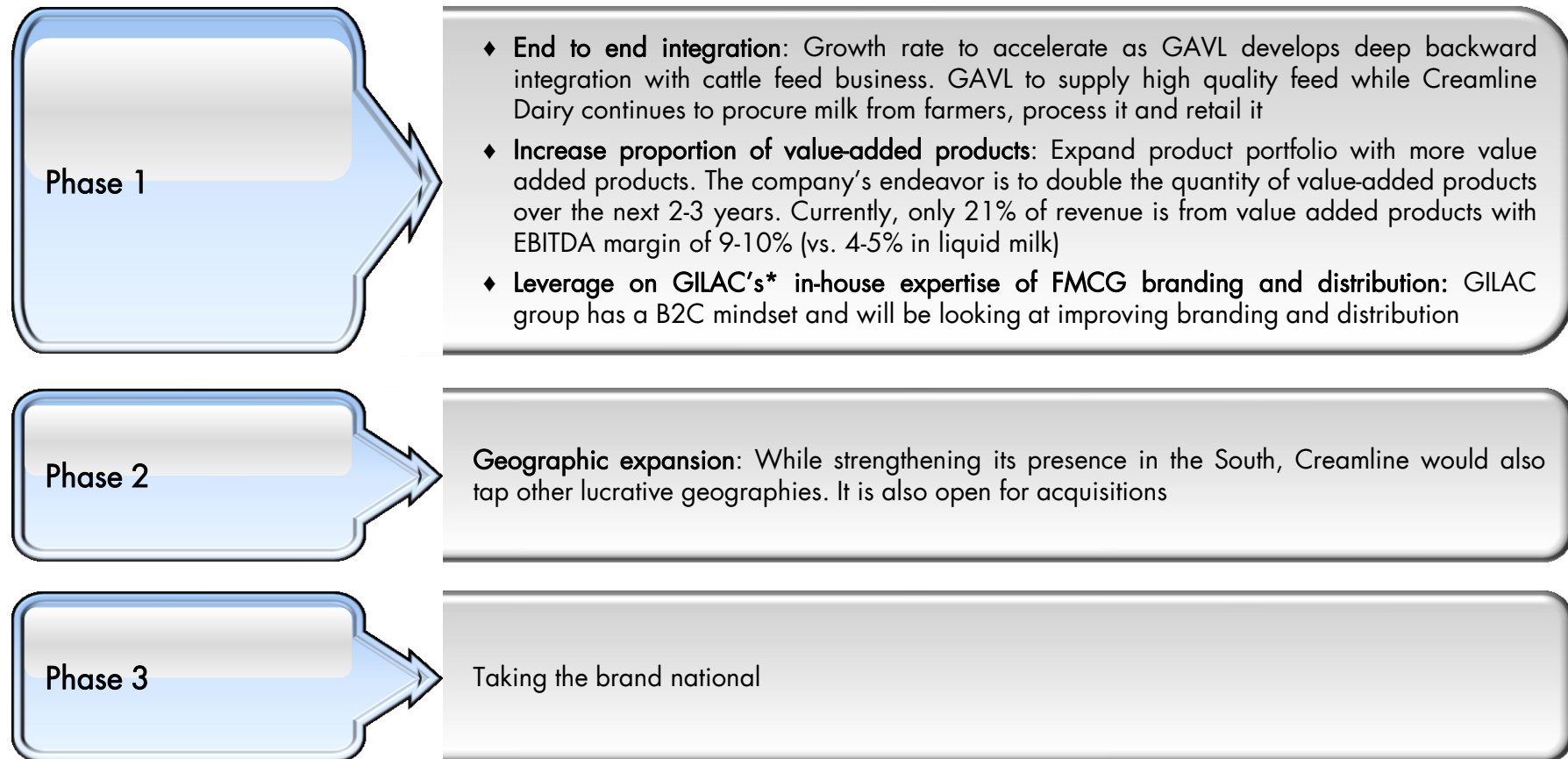


Enrich D Toned Milk



Creamline Dairy: Way ahead

Creamline is now strategically positioned to fully leverage the potential and function as an end to end provider in the entire value chain. It has chalked out ambitious growth plans (both organic and inorganic)



