May 31, 2021

Godrej Agrovet Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Cash Credit	60.00	60.00	[ICRA]AA(Stable) reaffirmed
Short -term - Fund Based	610.00	631.00	[ICRA]A1+ reaffirmed
Short -term - Non-Fund Based	20.00	80.00	[ICRA]A1+ reaffirmed
Commercial Paper	600.00	1000.00	[ICRA]A1+ reaffirmed
Total	**1,290.00**	**1,771.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on Godrej Agrovet Limited (GAVL), which includes its subsidiaries, step-down subsidiaries, associate companies and joint ventures while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The rating reaffirmation continues to factor in GAVL's diverse presence in agri-focused businesses like animal feed, vegetable oil (palm oil) and crop protection (agri inputs), which insulates the company from downturns in any individual business segment. GAVL also enjoys a strong position in the domestic organised animal feed industry. The company's capitalisation metrics remained comfortable as reflected in a gearing (total debt/net worth) of 0.5 time and TOL/TNW (total outside liabilities/net worth) of 0.94 times as on March 31, 2021. Moreover, the company's interest coverage metric improved to 12.4 times in FY2021 from 10.2 times in FY2020, supported by improvement in profitability.

The rating also derives comfort from GAVL's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA notes that GAVL had been increasing its stake in its subsidiary companies, viz. Astec LifeSciences Limited and Godrej Maxximilk Private Limited.

Despite its dominant position in the organised animal feed industry, GAVL's cost structure and profitability remain susceptible to raw material price fluctuations due to its exposure to a price sensitive consumer segment, which limits its ability to fully pass on the increase in input prices. Furthermore, GAVL's agri-focused business portfolio also remains vulnerable to weather conditions and Government regulations. Nonetheless, the company's presence across diverse agri-businesses mitigates the risks to some extent. ICRA has also noted the modest profit margin in the dairy business.

The Stable outlook reflects ICRA's opinion that GAVL will continue to benefit from its strong business profile, healthy financial risk profile and strong parentage as part of the Godrej Group.

Key rating drivers and their description

Credit strengths

Strong position in the domestic organised animal feed industry – GAVL enjoys a strong position in the domestic organised animal feed industry. The animal feed segment has remained the largest contributor to revenues with a share of 70-75% in the total standalone revenues (47% of consolidated revenue in FY2021) during FY2017 to FY2021. In the animal feed segment, GAVL has presence across sub-categories like cattle, broiler, layer and aqua feed. The company's research and development (R&D) driven efforts to achieve cost leadership and cost competitiveness have supported its performance.

Diversified business presence insulates the company from downturns in any individual business segment – In FY2013, the animal feed segment accounted for more than 80% of GAVL's standalone revenues; thus, leading to concentration risks. However, over the years, GAVL's focus on diversification of its revenue streams resulted in a decline in the segment's share of standalone sales to ~70% in FY2021.While the revenues from the animal feed business declined in FY2021 as compared to FY2020, the revenues from vegetable oil and crop protection business registered a marginal growth. ICRA notes that while GAVL's crop protection business has witnessed a slowdown in growth over the past couple of years owing to unfavourable monsoons, COVID-19 related disruptions and conscious efforts on the part of the management to improve collections; the operating profit margin in the segment remains healthy, supported by high margins in-house speciality products.

Comfortable capitalisation and coverage indicators – The company's capitalisation metrics remained comfortable due to decline in debt levels as reflected in a gearing (total debt/net worth) of 0.5 time and TOL/TNW (total outside liabilities/net worth) of 0.94 times as on March 31, 2021. Furthermore, the company's interest coverage metric improved to 12.4 times in FY2021 from 10.2 times in FY2020, supported by improved profitability as well as substantial improvement in cost of funding.

Strong financial flexibility as part of the Godrej Group – GAVL is a subsidiary of Godrej Industries Limited (GIL, rated [ICRA]AA (Stable) / [ICRA]A1+) which held a 59.90% stake in GAVL as on March 31, 2021. GIL is one of the flagship companies of the Godrej Group, a large and established business house in the country. The parentage of the Godrej Group lends strong financial flexibility to GAVL, as it helps it to provides access to capital markets and healthy relationships with the banks.

Credit challenges

GAVL's cost structure and profitability remain susceptible to raw material price fluctuations – GAVL's revenues and profitability remain susceptible to commodity price fluctuations in the animal feed and palm oil businesses. Although GAVL is a strong player in the organised animal feed industry, its ability to pass on the increase in commodity prices is limited due to its exposure to a highly price sensitive consumer segment. Furthermore, while the revenue sharing with farmers in the palm oil business is formula driven, GAVL's revenues and OPM would vary with fluctuations in end product prices, which are influenced by global palm oil prices.

Agri-focused business portfolio vulnerable to weather conditions and Government regulations – Since the company is present in agriculture-related businesses, its revenues and profit margins are vulnerable to weather conditions as well as Government regulations to some extent, which may restrict its ability to expand its operations or OPM. Nonetheless, its presence across diverse agri-businesses mitigates the risks to some extent. The company's crop protection business witnessed modest YoY revenue growth of ~2% in FY2021 as the production of high margin speciality products was impacted in H1FY2021 de to COVID-19 related disruptions, resulting in reduced application opportunities. Furthermore, the vegetable oil business registered a modest growth in FY2021 due to the white-fly attack impacting the palm plantations during FY2021. The arrival of fresh fruit bunches and oil content in the fruit were lower in FY2021.

