

Adani Wilmar

22nd Nov '24 - All important things about the business you need to know.

About the business:

1. It is a joint venture between Adani Enterprises and Wilmar International.
2. Adani Wilmar deals in edible oil and FMCG products.
3. It processes, imports and sells a variety of agricultural commodities and food products.
 - a. Edible oils: Adani Wilmar is India's largest processor of palm oil and imports a large amount of edible oils into the country. They offer a variety of edible oils, including soybean, sesame, sunflower, cottonseed, and groundnut.
 - b. Kitchen commodities: Adani Wilmar offers a range of essential kitchen commodities, including wheat flour, rice, pulses, and sugar.
 - c. Oleo chemicals: Adani Wilmar offers a wide range of products derived from oils and fats.
 - d. FMCG products: Adani Wilmar offers handwash and multipurpose cleaner products.
 - e. Brands like Soya, Fortune, Kohinoor are owned by Adani Wilmar.
4. In September 2024, Adani Wilmar announced its highest ever capex of \$1 Billion which involves purchasing at least 3 food companies specialising in spices, ready to cook foods and packaged edibles.

Intrinsic Value

The company's return ratios peaked during FY20 to FY21. It's ROCE has consistently dropped from a high of 28% in FY20 to 10% in FY24. This is probably due to higher exposure to the Edible Oil market, inflationary trends all around the world, significant geopolitical issues emerging in the Middle East and some unknown internal matters. Apart from this, the promoters hold 87.88% stake in the company which directly points towards promoter stake dilution in the coming years because the maximum permissible limit is 75%.

With the return ratios declining sharply, interest costs rising, significant other income gains, under pressure business, declining margins and a potential of 'Adani Divestment', I don't feel the business is healthy right now. Also, there could be major cyclicalities in play - the cyclicalities that depend on the price of Edible Oil and related supply changes which itself heavily depends on the stability of the Middle East region.

The full year FY21 EPS was reported at ₹57.27 per share which got reduced to ₹6.22 per share in FY22 due to the IPO.

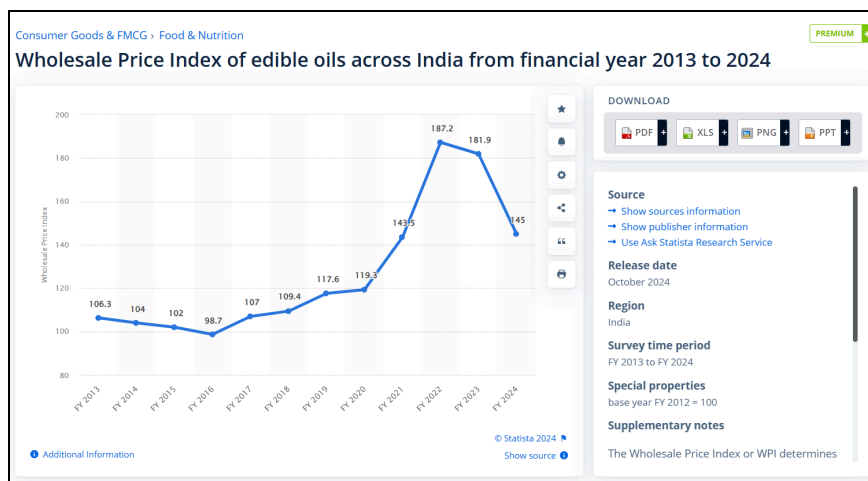
The Current TTM EPS is ₹8.10; The business has seen multiple deratings over the course of 2-3 years. Depending on the Industry Average valuation metrics, Adani Wilmar's intrinsic value comes in at ₹344.61 per share, valued at 42.5x the Current TTM EPS.

Based on the same valuation, the expected high price for the company comes in at ₹375.67 per share (at ₹8.83 expected EPS). And the expected low price comes in at ₹318.66 per share (at ₹7.49 expected EPS).

Insights from Financial Statements, News, and other sources: (co-generated with AI)

Adani Wilmar, a leading player in the edible oil and FMCG sector, has been experiencing a decline in its financial performance, leading to a significant drop in its share price. This downturn can be attributed to several key factors:

The Perfect Storm in the Edible Oil Market



Adani Wilmar's core business, edible oil, has been hit by a confluence of negative events since FY22:

1. Skyrocketing Global Edible Oil Prices: The Russia-Ukraine war, Indonesia's export ban on palm oil, and global inflationary pressures have all contributed to a dramatic rise in edible oil prices.
2. Squeezed Margins: While Adani Wilmar has managed to increase sales, its margins have been significantly compressed due to the inflated cost of raw materials.
3. Inventory Valuation Woes: The volatility in commodity prices has made it difficult to accurately value inventory, leading to potential losses.
4. Dampened Consumer Demand: The higher prices for edible oil have inevitably led to reduced consumer demand, further impacting Adani Wilmar's sales volumes.

Internal Financial Challenges

Beyond the external pressures of the edible oil market, Adani Wilmar is also grappling with internal financial challenges:

1. Abnormal Surge in Other Income: A significant and unexplained increase in "other income" in FY23 raises concerns about the sustainability of this revenue stream.
2. Rising Costs: Depreciation and interest costs have risen, pointing to increased capital expenditure and a growing debt burden, potentially straining the company's financial health.

3. Equity Capital Raise: The need to raise additional equity capital in FY22 suggests potential financial strain.
4. Soaring Trade Payables and Reserves: The dramatic increase in trade payables and reserves since FY22 warrants further investigation.

The Adani Group Shadow

1. The controversies surrounding the Adani Group, including allegations of price manipulation and regulatory scrutiny, have undoubtedly cast a shadow over Adani Wilmar. While the company has denied any wrongdoing, the negative sentiment towards the group likely contributes to the decline in Adani Wilmar's share price.

Valuation and Competitive Landscape

1. Adani Wilmar's current PE ratio is significantly lower than its historical average and those of its competitors like Patanjali Foods and Marico. This suggests a lack of investor confidence in the company's future prospects.

Potential Exit of Adani Group (even if these were really rumours)

1. Recent reports suggest that the Adani Group may be considering selling its stake in Adani Wilmar to free up capital for its core businesses. While the company has denied these claims, such a move could further impact the company's share price and future direction.

Conclusion

Adani Wilmar is facing a multifaceted challenge. The external pressures of the volatile edible oil market, combined with internal financial concerns and the negative sentiment surrounding the Adani Group, have created a difficult operating environment. To recover, Adani Wilmar will need to address its internal financial challenges, navigate the turbulent edible oil market, and rebuild investor confidence.

This is a report by Chaitanya Sabharwal for guruspakes.com/markets

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