Great products; company to benefit further from Godrej management bandwidth

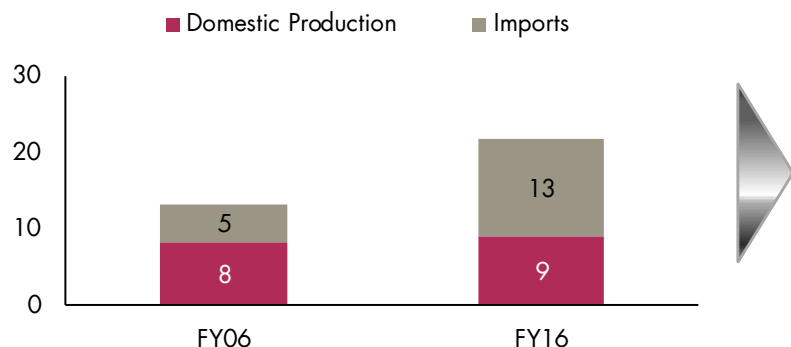


Palm oil plantations: A steady cash generating business

Godrej Industries

MISCELLANEOUS

Domestic production of edible oil has remained stagnant, while imports have increased 2.5x over last 10 years



- Of 22 mn tons of edible oil consumed by India, ~13 mn tons is imported (largest import of food material). As a result, the government encourages domestic palm oil production
- Non-competing areas are allocated by government to companies like GAVL. This makes it a monopoly business in its allocated geographical area – major presence in Andhra Pradesh, Karnataka and Tamil Nadu (85% of India's cultivated area is in these 3 states)

Palm oil plantation process



Seedling imported from Malaysia is supplied to cultivators

- 90% of the seed cost is borne by the government



1 to 3 years

- No yield for initial 3 years
- Government now incentivizing cultivators with Rs 50,000/ hectare subsidy



4 to 30 years

Age of plantation (yrs)	Yield - FFB (Tons/ hectare)
4	1-2
5	4-5
6	12-13
7	15-16
8-30	20-22

Post harvest



- Post harvest, cultivators are required to sell the entire produce at market price to designated miller
- GAVL crushes the FFB to recover palm oil (18%). Crushing season April-October
- 20-25% gross profit margin

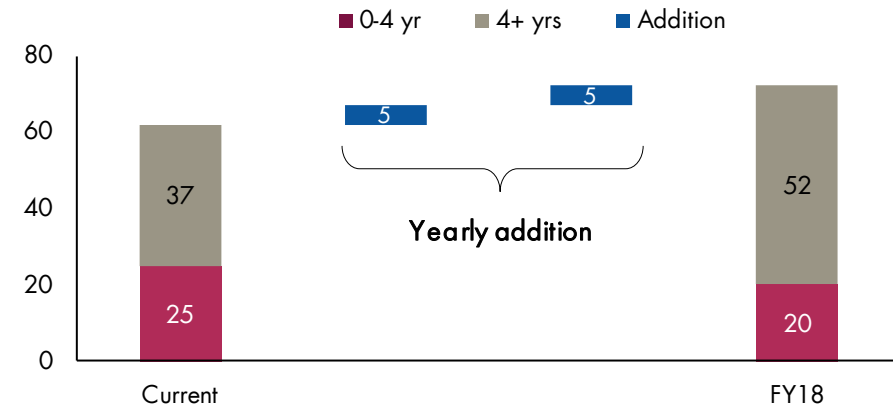
Govt thrust, monopoly make palm oil plantation business attractive

- ♦ Palm oil is the second most remunerative crop (after tobacco), where earning potential of a farmer could be ~Rs 0.13 mn/ hectare. However, the gestation period for a palm oil tree is 3-4 years and it takes 7-8 years before the tree gives maximum yield, resulting in farmers not opting to cultivate it. In order to encourage domestic cultivation of edible oil, and thereby conserve foreign exchange (largest import of food material), the government has decided to give cultivators a subsidy of Rs 50,000/ hectare
 - To reduce import bill and to attain food safety, the government has initiated a palm oil plantation program
- ♦ Usually, there are ~145 trees per hectare. Being a water hungry plant requiring 200-300 liters water/ day, it is grown in specific areas like Andhra Pradesh, Tamil Nadu and Karnataka
 - GAVL's plant are located in Andhra Pradesh, Tamil Nadu, Karnataka, Goa and Mizoram
- ♦ On maturity, each hectare yields 20-22 tons of fresh fruit bunches, which when crushed yields ~18% palm oil
- ♦ **A restricted monopoly:** Palm oil cultivators will sell their produce to companies like GAVL, who have been allocated non-competing areas. GAVL in turn pays the farmers market determined rate for the fresh fruit bunches and also assist cultivators with agronomist who perform soil and leaf test and educates them on best farm practices to increase yield. GAVL in-turn sells crude oil in the market to refiners
- ♦ **Cash cow:** Revenue will keep increasing due to higher yield, as plantations mature
- ♦ **R&D:** Developing additional revenue streams by enhancing the use of biomass eg: Fiber to briquette

