

May 25, 2023

Godrej Agrovet Limited: Ratings 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/ Cash Credit	60.00	60.00	[ICRA]AA(Stable); reaffirmed
Long-term – Fund-based/ Term Loan	8.25	8.25	[ICRA]AA(Stable); reaffirmed
Short-term – Fund-based Facilities	366.00	436.20	[ICRA]A1+; reaffirmed and assigned for enhanced limits
Short-term – Non-fund Based Facilities	229.00	229.00	[ICRA]A1+; reaffirmed
Commercial Paper	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	1,663.25	1,733.45	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings continues to take into account the diverse presence of Godrej Agrovet Limited (GAVL or the company) in agri-focused businesses such as animal feed, vegetable oil (palm oil), crop protection (agri inputs), dairy and poultry, which insulates the company from downturns in any individual business sector. Among the various sectors it operates in, GAVL enjoys a strong position in the domestic organised animal feed segment, which accounts for ~50% of its consolidated revenues. Moreover, GAVL has registered further market share gains in this segment over recent quarters. The ratings also factor in the company's comfortable capitalisation metrics as reflected in a gearing (total debt/net worth) of 0.5 time and TOL/TNW (total outside liabilities/net worth) of 1.0 time as on March 31, 2023. Further, the company continued to demonstrate a comfortable interest coverage at 5.3 times for FY2023, although the same moderated to an extent on a YoY basis due to some weakening in profitability across some of the segments and increase in finance costs. Nevertheless, comfort continues to be drawn from GAVL's strong parentage as part of the Godrej Group, which imparts financial flexibility. ICRA also notes that GAVL has been gradually increasing its stake in its subsidiary companies such as Astec LifeSciences Limited (Astec).

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 any increases in input prices. Barring the vegetable oil division and poultry business, the operational divisions of GAVL reported YoY decline in their respective PBIT margins during FY2023, with higher input costs or pricing pressure being the key reasons for the same. Therefore, GAVL's ability to pass on the input cost fluctuations to end-consumers either through strengthening market position or increasing salience of value-added/differentiated products for protecting its margins, remains a key rating monitorable. The company's presence across diverse agri-businesses provides comfort to the overall business model of GAVL. Nonetheless, the agri-focused business portfolio of GAVL remains vulnerable to factors such as adverse weather conditions and Government regulations. The ratings also factor in the modest profit margins in the dairy business, although it was aggravated in the previous fiscal due to industry-wide challenges, given the steep increase in the input costs. The ratings also factor in GAVL's capex outlay of ~Rs. 400-450 crore per annum over the near term, which would be funded through a mix of internal accruals and external borrowings.

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 with presence across sub-categories like cattle, broiler, layer and aqua feed. The animal feed segment has remained the largest contributor to revenues with a share of ~50% in the total consolidated revenues over recent years. The company's research and development (R&D) driven efforts to achieve cost leadership and cost competitiveness are expected to continue to support the company to remain a leading player in the segment going forward as well. The animal feed segment reported a decent 14% YoY revenue growth in FY2023, primarily aided by market share gains seen in the animal feed segment and healthy volume growth reported in the fish feed segments during the fiscal.

Diversified business presence insulates the company from downturns in any individual business segment – GAVL is a well-diversified agri-product player with presence across multiple segments including animal feed, vegetable oil (palm oil), crop protection (agri inputs), dairy and poultry. 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 (from 51.7% in FY2019 to 49.5% in FY2023). Barring the crop protection business, all the key operational divisions reported YoY revenue growth in FY2023, although higher input costs and limited transmission of the same towards end-consumers led to moderate 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 continued to remain comfortable in FY2023, as reflected in a gearing (total debt/net worth) of 0.5 time and TOL/TNW (total outside liabilities/net worth) of 1.0 time as on March 31, 2023. Further, the company continued to demonstrate a comfortable interest coverage at 5.3 times for FY2023. The overall capital structure is expected to remain fairly comfortable going forward as well, supported by comfortable profitability and access to favourable cost of funding, as a part of the Godrej Group.

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 64.90% stake in GAVL as on March 31, 2023. 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, especially 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 agri-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. For instance, one such Government intervention led to steep deterioration in profitability of GAVL's animal feed segment during Q1 FY2023, on account of high cost inventory. 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 dairy industry witnessed margins pressures during FY2023 owing to higher input costs, mainly milk procurement costs. This also reflected in the profitability of GAVL's dairy division, with the division reporting PBIT loss in FY2023. While the company expects to attain breakeven in the dairy business over the near term, it remains contingent on how efficiently the company is able to pass on the input cost hikes

to its customers. In this regard, increasing volume offtake for the value-added products (which typically carry higher margins) does provide some comfort.

