October 23, 2019

Godrej Agrovet Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Working Capital Facilities	60.0	60.0	[ICRA]AA (Stable); reaffirmed
Short-term, Non-fund Based Working Capital Facilities	70.0	20.0	[ICRA]A1+; reaffirmed
Commercial Paper Programme	600.0	600.0	[ICRA]A1+; reaffirmed
Short-term, Fund-based Working Capital Facilities	500.0	280.0	[ICRA]A1+; reaffirmed
Total	**1,230.00**	**960.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Godrej Agrovet Limited's (GAVL's) strong business profile, as characterised by its diverse agri-focused businesses like animal feed, vegetable oil (palm oil) and crop protection (agri inputs). ICRA notes GAVL's dominant position in the domestic organised animal feed industry. Furthermore, GAVL's financial risk profile is strong, as characterised by strong capitalisation and coverage indicators. The company's return on capital employed (RoCE) also continues to remain healthy, which, to an extent, is also supported by better credit terms availed by the company from its creditors. The rating also derives comfort from GAVL's strong parentage as part of the Godrej Group, which lends financial flexibility. ICRA notes GAVL's incremental investments in its subsidiary companies, viz. Astec LifeSciences Limited, Godrej Tyson Foods Limited and Godrej Maxximilk Private Limited in FY2019 and the current fiscal to increase its stake / acquire control of these entities for driving future synergy benefits.

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, which limits its ability to fully pass on the increase in input prices. This was witnessed during FY2019, where the segment margin (PBIT margin) declined to 4.2% as against 6.1% in FY2018, thus resulting in an overall decline in GAVL's operating profit margin (OPM) to 7.8% in FY2019 from 9.5% in FY2018. Furthermore, GAVL's agri-focused business portfolio also remains vulnerable to weather conditions and Government regulations. This was witnessed during Q1 FY2020 for its vegetable oil business where due to the lower oil extraction ratio in the fruit bunches on account of excessive heat, GAVL witnessed a sharp decline in the segment margin to 8.7%, as against 21.3% in Q1 FY2019. This resulted in a decline in GAVL's OPM to 9.3% in Q1 FY2020, as against 11.2% in Q1 FY2019. Nonetheless, the company's presence across diverse agri-businesses mitigates the risk to some extent.

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

Dominant position in the domestic animal feed industry – GAVL enjoys a dominant position in the domestic organised animal feed industry. 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. ICRA notes the company's concerted efforts to improve the performance of its animal feed business, especially its broiler feed category, which had been impacted in the past few years because of competition from integrated players. The company's research and development (R&D) driven efforts to achieve cost leadership and cost competitiveness supported its strong ~14% volume growth in FY2019, thus, driving the overall revenue growth at the standalone level.

Diversified business presence insulates the company from downturns in any individual business segment – In FY2013, animal feed generated 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 has resulted in a decline in the segment's share of standalone sales to ~71% in FY2019. The diversification has been provided by healthy revenue growth of the other two business segments—vegetable oil and crop protection—with each having a five-year (FY2014-FY2019) revenue compounded annual growth rate (CAGR) of ~13% and ~11%, respectively.

Strong capitalisation and coverage indicators – Healthy accretion to reserves coupled with declining debt levels has resulted in a robust capital structure, as reflected in a gearing (total debt/networth) of 0.1 time as on March 31, 2019 and improved coverage metrics, as reflected in TD/OPBDITA of 0.3 time as on March 31, 2019 and interest coverage of 15.2 times in FY2019 (TD/OPBDITA of 0.6 time as on March 31, 2018 and interest coverage of 10.9 times in FY2018).

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 58.15% stake in GAVL as on June 30, 2019), the flagship company of the Godrej Group, a large and established business house in the country. This imparts strong financial flexibility to GAVL, as it helps it to maintain good access to capital markets and enjoy healthy 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 This was witnessed during FY2019, where the segment margin declined to 4.2% as against 6.1% in FY2018 since it was not able to fully pass on the increase in input prices to its customers in its animal feed business, thus resulting in an overall decline in GAVL's OPM to 7.8% in FY2019 from 9.5% in FY2018.