Yield set to improve as greater proportion of plantations mature

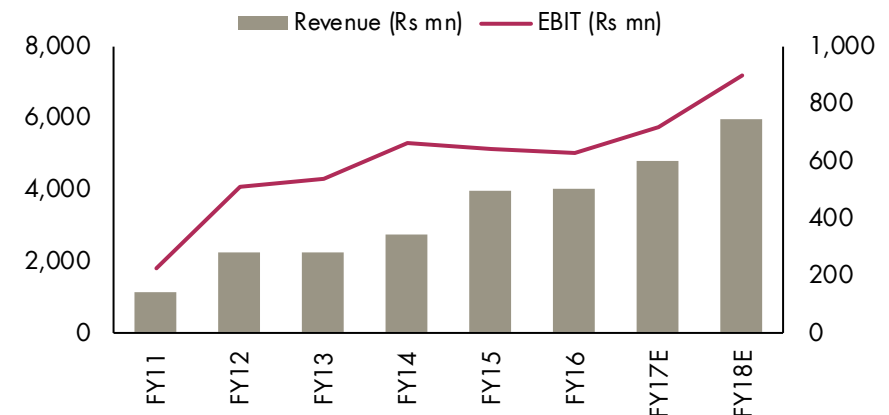
- ♦ Access to 25% of India's palm oil plantation with a monopoly within the command area allocated
 - GAVL operates on a command area model, with the state governments (Andhra, Karnataka, Tamil Nadu, Goa and Mizoram) allocating specific territories
 - GAVL is the largest palm oil producer in India, with 62,000 hectares under cultivation. However, only 37,000 hectares are over 4 years and yielding fruit, while the rest will start contributing to revenue as they mature
 - Annual addition of ~5,000 hectares
- ♦ 20-25% revenue growth over next 5 years led by greater maturity, resulting in higher yield
 - Team of GAVL agronomists regularly advise cultivators through regular soil and leaf testing to maintain yield of the plantations
- ♦ Lower impact of RM price volatility as revenue is hedged
 - Business operates at ~25% gross margin and 14-16% EBIT margin
 - Low power cost (Rs 1-2 per unit) as oil mills have co-gen power plants

Greater proportion of oil plantations maturing over next 2 years



Source: Company, Axis Capital

EBIT margin stable as company hedges revenue



Source: Company, Axis Capital

Godrej Properties (GPL)

Asset light, scalable business

Godrej Properties

Godrej Industries

MISCELLANEOUS

We like Godrej Properties from a 3-5 years perspective, as we believe the company can take its operations to another level driven by (1) further ramp up in sales led by polarization of demand towards reputed developers such as GPL, (2) robust launch pipeline in key metros which will help capitalize on any uptick in the demand, (3) continued acquisition of new projects on attractive terms and (4) gearing at 1.7x over FY17-18, alleviating balance sheet concerns.

Concerns on execution alleviated

We always believed GPL would be able to access prime lands (portfolio increased to ~125 msf currently from ~54 msf in 2009) and also sell well (ramped up pre-sales to Rs 50 bn in FY16 from Rs 16 bn in FY12). With 6 msf of deliveries in FY16 (up from 0.7 msf in FY12), the company seems to have addressed markets concern on execution capabilities

- GPL has put in robust processes in place with stringent focus on timelines and customer experience
- **Faster asset turns** (typically launching projects within 9-12 months from acquisition) result in faster monetization of projects and also make it a preferred partner. Timely delivery instills confidence in buyers
- **Focus on metros – Mumbai, NCR, Bangalore and Pune:** Management believes that demand seems to be bottoming out and with revival in the economy, demand in metros could see an uptick

Debt can reduce significantly over FY17-18 and is no longer a concern

As per the management, its BKC project alone can generate ~Rs 14 bn of net cash flows which can substantially lower its debt levels (net debt of Rs 25.6 bn, of which ~Rs 13 bn is on account of the BKC project). With the project now complete (received occupation certificate in Q1), there is increased visibility on its monetization.

