June 19, 2020

Godrej Agrovet Limited: Rating 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 Working Capital Facilities	60.00	60.00	[ICRA]AA (Stable); reaffirmed
Short-term, Non-fund Based Working Capital Facilities	20.00	20.00	[ICRA]A1+; reaffirmed
Commercial Paper Programme	600.00	600.00	[ICRA]A1+; reaffirmed
Short-term, Fund-based Working Capital Facilities	280.00	610.00	[ICRA]A1+; reaffirmed
Total	**960.00**	**1,290.00**	

**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 remains healthy, which to an extent is also supported by better credit terms availed by the company from its creditors. In FY2020, while GAVL's operating profit margin (OPM) at 7.1% (6.9% - excluding impact of IND AS 116) was slightly lower than its FY2019 OPM at 7.8%, its RoCE was supported by profit of ~Rs. 78 crore on the sale of a land parcel to Godrej Properties Limited in Q4 FY2020. The reason for its lower OPM in FY2020 was because of the adverse impact of the palm oil business in H1 FY2020, owing to lower end-product prices and lower oil extraction ratio (OER), as well as muted growth in the crop protection business.

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 and Godrej Maxximilk Private Limited—in FY2020. Going forward, this is likely to increase its stake in 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. Furthermore, GAVL's agri-focused business portfolio also remains vulnerable to weather conditions and Government regulations. This was witnessed in its palm oil business in H1 FY2020, wherein lower crude palm oil and palm kernel oil prices and lower OER in the fresh fruit bunches on account of extreme heat resulted in a decline in the segment's profit before depreciation interest and tax (PBDIT) margin to 17.4% in FY2020, over 19.6% in FY2019. Nonetheless, the company's presence across diverse agri-businesses mitigates the risks to some extent.

Amongst GAVL's businesses, including its subsidiaries, the impact of Covid-19 was more pronounced on its animal feed business (particularly poultry feed) and poultry business under Godrej Tyson Foods Limited. The same was because of rumours linking Covid-19 to poultry consumption, which had resulted in a significant decline in demand and prices of live birds. Furthermore, during the initial period of the lockdown, since out of home consumption of milk and value-added milk products were impacted, there was a shrinkage in demand for cattle feed as well. Nonetheless, since March 2020, the company has witnessed a sequential improvement across its segments including animal feed, poultry and dairy. Also, while the overall domestic consumption demand for palm oil, which is majorly for outside home consumption, will witness a decline in FY2021, GAVL's management does not expect its sales to be impacted. However, as the Covid-19 situation is still evolving, ICRA will continue to monitor it closely over the next few quarters.

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, layer and aqua 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 have supported its volume growth. However, while the company witnessed a volume growth of ~8% in 9M FY2020, it witnessed a YoY decline of ~11% in Q4 FY2020 due to Covid-19 related disruptions, thus dragging down the volume growth in FY2020 to ~3.0%. Despite the muted volume growth, GAVL's animal feed business revenues witnessed YoY growth of ~20% in FY2020, driven by improved realisations on account of higher commodity prices.

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 resulted in a decline in the segment's share of standalone sales to ~71% in FY2019. The same increased to ~75% in FY2020 due to healthy revenue growth in animal feed business and muted performance in the other two segments. The diversification of its revenue profile was supported by revenue growth in vegetable oil and crop protection businesses, with a five-year (FY2016-FY2020) revenue compounded annual growth rate (CAGR) of ~11% and ~9%, respectively, against ~7% in its animal feed business. 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 and conscious efforts on the part of the management to maintain hygiene in working capital management, the OPM remains healthy, supported by its high margin in-house speciality products.

Strong capitalisation and coverage indicators – Despite an increase in debt as on March 31, 2020, due to increased working capital requirements, the company's capitalisation metrics remained strong as reflected in a gearing (total debt/net worth) of 0.2 time (0.1 time as on March 31, 2019) and TOL/TNW (total outside liabilities/net worth) of 1.1 times (1.1 times as on March 31, 2019) as on March 31, 2020. Furthermore, the company's interest coverage metric in FY2020 improved to 16.8 times (adjusted for IND AS 116 impact; 15.1 times as per reported financials) from 15.4 times in FY2019, supported by relatively lower interest costs.

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 59.28% stake in GAVL as on March 31, 2020), 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 revenues and profitability remain susceptible to commodity 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 dominant 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 agri-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. In FY2020, the company's crop protection business witnessed modest YoY revenue growth of ~3%, over ~8% in FY2019 and ~13% in FY2018, as growth was impacted by the initially delayed and subsequently extended monsoon, resulting in reduced application opportunities. Furthermore, the performance of its vegetable oil business was impacted by extreme heat, which resulted in lower OER in fresh fruit bunches, thus resulting in a decline in the segment PBDIT margin to 17.4% over 19.6% in FY2019.

Liquidity position: Adequate

As on March 31, 2020, GAVL had a total debt of Rs. 389.5 crore outstanding, which comprised term loans of Rs. 3.9 crore and short-term loans and commercial paper aggregating to Rs. 385.6 crore. Of the total long-term debt of Rs. 3.9 crore, ~Rs. 2.3 crore is scheduled for repayment in FY2021.

GAVL's liquidity is adequate as supported by its cash flow from operations, which are expected to remain healthy on the back of stable OPM and low working capital intensity of operations. Furthermore, GAVL's capital expenditure (capex) plans, which on an average are expected to be ~Rs. 65 crore per annum over FY2021 to FY2023, 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. However, ICRA does not foresee any concerns on liquidity, given that GAVL, as part of the Godrej Group, maintains good access to 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. 32.2 crore as on March 31, 2020 and undrawn fund-based limits of around Rs. 240 crore as on April 30, 2020.

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 whom 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, 2020, GAVL had around 71,426 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 ~7,000 distributors.

On a consolidated basis, through its subsidiaries, GAVL has interests in businesses like agrochemicals (Astec LifeSciences Limited, 61.18% subsidiary of GAVL as on March 31, 2020 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, 74.00% subsidiary). In addition, GAVL has interests in animal feed through its joint venture, ACI Godrej Agrovet Private Ltd., Bangladesh.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	4,344.9	4,995.1
PAT (Rs. crore)	207.9	293.3
OPBDIT/OI (%)	7.8%	7.1%
RoCE (%)	22.5%	22.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.1
Total Debt/OPBDIT (times)	0.3	1.1
Interest Coverage (times)	15.4	15.1
DSCR	1.3	3.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018			
					19-June-2020	23-Oct-2019	21-Sep-2018	12-Jan-2018	25-Oct-2017	14-Jul-2017
1	Fund-based Facilities	Short-term	610.00	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	325.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *as on April 30, 2020*

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 click here

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, Fund-based Working Capital Facilities	NA	NA	NA	610.00	[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

Analyst Contacts

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

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Rushit Doshi
+91 22 6114 3422
rushit.doshi@icraindia.com

Relationship Contact

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
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