Agri-focused business portfolio vulnerable to weather conditions and Government regulations – Since the company is present in agri-related businesses, its revenues and 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. This was witnessed during Q1 FY2020 for its vegetable oil business where due to the lower oil extraction ratio in the fruit bunches from excessive heat, GAVL witnessed a sharp decline in the segment margin to 8.7%, as against 21.3% in Q1 FY2019. This resulted in a decline in GAVL's OPM to 9.3% in Q1 FY2020, as against 11.2% in Q1 FY2019. Nonetheless, its presence across diverse agri-businesses mitigates the risks to some extent.

Liquidity position: Adequate

Besides external term loans of Rs. 5.5 crore as on March 31, 2019, GAVL had short-term loans of Rs. 100.4 crore and working capital debt (cash credit) of Rs. 5.1 crore as on March 31, 2019. Of the total long-term debt of Rs. 5.5 crore as of March 2019, ~Rs. 2.3 crore is scheduled to be repaid in FY2020.

GAVL's liquidity is adequate as supported by its cash flow from operations, which are expected to remain healthy on the back of favourable operating performance and low working capital intensity of operations. Furthermore, GAVL's capital expenditure (capex) plans, which on an average are expected to be ~Rs. 80 crore per annum over the next three years, are expected to be funded through internal accruals. The short-term debt repayments and incremental investments in subsidiary companies, over and above its cash accruals, are expected to be funded by short-term debt, as has been the company's policy in the past. However, ICRA does not foresee any concerns on liquidity given that GAVL, being part of the Godrej Group, maintains good access to the capital markets and enjoys healthy relationships with the banks. The company had a cushion available in the form of cash and liquid investments of Rs. 13.7 crore as on March 31, 2019 and undrawn working capital limits of around Rs. 344 crore as on June 30, 2019.

Rating sensitivities

Positive triggers – A considerable increase in the company's scale of operations, while maintaining the current credit profile, would be a positive trigger.

Negative triggers – GAVL's return on capital employed (RoCE) falling below 20% on a sustained basis will be a negative trigger. Furthermore, any major debt funded capex / investment in subsidiaries / large inorganic expansion, leading to weakening credit metrics, would pose a downward pressure on GAVL's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company. Furthermore, ICRA considers the expected dividend inflows and the potential funding requirement of some of the investee companies, which GAVL may have to support.

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.

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, 2019, GAVL had around 68,400 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 ~6,500 distributors.

On a consolidated basis, through its subsidiaries, GAVL has interests in businesses like agrochemicals (Astec LifeSciences Limited, 58.18% subsidiary of GAVL as on June 30, 2019 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 (yielding) cows (Godrej Maxximilk Private Limited, 74.00% subsidiary). In addition, GAVL has interests in animal feeds through its joint venture, ACI Godrej Agrovet Private Ltd., Bangladesh.

In Q1 FY2020, on a standalone basis, GAVL reported a profit after tax (PAT) of Rs. 68.3 crore on an operating income (OI) of Rs. 1,252.3 crore, as compared to a PAT of Rs. 73.0 crore on an OI of Rs. 1,110.0 crore in Q1 FY2019.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3680.0	4289.7
PAT (Rs. crore)	190.9	207.9
OPBDIT/OI (%)	9.5%	7.8%
RoCE (%)	22.0%	22.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.1
Total Debt/OPBDIT (times)	0.6	0.3
Interest Coverage (times)	10.9	15.2
DSCR	0.6	1.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018			FY2017
					23-Oct-2019	21-Sep-2018	12-Jan-2018	25-Oct-2017	14-Jul-2017	10-Aug-2016
1	Fund-based Facilities	Short-term	280.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based Facilities	Long-term	60.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-fund Based Facilities	Short-term	20.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short-term	600.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

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	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	280.00	[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	20.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	600.00	[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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