Godrej Properties

- ♦ **RoCE/ RoEs to improve**
 - Lower debt levels will result in improvement in return ratios, mainly its RoCE which has remained muted over the past few years due to high debt (RoCE of 6% vs. RoE of 11.5% in FY16). However, it can be partially offset by revenue recognition from legacy projects (low margins) in Ahmedabad, Chennai and Kolkata
- ♦ **Diversified business model:** Prudent portfolio mix of asset-light Joint Development Agreements (JDAs; ~50% of portfolio), high RoE + zero capex Development Manager (DM) projects (25%) and owned/ JV projects (25%)
 - Hedge against downturn (low capital locked in JDAs) with benefit from upturn (appreciation in owned/ JV projects)
 - Highly scalable DM model with no/ minimal capital commitments → high RoE potential
- ♦ **Leveraging the 'Godrej' brand**
 - Track record to successfully close JD deals (added projects totaling ~45 msf over last 4 years)
 - Premium pricing for its projects (some projects have commanded 15-20% higher than peers)
 - GPL to act as a development manager to monetize the group's sizeable land parcels across India, esp. 500 acres in Vikhroli, a prime Mumbai suburb (where GPL has entered into an MoU)
 - Ability to raise low cost of debt (average cost of debt of 9.4% – lowest in the industry)
- ♦ **Significant scale up in operations:** GPL's portfolio size has increased to ~125 msf currently from ~54 msf at the time of IPO. The company's sales run-rate has increased to Rs 50 bn in FY16 from Rs 5 in FY10. Delivery run-rate too has increased to ~6 msf in FY16 from <1 msf in FY13
- ♦ **Noida – litmus test for brand Godrej:** Brand has helped the company sell significantly even in extremely weak markets like Gurgaon. However, we believe the launch of its project in Noida (yet another unfavorable market) in FY17 will be litmus test for the brand. A strong response to the Noida project would put all doubts over scalability of GPL to rest

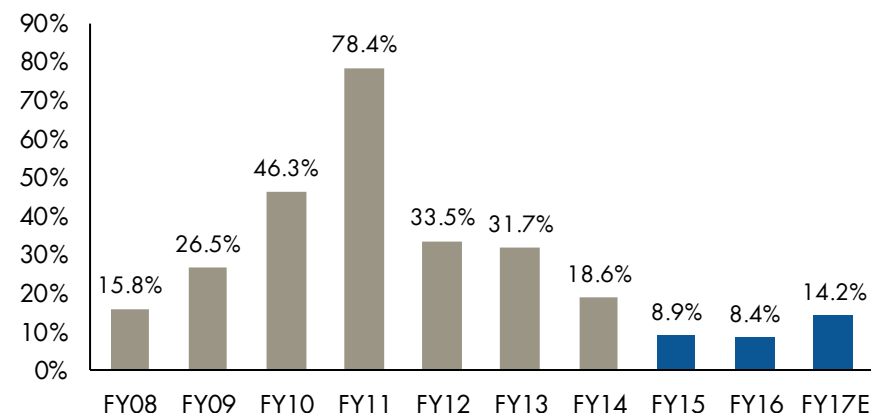
Godrej Consumer Products (GCPL)

Well poised for the future

GCPL: Well poised for the future

- ♦ **Agile, bold and innovative.** In the past five years, we have seen GCPL transform from an old economy organization culture to a more vibrant, energetic, agile, bold and innovative culture. We highlight this change as we think it is meaningful and should hold the company in good stead in the future
- ♦ **India business steady.** We estimate 11% sales CAGR over FY16-20 as we expect steady 12% sales CAGR in HI and hair color and moderate 9% sales CAGR in soaps in this period. Any meaningful/ successful innovation is not baked in our numbers
- ♦ **International: Many hiccups but no big concern.** Hiccups like slowdown in Indonesia, issues in Kinky, margin concern in Latam etc. have cropped up in international in the past few years. However, we don't see any long term concern except that we are still not fully comfortable with the Darling business
- ♦ **Way forward :** Integration of the recent acquisition will drive estimated 19% EPS growth in FY17 despite unexciting growth in the core

1-year forward PE (on consensus EPS)



