

SMART MONEY



SPECIAL REPORT

How to Value a Holding Company

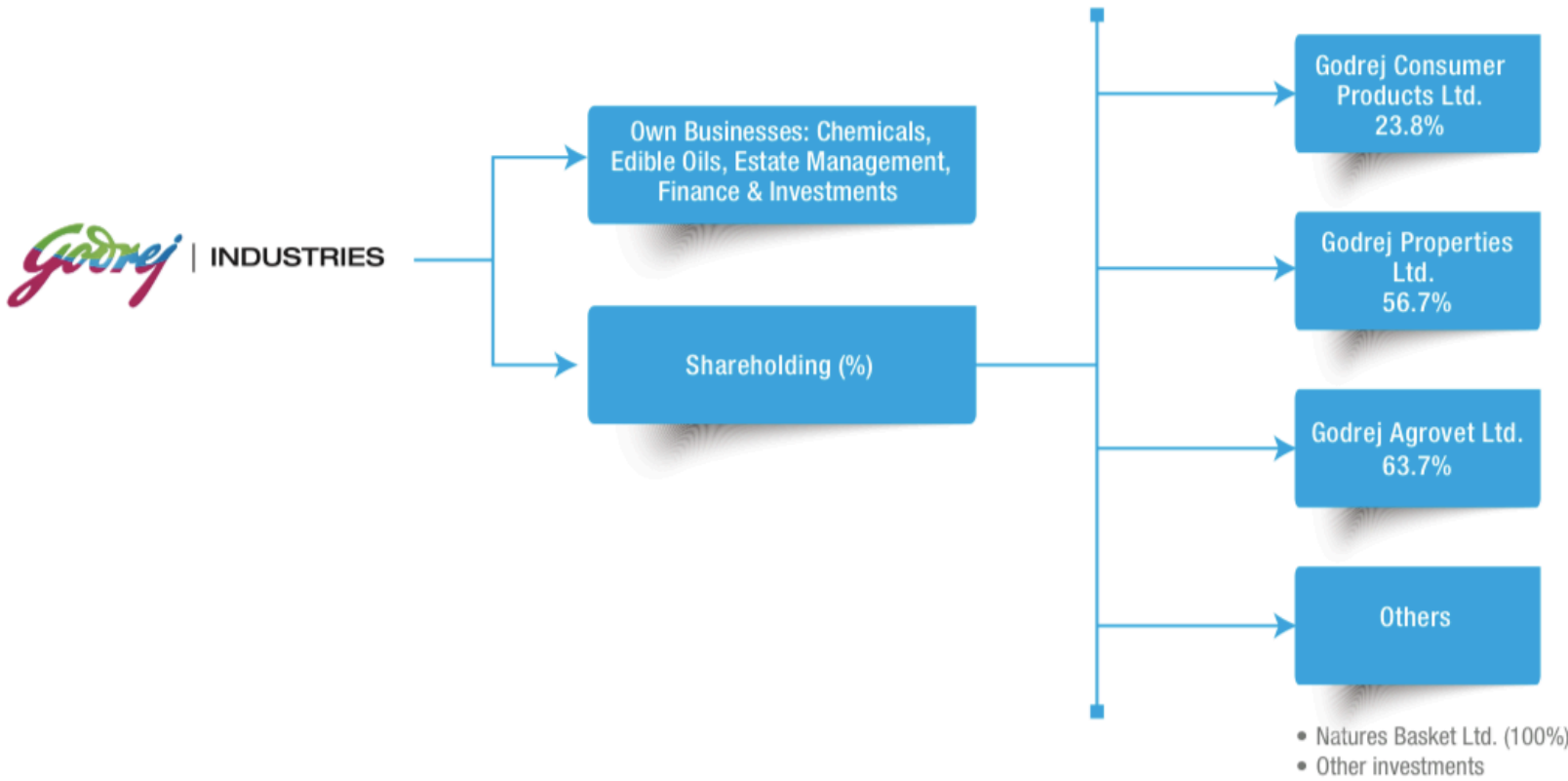
Holding company is a company that is created to buy and own the shares of other companies. They either don't have an active business apart from investments or its a very small part in comparison to their investment corpus.

Therefore, traditional valuation techniques are not adequate to value these companies. We will take up a holding company and try to value it.

Godrej Industries is the holding company of one of the most respected business groups in India. It also has its own business involving chemicals, edible oils and finance. Let's understand the business model and structure of this company.

The company has substantial shareholding in other Godrej companies and it derives majority of its value from its investment in group companies.

Business Structure



Valuation

The Enterprise Value of Godrej industries is Roughly Rs 21k Crores. Now we cannot value this company on the basis of sales or earnings because its mainly an investment company. Thereby, the best way to value this company is to compare its Enterprise value to the value of its investments.

Lets start by Listing the enterprise value of all the listed group companies in which Godrej industries has an investment

- Godrej Consumer - 78K Crores
- Godrej Properties - 20K Crores

- Godrej Agrovvet - 12K Crores

Now, lets find out the value of Godrej Industries Stake in these companies.

1. Godrej Consumer

Total EV - 78K

Stake owned by Godrej Industries - 24%

Value of Godrej Industries's Stake - 19K crore

2. Godrej Properties

Total EV - 20K Crores

Stake of GI - 57%

Value of GI's Stake - 11.4K Crores

3. Godrej Agrovvet

Total EV - 12K

Stake of GI - 64%

Value of GI's Stake - 7.68K Crores

Total Value Of Godrej Industries' Investment at today's (27th March, 2018)
Valuation = 19K Crores + 11.4K Crores + 7.68K Crores = 38K Crores
(Approx)

So the EV of Godrej Industries is Roughly 21K Crores while the Value of its investments is 38K Crores.

This basically means that you are being offered a bank locker that has Rs 38K for a price of 21K. Will you take that offer ? What is the Maximum Price that you would pay ? T

he bank locker has certain charges attached to it such as yearly maintenance fee, so the maximum I would pay for a locker that has 38K is 38K - (maintenance fee of a few years + a slight discount).

Similarly, you shouldn't pay 38K for Godrej industries because holding companies usually trade at 25-30% holding discount. This Discount is justified because holding company incurs administrative costs, compliance costs and taxation. So the Value of all those is deducted from the value of its investments.

But in the case of Godrej industries, You are getting investment worth 38K Crores for just @21k Crores, which is a discount of almost 45%. This is a very significant discount.

Besides, so far we have only calculated the value of investments. Don't forget that Godrej Industries also runs its standalone business. Which if valued at 1 year of revenue and 20 times past 10 years average profit, comes out to be roughly 2k Crores.

So Here is a company with investments + Own Business valued at 40K crores, available at 21K crores. A discount of 48% ! Is that reasonable? Depends on whether the underlying investments are overvalued or undervalued.

An educational Report by Pranjal Kamra



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