Modest profitability in dairy business drags return indicators at consolidated level –The profitability from dairy business remains modest at ~3-4% during the past two fiscals. The profitability and return indicators in dairy segment are weaker than that of standalone level. Profitability and return indicators of other subsidiaries, especially, Astec remained healthy and provide support to overall profitability.

Liquidity position: Adequate

GAVL's liquidity position is comfortable supported by its healthy cash flow from operations, unencumbered cash and liquid investments of Rs. 33 crore and undrawn working capital limits of Rs. 588 crore as on March 31, 2021 (at standalone level). ICRA notes that the company enjoys Rs. 631 crore of unsecured limits from various banks, which further supports the liquidity position.

At a consolidated level, GAVL plans to undertake a capex of Rs. 350-400 crore in FY2022, which would be funded by a mix of internal accruals and debt. In absence of major debt repayment obligations and moderate capex, the overall liquidity position is likely to remain comfortable. GAVL, as part of the Godrej Group, enjoys access to capital markets and enjoys healthy relationships with the banks which adds to the financial flexibility and supports overall liquidity profile of the company.

Rating sensitivities

Positive factors –

A considerable increase in the company's scale of operations, while maintaining profitability will be a positive trigger. Sustained net-debt/OPBIDTA of below 1.0 times, would also be a positive trigger

Negative factors –

Large debt-funded capex or inorganic expansion, leading to weakening credit metrics, would pose a downward pressure on GAVL's rating. Sustained net-debt/OPBIDTA of above 2.5 times will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GAVL. The details are given in Annexure-2.

About the company

Godrej Agrovet Limited is a part of the Godrej Group, which has diverse business interests spanning home appliances, fast moving consumer goods, consumer products, industrial products, oleo chemicals, animal feed, real estate development, crop protection, and oil palm plantation through various Group companies. Godrej Industries Limited (rated [ICRA]AA(Stable)/[ICRA]A1+) holds 59.90% stake in Godrej Agrovet Limited.

GAVL's product segments primarily cater to the rural sector and agricultural community. On a standalone basis, the company has three major business segments—animal feed, vegetable oil (palm oil) and crop protection (agri inputs). The company is one of the largest organised animal feed manufacturers in India. It offers cattle, layer, broiler, shrimp and fish feed in its product portfolio. As on March 31, 2021, GAVL had around 75,609 hectares of palm tree plantations across nine states for producing crude palm oil, palm kernel oil and palm kernel cake. It is also a niche player in select agri-inputs like insecticides, fungicides, soil conditioners and organic manure, with a pan India network of ~6,600 distributors.

On a consolidated basis, through its subsidiaries, GAVL has interests in businesses like agrochemicals (Astec LifeSciences Limited, 62.33% subsidiary of GAVL as on March 31, 2021 and rated [ICRA]AA- (Stable) / [ICRA]A1+), dairy (Creamline Dairy Products Limited, 51.91% subsidiary), processed poultry and vegetarian food products (Godrej Tyson Foods Limited, 51.00% subsidiary), as well as in-vitro production of high-quality (milk yielding) cows (Godrej Maxximilk Private Limited, 74.90% subsidiary). In addition, GAVL has interests in animal feed through its joint venture, ACI Godrej Agrovet Private Ltd., Bangladesh.

Key financial indicators (audited)

GAVL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	6836.5	6269.6
PAT (Rs. crore)	287.6	297.3
OPBDIT/OI (%)	6.2%	9.2%
PAT/OI (%)	4.2%	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9
Total Debt/OPBDIT (times)	3.6	2.2
Interest Coverage (times)	10.2	12.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					31-May-21	19-Jun-20	23-Oct-19	21-Sep-18
1	Fund-based Facilities	Short-term	631	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based Facilities	Long-term	60	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-fund Based Facilities	Short-term	80	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short-term	1000	475	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term, Fund-based Working Capital Facilities	Simple
Cash Credit / Working Capital Demand Loan	Very Simple
Letter of Credit / Bank Guarantee	Very Simple
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: [Click Here]

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Short-term, Fund-based Working Capital Facilities	NA	NA	NA	631.00	[ICRA]A1+
NA	Cash Credit / Working Capital Demand Loan	NA	NA	NA	60.00	[ICRA]AA(Stable)
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	80.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	1000.00*	[ICRA]A1+

Source: *Company*

**entire amount not yet placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Consolidation Approach	Rationale for Consolidation
Godrej Agrovet Limited	Full Consolidation	Subsidiary
Godvet Agrochem Limited	Full Consolidation	Subsidiary
Astec Lifesciences Limited	Full Consolidation	Subsidiary
Behram Chemicals Pvt Ltd	Full Consolidation	Subsidiary
Astec Europe Sprl	Full Consolidation	Subsidiary
Comercializadora Agricola Agroastrachem Cia Ltda	Full Consolidation	Subsidiary
Creamline Dairy Products Limited	Full Consolidation	Subsidiary
ACI Godrej Agrovet Private Limited	Equity Method	Joint Venture
Godrej Tyson Foods Limited	Full Consolidation	Subsidiary
Al Rahaba International Trading Limited Liability	Equity Method	Associate
Godrej Maxximilk Private Limited	Full Consolidation	Subsidiary
Omnivore India Capital Trust	Equity Method	Joint Venture

Source: *Company*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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