Source: Company, Axis Capital

Financial Summary

Y/E March	FY15	FY16	FY17E	FY18E
Net Sales (Rs mn)	82,422	89,572	1,02,281	1,14,372
EBITDA (Rs mn)	13,653	16,242	19,318	21,326
Adj. PAT (Rs mn)	9,008	11,462	13,657	15,147
FDEPS (Rs)	26.5	33.7	40.1	44.5
PE(x)	62.6	49.2	41.3	37.3
ROE(%)	22.3	24.4	24.4	22.8
ROCE(%)	22.2	22.7	22.7	22.9
EV/E(x)	42.2	35.7	29.3	26.7
DPS(Rs)	5.5	5.8	9.0	11.0

Source: Company, Axis Capital

Domestic businesses: Steady show

Household insecticide: Still more sting in the offing

- ♦ **Godrej Sara Lee acquisition was a game changer:** HI (household insecticide) is a high growth and oligopolistic category with only three players (GCPL, Reckitt and SC Johnson). GCPL entered the category by acquiring Godrej Sara Lee at low valuations (~15x trailing P/E). If HI acquisition would not have been there, then organic India sales CAGR over FY10-15 would have been just 12.6%. However, the HI acquisition helped GCPL India business to deliver ~28% sales CAGR over FY10-15. We expect HI business to deliver 12% sales CAGR over FY16-20
- ♦ GCPL has introduced several new successful innovations such as Good Knight Fast Card, low smoke coil and Good Knight Active mosquito repellent. These innovations helped to drive growth and market share

Expanding into crème-based hair color

- ♦ Hair color registered sales CAGR of 15% over FY05-15 which while healthy has been lower than category growth as players like L'Oreal became market leaders in the fast growing crème segment. Till recently, GCPL largely operated in the moderate growth, low priced powder-based hair colors
- ♦ With help from its Latin American acquisition, GCPL entered the crème segment in FY14. The launch has been successful as it was able to democratize the crème segment by launching lower priced products. With higher growth in crème, we expect sales CAGR of 12% over FY16-20

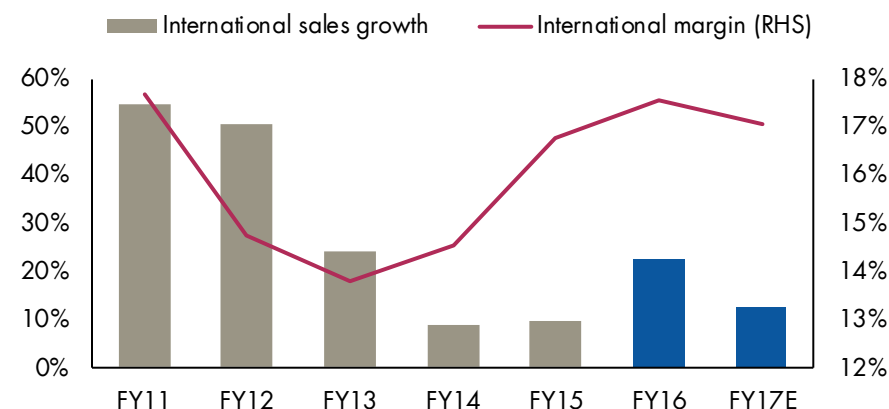
Soaps lacking premium connect

- ♦ Despite high penetration, soaps for GCPL registered 15% sales CAGR over FY05-15 as share improved from ~7% in FY05 to ~11% driven by (a) strong value offering, (b) differentiated packaging (pioneer of 3+1) and variants and (c) geographical focus (North & West)
- ♦ We believe the next wave of growth in soaps will be led by shift from mass brands to slightly premium brands. While it is well placed in the value segment, it does not have a meaningful presence in premium. Re-launch of Cinthol, its premium brand, has not done too well, in our view. Soaps growth for GCPL will be lower if uptrading becomes a big trend in the next 5-10 years

