May 31, 2022

Godrej Agrovet Limited: Ratings reaffirmed

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
Long-term Fund-based – Term Loan	0.00	8.25	[ICRA]AA(Stable); reaffirmed
Short-term Fund-based	631.00	366.00	[ICRA]A1+; reaffirmed
Short-term Non-fund-based	80.00	229.00	[ICRA]A1+; reaffirmed
Commercial Paper	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	**1,771.00**	**1,663.25**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in GAVL's diverse presence in agri-focused businesses such as 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 reported a sizeable YoY consolidated revenue growth of 33% in FY2022, aided by higher volume offtake for animal feed division, and higher realization levels for most of the business divisions during the fiscal. FY2022 was an exceptionally good fiscal for the vegetable oil division which reported 78% YoY revenue growth coupled with improvement in PBIT margin from 11.8% (FY2021) to 19.0% (FY2022) aided by higher vegetable oil prices and improved oil extraction ratio (OER). However, the vegetable oil prices are expected to moderate gradually over the near term which may lead to margin moderation for the division. On the other hand, erratic rains in H1FY2022 and channel hygiene practices resulting in higher provisioning during H2FY2022 had a bearing on the crop protection division's margins in FY2022, although absence of non-recurring expenditures such as channel hygiene costs going forward should lead to margin improvement. The company's capitalisation metrics remained comfortable as reflected in a gearing (total debt/net worth) of 0.6 time and TOL/TNW (total outside liabilities/net worth) of 1.1 times as on March 31, 2022. Further, the company continued to demonstrate a comfortable interest coverage at 10.5 times for FY2022, supported by comfortable profitability and comparatively lower cost of funding.

The rating also derives comfort from GAVL's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA notes that GAVL has 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. Barring the vegetable oil division, the operational divisions of GAVL reported YoY decline in their respective PBIT margins, with higher input costs being the key factor behind declined margins. Therefore, GAVL's ability to pass on the input cost fluctuations to end consumers remains a key rating monitorable going forward. 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 ~50% in the total consolidated revenues during the period under consideration. 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. The animal feed division in FY2022 reported a significant ~20% YoY growth in the volume offtake, driven by volume growth in the cattle feed (20% growth), broiler feed (32% growth) and layer feed (26% growth) segments.

Diversified business presence insulates the company from downturns in any individual business segment – Over the years, GAVL's focus on diversification of its revenue streams has resulted in a gradual decline in the animal feed segment's share in the consolidated revenues over the years. All the key operational divisions reported YoY revenue growth in FY2022, although higher input costs and limited transmission of the same towards the end consumers led to marginal decline in operating margin for the fiscal. Nonetheless, the diversified business presence of GAVL insulates the company from downturns in any individual business segment.

Comfortable capitalisation and coverage indicators – The company's capitalisation metrics remained comfortable in FY2022, as reflected in a gearing (total debt/net worth) of 0.6 time and TOL/TNW (total outside liabilities/net worth) of 1.1 times as on March 31, 2022. Further, the company continued to demonstrate a comfortable interest coverage at 10.5 times for FY2022, supported by comfortable profitability and comparatively lower 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 62.47% stake in GAVL as on March 31, 2022. GIL is one of the flagship companies of the Godrej Group, a large and established business house in the country. Although GAVL has a high reliance on the short-term borrowings, comfort is drawn from the parentage of the Godrej Group which 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 operating margin 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 margins. Nonetheless, its presence across diverse agri-businesses mitigates the risks to some extent.

Modest profitability in dairy business drags return indicators at consolidated level –The profitability of the dairy division has remained modest in the recent past, with the division reporting PBIT loss in FY2022 due to covid-led disruptions coupled with higher input costs and limited transmission of the same. 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 continue to provide support to the overall profitability.

Liquidity position: Adequate

Company's liquidity profile is **adequate**, supported by cash and liquid investments of over Rs. 31 crore and buffer of over Rs. 380 crore from the undrawn working capital lines as on March 31, 2022. GAVL is expected to continue to generate healthy cash flows from the business, which will be sufficient to service debt repayment obligations over the near to medium term.

At a consolidated level, GAVL plans to undertake a capex of ~ Rs. 500 crore in FY2023, which would be funded by a mix of internal accruals and debt. In absence of major debt repayment obligations, 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, leading to an improvement in its credit profile 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
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 62.47% stake in Godrej Agrovet Limited (as on March 31, 2022).

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. The company has a sizeable quantity 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 such as insecticides, fungicides, soil conditioners and herbicides, 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, rated [ICRA]AA- (Stable) / [ICRA]A1+), dairy (Creamline Dairy Products Limited), processed poultry and vegetarian food products (Godrej Tyson Foods Limited), as well as in-vitro production of high-quality (milk yielding) cows (Godrej Maxximilk Private Limited). In addition, GAVL has interests in animal feed through its joint venture, ACI Godrej Agrovet Private Ltd., Bangladesh.

