July 14, 2017

Godrej Agrovet Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, fund based facilities	60.00	[ICRA]AA (stable);re-affirmed
Long-term, non-convertible debenture programme	150.00	[ICRA]AA (stable); withdrawn
Commercial paper programme	650.00	[ICRA]A1+;re-affirmed
Short-term, fund based facilities	395.00	[ICRA]A1+;re-affirmed
Short-term, non-fund based facilities	70.00	[ICRA]A1+;re-affirmed

*Instrument Details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 60 crore[1] fund based bank limits of Godrej Agrovet Limited (GAVL) [2]. The outlook on the long-term rating is 'Stable'. ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 70 crore non-fund based bank limits, Rs. 395 crore fund based bank limits and Rs. 650 crore commercial paper programme of GAVL. ICRA has withdrawn the [ICRA]AA (pronounced ICRA double A) rating assigned to GAVL's Rs. 150 crore non-convertible debenture programme, at the request of the company, as the instrument stands fully redeemed and there is no amount outstanding against the said instrument.

Rationale

The re-affirmation of the ratings takes into account GAVL's strong business profile characterised by its presence in diverse agri focused businesses like animal feeds, vegetable oil (palm oil plantations), and crop protection (agri inputs) among others, as well as its healthy financial profile marked by moderate revenue growth during the last fiscal, healthy capital structure and coverage indicators, and favourable working capital cycle. The ratings also factor in the improved and healthy financial performance of GAVL's subsidiaries in FY2017. The subsidiaries include Astec LifeSciences Limited (Astec) and Creamline Dairy Products Limited (CDPL) in which GAVL had acquired majority stake in late FY2016. In the near to medium term, ICRA expects GAVL to derive significant synergy benefits from the above mentioned acquisitions as it looks to further expand and diversify its agri business profile.

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 highly price sensitive consumer segment. Further, GAVL's agri-focused business portfolio also remains susceptible to monsoon conditions. Nonetheless, the company's presence across diverse agri-businesses mitigates the risk to some extent. The ratings also derive comfort from GAVL's strong parentage by virtue of being a part of the Godrej group.

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

ICRA favourably notes GAVL's proposed initial public offering (IPO) plans in the near term and its likelihood of a positive impact on the company's capital structure and other key debt metrics. Going forward, success of IPO and monsoons, which so far have been satisfactory, would remain key rating sensitivities and would be closely monitored. ICRA will evaluate the impact of GAVL's proposed IPO on its credit profile as and when it takes place.

Key rating drivers

Credit strengths
- Dominant position in the domestic animal feed industry
- Diversified business presence insulates the company from downturns in any individual business segment
- Capital structure and coverage indicators witness significant improvement in FY2017 due to healthy operating performance both at the standalone and consolidated basis; proposed IPO to further strengthen the key debt indicators
- Strong financial flexibility by being part of Godrej Group

Credit weaknesses
- 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 highly price sensitive consumer segment
- Agri-focused business portfolio susceptible to monsoon conditions; presence across diverse agri-businesses mitigates the risks to some extent

Sensitivities
- ↑ Proposed IPO expected to favourably impact the capital structure and other key debt metrics
- ↓ Any large debt funded capex or acquisition may adversely impact the credit metrics

Description of key rating drivers:
GAVL enjoys dominant position in the domestic animal feeds industry. Historically, animal feeds segment has been GAVL's main business, with the company being present across various sub-categories like cattle, broiler, aqua and layer feed. In FY2013, animal feeds contributed to more than 80% of GAVL's standalone revenues thus leading to concentration risks. Nonetheless, over the years, GAVL's focus on diversification of its revenue streams has led to the segment's contribution to standalone sales decline to ~73% as of FY2017. The diversification has been provided by healthy revenue growth of other two business segments – vegetable oil (oil palm plantations; 5 year revenue CAGR of 17.7%) and crop protection (agri inputs; 5 year revenue CAGR of 16.8%). Additionally, with the acquisition of majority stake in Astec (agro-chemicals) and CDPL (dairy & allied products) in late FY2016, GAVL has achieved further diversification of its revenues as the contribution of animal feeds to consolidated revenues stood at significantly lower ~53% as of FY2017.