International business: Many hiccups but no big concern

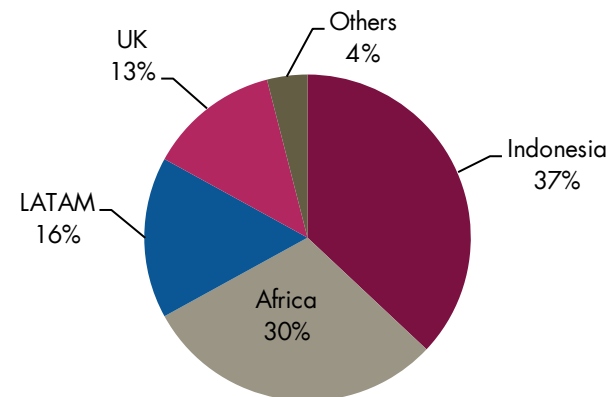
- ♦ **Transforming into an emerging markets company:** GCPL has transformed itself into an emerging markets consumer company. International sales now account for 47% of total sales vs. just 19% in FY08. At the EBITDA level, contribution is 40% in FY16
- ♦ **Executing cross pollination opportunities to be difficult:** Acquisitions has provided GCPL with array of local brands such as Darling in Africa, Stella in Indonesia and Inecto in South America. Given the diverse nature of the countries/categories, cross pollination is akin to launching a new category in a new country and will require large resources and hence difficult to execute
- ♦ **Limited cross pollination so far:** Fast Card has been introduced in India from Indonesia. Even crème hair color technology of Godrej Expert was cross pollinated from South America. GCPL has introduced Good Knight in Africa but this is yet to scale up
- ♦ **Our view:** Hiccups like slowdown in Indonesia, issues in Kinky, margin concern in Latin America etc. have cropped up in international in the past few years but we don't see any long term concern except that we are still not fully comfortable with the Darling business. GCPL's international strategy is unprecedented. Hence, its actual impact will only be visible over a long period

International business – sales growth and margin trends



Source: Company, Axis Capital

International business breakup (FY16)

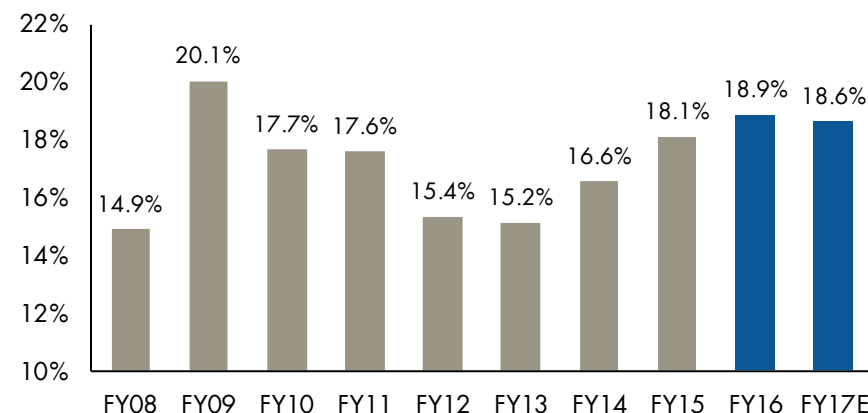


Source: Company, Axis Capital

Lower RM costs aided OPM expansion, healthy adjusted RoCE

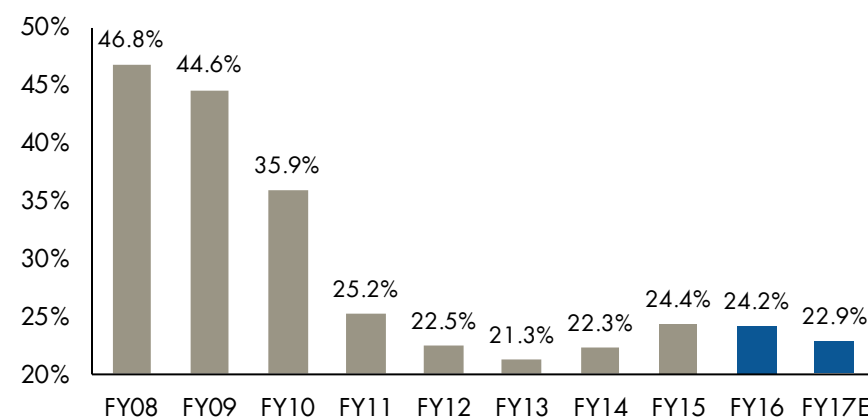
- ♦ Benign input costs aided sharp margin expansion in the recent time
 - While the company has strong pricing power in household insecticides and hair dyes, pricing power in soaps and international business is lower. Due to high correlation of gross margin and raw material costs, any sharp inflation has a material impact on GCPL's gross margin
 - We expect standalone EBITDA margin to be at 20-21% over FY16-18, while international margin is expected at about 16%. Increase in commodity costs is the only significant risk to our margin assumptions
- ♦ Health adjusted RoCE
 - GCPL's RoCE at the consolidated level is at 18% in FY15 (after adding back value of the brands that they have amortized). However, excluding goodwill and brand intangibles, business RoCE at consolidated level stands at 58.3%
 - After similar adjustments, RoCE at standalone level is at 118%. For international business, RoCE on total capital employed (including acquisition costs) is only 10%. However, after adjusting for goodwill and brand intangibles, the business RoCE is at 36%, which essentially is the core capital efficiency of the acquired business

