Godrej Agrovet Limited

January 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Working Capital Facilities	395.00	525.00	[ICRA]A1+; Assigned/Outstanding
Fund-based-Working Capital Facilities	60.00	60.00	[ICRA]AA (Stable); Outstanding
Non-fund based-Working Capital Facilities	70.00	70.00	[ICRA]A1+; Outstanding
Commercial Paper Programme	650.00	650.00	[ICRA]A1+; Outstanding
Total	**1,175.00**	**1,305.00**	

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 525 crore (enhanced from Rs. 395 crore)[1] fund-based limits of Godrej Agrovet Limited ('GAVL' or 'the company')[2]. ICRA has rating of [ICRA]A1+ outstanding for the Rs. 70 crore non-fund based bank limits and the Rs. 650 crore Commercial Paper Programme of the company. ICRA also has rating of [ICRA]AA (pronounced ICRA double A) outstanding for the Rs. 60 crore fund-based limits of GAVL. The outlook on the long-term rating is Stable.

Rationale

The ratings take into account GAVL's strong business profile characterised by its diverse agri focused businesses like animal feed, 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. ICRA also notes the 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. Furthermore, 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 as part of the Godrej Group.

ICRA favourably notes GAVL's successful completion of initial public offering (IPO) in October 2017, which will further cushion the currently comfortable capital structure.

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

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

Outlook: Stable

ICRA believes GAVL will continue to benefit from being part of the Godrej Group, a large and established business house in the country. The outlook may be revised to Positive if substantial growth in revenue and profitability coupled with judicious working capital management strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected or if any major capital expenditure, leveraged acquisitions or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Dominant position in the domestic animal feed industry - GAVL enjoys dominant position in the domestic organised animal feed industry, with a market share of around 20%. Historically, the animal feed segment has been GAVL's main business, with the company being present across various sub-categories like cattle, broiler, aqua and layer feed.

Diversified business presence insulates the company from downturns in any individual business segment - In FY2013, animal feeds contributed more than 80% to GAVL's standalone revenues, thus leading to concentration risks. 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; five-year revenue CAGR of 17.7%) and crop protection (agri inputs; five-year revenue CAGR of 16.8%). Additionally, with the acquisition of majority stake in Astec (agro-chemicals) and CDPL (dairy and allied products) in late FY2016, GAVL achieved further diversification of its revenues, as the contribution of animal feeds to consolidated revenues stood significantly lower at ~53% in FY2017.

Capital structure and coverage indicators witness significant improvement in FY2017 due to healthy operating performance both at the standalone and consolidated basis; successful IPO to further strengthens the key debt indicators - In FY2017, favourable monsoons and the company's focused business approach led to improved operating performance and significantly better financial risk profile both on a standalone (gearing at 0.76x in H1 FY2018 and 0.54x in FY2017 over 1.75x in FY2016) as well as on a consolidated basis (gearing at 0.68x in H1 FY2018 and 0.53x in FY2017 over 1.35x in FY2016). Further, GAVL's successful IPO in October 2017 will further strengthen the capital structure and debt coverage indicators in near term. The total issue size amounted to Rs. 1,157.31 crore, comprising fresh issue of Rs. 291.51 crore. Of the fresh money raised, Rs. 100 crore has been used for repayment/prepayment of working capital and Rs. 150 crore for repayment of commercial papers.

Strong financial flexibility as part of the Godrej Group - GAVL is a subsidiary of Godrej Industries Limited (GIL) with the latter being the flagship company of the Godrej Group, a large and established business house in the country. This imparts significant financial flexibility to GAVL, as it helps it to maintain good access to the capital markets and enjoy strong relationships with the banks.

Credit challenges

GAVL's cost structure and profitability remain susceptible to raw material price fluctuations - 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 - Since the company is present in the agri-related businesses, its revenues and margins are susceptible to monsoon conditions. Nonetheless, its presence across diverse agri-businesses mitigates the risks to some extent.

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—animal feed, vegetable oil (oil palm plantation) and crop protection (agri inputs). The company is one of the largest organised animal feed manufacturers in India. It offers cattle, poultry, fish and speciality feed categories in its product portfolio. It has over 60,000 hectares of palm tree plantations across seven states for manufacturing 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, through its subsidiaries, GAVL 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 feed (ACI Godrej Agrovet Private Ltd., Bangladesh).

In H1 FY2018, on a standalone basis, the company reported a net profit of Rs. 136.5 crore on an operating income of Rs. 2,026.1 crore, as compared to a net profit of Rs. 107.2 crore on an operating income of Rs. 2,101.3 crore in H1 FY2017.

In H1 FY2018, on a consolidated basis, the company reported a net profit of Rs. 161.1 crore on an operating income of Rs. 2,785.3 crore, as compared to a net profit of Rs. 151.8 crore on an operating income of Rs. 2,758.2 crore in H1 FY2017.

Key financial indicators (audited; consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	3,764.4	4,925.3
PAT (Rs. crore)	261.2	272.9
OPBDIT/ OI (%)	8.4%	9.2%
RoCE (%)	27.0%	20.7%
Total Debt/ TNW (times)	1.4	0.5
Total Debt/ OPBDIT (times)	4.3	1.5
Interest coverage (times)	3.2	5.3
NWC/ OI (%)	20.0%	6.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2017 (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 August 2015	Date & Rating in FY2015 July 2014
1	Short Term Loans	Short Term	525.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	Cash Credit/WCDL	Long Term	60.00	NA	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**
3	Letter of Credit & Bank Guarantee	Short Term	70.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	Commercial Paper	Short Term	650.00	NA	**[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term Loans	NA	NA	NA	525.00	[ICRA]A1+
NA	Cash Credit/WCDL	NA	NA	NA	60.00	[ICRA]AA (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	70.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	650.00	[ICRA]A1+

Source: Godrej Agrovet Limited

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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.

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.

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