The increased salience of vegetable oil and crop protection businesses led to improved standalone operating margins of 9.3% in FY2017 vis-a-vis 9.1% in FY2016. This coupled with addition of relatively higher margin businesses like Astec has also resulted in better operating margins at the consolidated level (9.2% in FY2017 vis-a-vis 8.4% in FY2016).

In FY2016, challenging environment in its core business operations coupled with relatively large acquisitions (Asetc and CDPL) led to spike in the working capital intensity levels as well as marked increase in the overall borrowings leading to moderation in capital structure as well as other key debt metrics. Nonetheless, in FY2017, favourable monsoons and company's focused business approach led to improved operating performance and significantly better financial risk profile both on standalone (Gearing: 0.54x in FY2017 vis-a-vis 1.75x as of FY2016) as well as consolidated basis (Gearing: 0.53x in FY2017 vis-a-vis 1.35x as of FY2016).

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
Godrej Agrovet Limited (GAVL) is a part of the Godrej Group, which is engaged in diverse business segments spanning home appliances, fast-moving consumer goods, consumer products, industrial products (process plant and equipment), oleo chemicals, animal feed, real estate development and oil palm plantation through various group companies.

GAVL's product segments primarily cater to the rural sector and agricultural community. On a standalone basis, the company has three major business segments, namely, animal feed, vegetable oil (oil palm plantation) and crop protection (agri inputs). The company is one of the largest organised animal feeds manufacturer in India. It has cattle, poultry, fish and specialty feed categories in its product portfolio. It has over 60,000 hectares of palm oil palm plantations across seven states and manufactures 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 ~1,900 distributors.

On a consolidated basis, GAVL, through its subsidiaries, has interests in businesses like agrochemicals (Astec) and dairy (CDPL). Through its joint ventures, GAVL also has interests in integrated poultry (Godrej Tyson Foods Limited) and animal feeds (ACI Godrej Agrovet Private Ltd., Bangladesh).

On a consolidated basis, for the financial year ended March 31, 2017, GAVL reported profit after tax (PAT) of Rs. 272.9 crore on an operating income of Rs. 4,925.3 crore, as against a PAT of Rs. 261.2 crore on an operating income of Rs. 3,764.4 crore during the financial year ended March 31, 2016.

On a standalone basis, for the financial year ended March 31, 2017, GAVL reported a PAT of Rs. 208.0 crore on an operating income of Rs. 3,628.3 crore, as against a PAT of Rs. 158.3 crore on an operating income of Rs. 3,379.3 crore during the financial year ended March 31, 2016.

Key financial indicators:

GAVL; Consolidated	FY2016	FY2017
Operating income (Rs. crore)	3,764.43	4,925.32
PAT (Rs. crore)	261.24	272.92
OPBDIT/ OI (%)	8.4%	9.2%
RoCE (%)	27.0%	20.7%
Total Debt/ TNW (times)	1.35	0.53
Total Debt/ OPBDIT (times)	4.34	1.46
Interest coverage (times)	3.24	5.28
NWC/ OI (%)	20.0%	6.0%

Source: Godrej Agrovet Limited
Note: OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; RoCE: Return on Capital Employed; TNW: Tangible Networth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016
				July 2017	August 2016	August 2015	May 2015
1	Cash Credit/ WCDL	Long Term	60.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non Convertible Debenture	Long Term	150.00	[ICRA]AA (Stable) Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
3	Commercial Paper	Short Term	650.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short Term Loans	Short Term	395.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Letter of Credit/ Bank Guarantee	Short Term	70.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit/WCDL	-	-	-	60.00	[ICRA]AA (Stable)
Non Convertible Debenture	September 2015* May 2016^	-	December 2016* September 2016^	150.00	[ICRA]AA (Stable) Withdrawn
Commercial Paper	-	-	7-90 days	650.00	[ICRA]A1+
Short term loans	-	-	-	395.00	[ICRA]A1+
Letter of Credit/Bank Guarantee	-	-	-	70.00	[ICRA]A1+

Source: Godrej Agrovet Limited; *Tranche 1, ^Tranche 2

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Gaurang Deshmukh
+91 22 6114 3421
gaurangd@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

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.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
For more information, visit **www.icra.in**

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	