Key financial indicators

GAVL Consolidated	FY2021 Audited	FY2022# Audited
Operating Income (Rs. crore)	6269.6	8306.1
PAT (Rs. crore)*	297.3	368.9
OPBDIT/OI (%)	9.2%	8.0%
PAT/OI (%)	4.7%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.1
Total Debt/OPBDIT (times)	2.2	2.4
Interest Coverage (times)	12.4	10.5

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *excludes share of profit of equity-accounted investees, net of income tax; #derived from the abridged financials for FY2022. Financials for FY2021 derived from the annual report post reclassification. As per the abridged financials for FY2021, the operating income is Rs. 6,266.7 crore, OPBDIT/OI is 9.0% and interest coverage is 12.1 times for FY2021*
Source: GAVL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					31-May-22	31-May-21	19-Jun-20	23-Oct-19
1	Fund-based Facilities	Short-term	366.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	Term Loan	Long-term	8.25	7.11	**[ICRA]AA (Stable)**	-	-	-
3	Fund-based Facilities	Long-term	60.00	NA	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
4	Non-fund Based Facilities	Short-term	229.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
5	Commercial Paper Programme	Short-term	1,000.00	875.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term, Fund-based Facilities	Simple
Term Loan	Simple
Short Term, Fund-based Facilities	Simple
Short Term, Non-fund Based Facilities	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 analysing 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, are available on ICRA's website: www.icra.in

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	366.00	[ICRA]A1+
NA	Cash Credit / Working Capital Demand Loan	NA	NA	NA	60.00	[ICRA]AA(Stable)
NA	Term Loan	FY2020	NA	FY2025	8.25	[ICRA]AA(Stable)
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	229.00	[ICRA]A1+
INE850D14KU4	Commercial Paper	20-Dec-21	4.23%	20-Jun-22	25.00	[ICRA]A1+
INE850D14KV2	Commercial Paper	31-Dec-21	4.23%	29-Apr-22	75.00	[ICRA]A1+
INE850D14KX8	Commercial Paper	7-Jan-22	4.04%	4-Apr-22	25.00	[ICRA]A1+
INE850D14KY6	Commercial Paper	10-Jan-22	4.23%	30-Jun-22	25.00	[ICRA]A1+
INE850D14KZ3	Commercial Paper	13-Jan-22	3.95%	13-Apr-22	50.00	[ICRA]A1+
INE850D14KZ3	Commercial Paper	17-Jan-22	3.90%	13-Apr-22	25.00	[ICRA]A1+
INE850D14KZ3	Commercial Paper	17-Jan-22	3.90%	13-Apr-22	25.00	[ICRA]A1+
INE850D14KV2	Commercial Paper	31-Jan-22	4.16%	29-Apr-22	50.00	[ICRA]A1+
INE850D14LB2	Commercial Paper	1-Feb-22	4.15%	2-May-22	50.00	[ICRA]A1+
INE850D14LD8	Commercial Paper	14-Feb-22	4.33%	13-May-22	50.00	[ICRA]A1+
INE850D14LE6	Commercial Paper	15-Feb-22	4.15%	12-May-22	25.00	[ICRA]A1+
INE850D14LF3	Commercial Paper	15-Feb-22	4.15%	17-May-22	50.00	[ICRA]A1+
INE850D14LG1	Commercial Paper	15-Feb-22	4.25%	31-May-22	50.00	[ICRA]A1+
INE850D14LH9	Commercial Paper	7-Mar-22	4.16%	3-Jun-22	50.00	[ICRA]A1+
INE850D14LI7	Commercial Paper	10-Mar-22	4.19%	8-Jun-22	50.00	[ICRA]A1+
INE850D14LJ5	Commercial Paper	10-Mar-22	4.19%	6-Jun-22	50.00	[ICRA]A1+
INE850D14LK3	Commercial Paper	14-Mar-22	4.25%	10-Jun-22	50.00	[ICRA]A1+
INE850D14LL1	Commercial Paper	14-Mar-22	4.25%	13-Jun-22	50.00	[ICRA]A1+
INE850D14LM9	Commercial Paper	16-Mar-22	4.16%	15-Jun-22	50.00	[ICRA]A1+
INE850D14LN7	Commercial Paper	21-Mar-22	4.05%	18-May-22	50.00	[ICRA]A1+
Unplaced	Commercial Paper Programme	NA	NA	7-365 days	125.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	GAVL Ownership	Consolidation Approach
Godrej Agrovet Limited	100.00%	Full consolidation
Astec LifeSciences Limited	63.29%	Full consolidation
Behram Chemicals Private Limited	65.63%	Full consolidation
Comercializadora Agricola Agroastrachem Cia Ltda	100.00%	Full consolidation
Creamline Dairy Products Limited	51.91%	Full consolidation
Godrej Tyson Foods Limited	51.00%	Full consolidation
Godrej Maxximilk Private Limited	100.00%	Full consolidation
ACI Godrej Agrovet Private Limited	50.00%	Equity Method
Omnivore India Capital Trust	9.69%	Equity Method
Al Rahaba International Trading Limited Liability Company	24.00%	Equity Method

Source: *GAVL*

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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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