Continued capex plans over the medium term likely to keep dependence on external borrowings high – GAVL has planned large capex over the next couple of years, mainly towards capacity addition for Astec. The capex outlay remains sizeable at ~Rs. 400-450 crore per annum over the next two years, and will be partially funded by external borrowings. Accordingly, GAVL's dependence over external borrowings is expected to continue over the near to medium term, which may limit meaningful improvement in its credit metrics. However, once commissioned, commensurate returns from these capex activities should support the credit metrics in the longer term.

Environmental and Social Risks

Environmental considerations: The **crop protection business** remains exposed to the risk of tightening regulation for production, handling and transport of chemical products with regards to safety and environmental impact and remedial measures for pollution and effluent treatment. However, the company's efforts to expand its product and segment portfolio are expected to provide some comfort against regulatory risks pertaining to a specific product or segment. The **dairy business** remains indirectly exposed to physical climate risks, which could result in variations in availability of fodder for cattle and impact their productivity. The **animal feed segment** remains partially exposed to regulations from the Government, such as price capping mechanisms. Moreover, this sector remains indirectly exposed to physical climate risks, which could result in variations in availability of cattle fodder. Extreme weather conditions like harsh summers or floods can also impact raw material availability, and in turn, may lead to higher input costs in this segment. However, the dominant status of GAVL in the domestic animal feed market coupled with its presence across multiple states provides some comfort. The **vegetable oil segment** remains indirectly exposed to physical climate risks, which could result in variations in availability of palm crop (FFB).

Social considerations: GAVL, like most conglomerates, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption-free operations for the entity. In view of this, GAVL undertakes several measures to maintain high health and hygiene standards as well as employee morale at the workplace. Importance is also given to physical and mental health of employees, by providing all-round support, organising expert workshops as well as setting up specific benefit programmes to help families of deceased employees.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by a cash and liquid investment balance of Rs. 46 crore (on a consolidated basis as on March 31, 2023) and sufficient buffer in the form of undrawn working capital lines, which stood at Rs. 320 crore as on March 31, 2023. Further, the cash flow generation at the consolidated level is expected to remain comfortable at Rs. 300-400 crore per annum, providing further comfort to the liquidity profile. Against these, the consolidated capital expenditure outlay for FY2024 is at ~Rs. 400-450 crore, and debt repayment quantum for the fiscal at ~Rs. 65 crore. GAVL also enjoys healthy financial flexibility as a part of the Godrej Group, which lends it easy access to capital markets to raise funds in the case of exigencies.

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 rating trigger. Sustained net-debt/OPBIDTA of below 1.0 time 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 rating 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 64.90% stake in Godrej Agrovet Limited (as on March 31, 2023).

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 in the animal feed segment. In the vegetable oil division, the company has a sizeable quantity of palm tree plantations across nine states and has six manufacturing facilities across four states for manufacturing for producing crude palm oil, palm kernel oil and palm kernel cake. As part of the crop protection business, it is also a niche player in select agri-inputs such as insecticides, fungicides, soil conditioners and herbicides, 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, 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 50% joint venture in Bangladesh, ACI Godrej Agrovet Private Ltd., Bangladesh.

Key financial indicators

GAVL (consolidated)	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	8,319.3	9,379.0
PAT (Rs. crore)*	368.9	263.4
OPBDIT/OI (%)	8.2%	5.6%
PAT/OI (%)	4.4%	2.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0
Total Debt/OPBDIT (times)	2.4	2.7
Interest Coverage (times)	10.8	5.3

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

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 (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as of Mar 31, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
			(Rs. crore)	(Rs. crore)	25-May-23	31-May-22	31-May-21	19-Jun-20
1	Fund-based Facilities	Short-term	436.20	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loan	Long-term	8.25	5.16	[ICRA]AA (Stable)	[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	625.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company

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: [Click Here](#)

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 Facilities	NA	NA	NA	436.20	[ICRA]A1+
NA	Long Term – Fund Based / Cash Credit	NA	NA	NA	60.00	[ICRA]AA(Stable)
NA	Long Term – Fund Based / Term Loan	FY2020	NA	FY2025	8.25	[ICRA]AA(Stable)
NA	Short Term – Non Fund Based Facilities	NA	NA	NA	229.00	[ICRA]A1+
INE850D14OF7	Commercial Paper	3-Mar-23	NA	7-365 days	50.00	[ICRA]A1+
INE850D14OH3	Commercial Paper	16-Mar-23	NA		50.00	[ICRA]A1+
INE850D14OJ9	Commercial Paper	24-Mar-23	NA		50.00	[ICRA]A1+
Unplaced	Commercial Paper Programme	NA	NA	7-365 days	850.00	[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	64.77%	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
Godvet Agrochem Limited	100.00%	Full Consolidation
ACI Godrej Agrovet Private Limited	50.00%	Equity Method
Omnivore India Capital Trust	9.62%	Equity Method
Al Rahaba International Trading Limited Liability Company	24.00%	Equity Method

Source: GAVL

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