Consolidated EBITDA margin trend



Source: Company, Axis Capital

Consolidated return on equity trend



Source: Company, Axis Capital

Chemical division

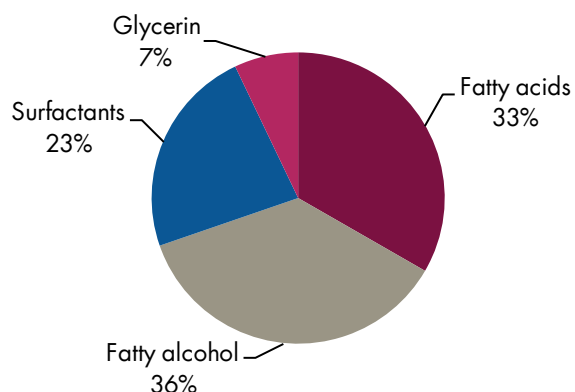
- ♦ GIL is one of India's leading manufacturers of oleo chemicals and surfactants (fatty acids, fatty alcohol, glycerin), which act as feed stock to various industries like personal care, rubber, polymer, pharmaceuticals
- ♦ Strong global MNC clients
- ♦ Margin has high correlation with prices of palm oil

Market leader in chemicals which have wide applications

Products	Application
Fatty acids and glycerin	<ul style="list-style-type: none"> ♦ Cosmetics and Toiletries ♦ Rubber ♦ Polymer ♦ Pharmaceutical, Humectants
Fatty alcohols	<ul style="list-style-type: none"> ♦ Cosmetics ♦ Industrial applications ♦ Personal care ♦ Laundry
Surfactants	<ul style="list-style-type: none"> ♦ Shampoos, Conditioners, Cosmetics ♦ Toothpaste ♦ Detergents

Source: Company, Axis Capital

FY16 revenue (Rs 11 bn): Focusing on high profit margin segments like Fatty alcohol and surfactants



Source: Company, Axis Capital

Oleo chemical industry is characterized by successive waves of investments, followed by periods of relative calm when demand catches up with installed capacity

Key business highlights

- ♦ **Market leader** in oleo oils and surfactants – a substitute for petroleum products
 - Well diversified client base, catering across industries like FMCG (35-40% of the divisions revenue), rubber/plastic industries (~30%), pharma (5%), oil drilling
- ♦ **Negative working capital:** A strong brand name enables GIL to procure raw-material on credit (250 creditor days)
- ♦ **Strong client relationships:** Developing specialty chemicals jointly with clients ensures high margin of 8-10%

Company financials (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	92,305	107,532	120,272	132,868
Other operating income	-	-	-	-
Total operating income	92,305	107,532	120,272	132,868
Cost of goods sold	(64,521)	(69,437)	(84,977)	(93,877)
Gross profit	27,784	38,094	35,295	38,991
<i>Gross margin (%)</i>	<i>30.1</i>	<i>35.4</i>	<i>29.3</i>	<i>29.3</i>
Total operating expenses	(22,968)	(31,786)	(27,670)	(30,099)
EBITDA	4,816	6,308	7,625	8,892
<i>EBITDA margin (%)</i>	<i>5.2</i>	<i>5.9</i>	<i>6.3</i>	<i>6.7</i>
Depreciation	(932)	(1,302)	(1,514)	(1,665)
EBIT	3,884	5,006	6,111	7,227
Net interest	(1,913)	(2,732)	(3,130)	(3,063)
Other income	1,293	1,771	1,800	1,900
Profit before tax	3,264	4,045	4,781	6,065
Total taxation	(1,366)	(1,869)	(1,434)	(1,819)
<i>Tax rate (%)</i>	<i>41.8</i>	<i>46.2</i>	<i>30.0</i>	<i>30.0</i>
Profit after tax	1,898	2,176	3,346	4,245
Minorities	(1,864)	(2,345)	(3,401)	(4,081)
Profit/ Loss associate co(s)	2,066	2,653	3,051	3,509
Adjusted net profit	2,101	2,484	2,997	3,673
<i>Adj. PAT margin (%)</i>	<i>2.3</i>	<i>2.3</i>	<i>2.5</i>	<i>2.8</i>
Net non-recurring items	1,924	-	-	-
Reported net profit	4,025	2,484	2,997	3,673

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	336	336	336	336
Reserves & surplus	31,937	34,485	37,050	40,232
Net worth	32,273	34,821	37,386	40,568
Borrowing	58,851	70,059	69,059	67,059
Other non-current liabilities	685	1,161	1,161	1,161
Total liabilities	134,981	157,006	171,722	181,780
Gross fixed assets	19,552	31,710	35,210	38,710
Less: Depreciation	(6,352)	(8,988)	(10,502)	(12,166)
Net fixed assets	13,200	22,722	24,708	26,543
Add: Capital WIP	7,747	3,512	3,500	3,500
Total fixed assets	20,947	26,234	28,208	30,043
Other Investment	-	-	-	-
Inventory	53,551	61,725	65,243	69,674
Debtors	6,266	9,269	10,215	11,285
Cash & bank	2,421	2,220	7,731	9,127
Loans & advances	13,673	14,945	16,476	16,381
Current liabilities	31,687	36,103	45,853	50,649
Net current assets	50,268	60,298	63,289	66,716
Other non-current assets	5,171	5,640	5,640	5,640
Total assets	134,981	157,006	171,722	181,780

Company financials (Consolidated)

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	3,264	4,045	4,781	6,065
Depreciation & Amortisation	(932)	(1,302)	(1,514)	(1,665)
Chg in working capital	(13,996)	(5,288)	3,756	(610)
Cash flow from operations	(10,495)	(444)	13,547	10,263
Capital expenditure	(4,836)	(3,885)	(3,512)	(3,500)
Cash flow from investing	(4,581)	(3,408)	(3,512)	(3,500)
Equity raised/ (repaid)	4	26	(0)	-
Debt raised/ (repaid)	16,809	8,715	(1,000)	(2,000)
Dividend paid	(609)	(1,550)	(369)	(420)
Cash flow from financing	14,095	3,834	(4,500)	(5,483)
Net chg in cash	(981)	(18)	5,535	1,280

Valuation ratios

Y/E March	FY15	FY16	FY17E	FY18E
PE (x)	71.1	60.2	49.8	40.7
EV/ EBITDA (x)	42.7	34.4	27.6	23.3
EV/ Net sales (x)	2.2	2.0	1.8	1.6
PB (x)	4.6	4.3	4.0	3.7
Dividend yield (%)	0.0	0.2	0.2	0.3
Free cash flow yield (%)	(10.3)	(2.9)	6.7	4.5

Source: Company, Axis Capital

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	6.3	7.4	8.9	10.9
CEPS (Rs)	14.8	11.3	13.4	15.9
DPS (Rs)	0.2	1.0	1.1	1.3
Dividend payout ratio (%)	1.7	13.5	12.3	11.4
GROWTH				
Net sales (%)	16.6	16.5	11.8	10.5
EBITDA (%)	5.2	31.0	20.9	16.6
Adj net profit (%)	(18.3)	18.2	20.7	22.6
FDEPS (%)	(19.4)	18.2	20.7	22.6
PERFORMANCE				
RoE (%)	7.0	7.4	8.3	9.4
RoCE (%)	5.7	6.0	6.4	7.1
EFFICIENCY				
Asset turnover (x)	1.1	1.0	1.0	1.1
Sales/ total assets (x)	0.7	0.7	0.7	0.8
Working capital/ sales (x)	0.4	0.5	0.5	0.4
Receivable days	24.8	31.5	31.0	31.0
Inventory days	223.4	222.6	211.4	205.1
Payable days	127.4	128.3	144.1	144.6
FINANCIAL STABILITY				
Total debt/ equity (x)	1.4	1.5	1.3	1.1
Net debt/ equity (x)	1.4	1.5	1.2	1.0
Current ratio (x)	2.6	2.7	2.4	2.3
Interest cover (x)	2.0	1.8	2.0	2.4

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