July 07, 2023

Godrej Consumer Products Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term/ Short-term, Fund-based/ Non-fund Based Facilities	800.00	800.00	[ICRA] AAA (Stable)/ [ICRA] A1+; reaffirmed
Commercial Paper Programme	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Total	**3,800.00**	**3,800.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to favourably factor in the established position of Godrej Consumer Products Limited (GCPL) in the domestic and international (Asia, Africa and Latin America) fast-moving consumer goods (FMCG) markets and its diversified product portfolio spanning the core categories of personal care (including hair care) and home care. ICRA notes that GCPL has generally reported healthy growth across major segments, driven by its diversified product offerings and growing brand awareness among its key consuming markets. ICRA expects GCPL to continue to leverage its strong brands and market leadership position across different segments/ geographies to drive sustained growth in revenues and accruals. Additionally, despite increase in debt levels in the current fiscal due to the recently concluded acquisition of the FMCG business of Raymond Consumer Care Limited (RCCL), ICRA expects it to continue to maintain a strong financial risk profile, given low gearing levels, strong liquidity and healthy cash accruals from operations.

As per the data shared by the company in its annual report and presentations, GCPL's brands such as Goodknight and Hit in household insecticides (HI), Godrej Expert in the hair colouring and Cinthol and Godrej No 1 in the personal care segments enjoy leading positions in the domestic market. Additionally, the recent acquisition from RCCL would strengthen its presence in the growing deodorants and sexual wellness categories, where the acquired brands of Park Avenue and Kamasutra enjoy established market positions. Similarly, in international markets, its brands like Darling in the dry hair care segment across Africa, as well as Mitu in the wet wipes, and Stella in the air fresheners section in Indonesia, enjoy established market positions in their respective regions. ICRA draws comfort from the fact that GCPL has a consistent track record of introducing new products to cater to shifting consumer preferences and expects that, going forward, its revenue growth will be driven by stable demand and introduction of new products across geographies. The ratings also consider the financial flexibility enjoyed by GCPL as a part of the Godrej Group.

ICRA notes the intense competition across its product categories, spanning domestic as well as international markets. While GCPL's presence across multiple geographies in Asia, Africa, North America and Latin America helped geographical as well as product portfolio diversification, it exposes its revenues and profitability to the enhanced geo-political, regulatory and currency risks prevalent in the regions. Additionally, the company's profitability remains vulnerable to fluctuations in raw material prices. This was visible in the recent past wherein owing to disproportionate rise in raw material prices, given the linkage to crude oil (for detergents and packaging) and palm oil (for personal care), GCPL's operating profit margin (OPM) declined to 17.0% in H1 FY2023 from 20.3% in FY2022 and 22.3% in FY2021, before recovering to 21.1% in H2 FY2023 as the inflationary pressures eased. Nonetheless, going forward, ICRA expects the OPM to stabilise because of calibrated price hikes, new investment strategies in its core product portfolio and cost control measures being undertaken by the management.

The Stable outlook reflects ICRA's expectation that GCPL will continue to benefit from its established position in the domestic as well as international FMCG markets, resulting in healthy cash accruals, strong debt protection metrics and a comfortable capital structure.

Key rating drivers and their description

Credit strengths

Established position in the domestic and international FMCG markets, supported by strong brands – As per the data shared by the company in its annual reports and presentations, GCPL's brands enjoy a market leading position in the domestic HI market (Goodknight and Hit) and hair colours (Godrej Expert) and is the second largest player in the domestic air freshener (Aer) and soaps (Godrej No 1, Cinthol) markets. Additionally, in the current fiscal, it has acquired the FMCG business of RCCL, comprising the Park Avenue and Kamasutra brands, which enjoy strong brand recall in the domestic deodorant and sexual wellness categories. Furthermore, it enjoys market leading positions in various categories such as HI (Hit), air fresheners (Stella) and wet wipes (Mitu) categories in Indonesia and ethnic hair care and hair extensions/ dry hair care (Darling) markets in Sub-Saharan Africa. Supported by its portfolio of strong brands, constant innovations and brand repositioning, GCPL maintains a strong competitive position in these key product categories and geographies, lending considerable competitive benefits to GCPL in the form of pricing power and economies of scale, among others.

Diversified product categories and geographies – GCPL's inorganic expansion over the past decade across Asia, Africa, the US and Latin America has resulted in a diversified revenue profile, with its international operations driving ~44% of its consolidated revenues in FY2023. Such expansion has also helped GCPL in deriving synergies in terms of product cross pollination and a stronger distribution network, besides diversifying its product portfolio and geographical reach. Furthermore, at the consolidated level, GCPL derived 41% of its FY2022 revenues from the home care segment, 33% from the hair care segment and 26% from the personal care segment, illustrating a diversified segmental presence. The diversified product profile and geographical presence helps GCPL limit the vulnerability of its scale and margins to any adverse developments in any particular segment or geography.

Healthy financial profile –At the consolidated level, GCPL had total debt of Rs. 1,704.3 crore and Rs. 1,129.6 crore (including lease liability of Rs. 96.7 crore and Rs. 95.6 crore) as on March 31, 2022 and March 31, 2023, respectively. With healthy cash accruals of Rs. 1,800-2,000 crore annually, nil dividend pay-outs over the recent past, and a stable working capital cycle, the company was net cash surplus at Rs. 399.5 crore and Rs. 2,257.0 as on March 31, 2022 and March 31, 2023, respectively. Total debt/OPBDITA stood at 0.7x in FY2022 and 0.4x in FY2023, which has improved over the recent past from 1.7x in FY2020, despite the moderation in profitability, supported by reduction in debt levels. The interest coverage of 12.0x in FY2022 and 8.9x in FY2023 also remains healthy. Despite the large debt-funded acquisition of RCCL (gross consideration of Rs. 2,825 crore) and short-term impact on profitability and net debt, the financial profile is expected to remain strong, given its healthy credit profile and steady cash accruals from operations. GCPL is one of the flagship companies of the Godrej Group, a large and established business house in the country. This imparts significant financial flexibility to the company, helping it to maintain healthy access to capital markets and enjoy strong relationships with banks.

Credit challenges

Intense competition in the FMCG industry; profitability exposed to fluctuations in input prices – While GCPL enjoys market leading positions in the domestic HI, soaps, and hair colour categories, as well as in the ethnic hair colour and hair extensions segments in Sub-Saharan Africa, it faces intense competition from existing players as well as new entrants. Nonetheless, GCPL's strong brand equity in these segments, its innovative product offerings and marketing efforts are expected to help it successfully counter the competitive pressures. GCPL's revenues and OPM remain susceptible to seasonality risk, especially in the HI segment; as well as to raw material price fluctuation risks in the home and personal care segments where raw materials are crude oil and palm oil derivatives, respectively. This was visible in FY2022 and FY2023, when the OPM declined to 20.3% and 19.1%, respectively, from 22.3% in FY2021. Going forward, the ability of the company to pass on such rise in raw material prices as per the product offering and market share, will remain a key monitorable.

Several acquisitions undertaken in rapid succession in the past indicate risk appetite of the management – GCPL's inorganic growth through acquisitions in rapid succession indicates the risk appetite of the management, thereby subjecting the consolidated entity to enhanced political, regulatory and currency risks. Nonetheless, the geographic and category diversification thus achieved, mitigate these risks to some extent. ICRA will continue to evaluate the impact of further inorganic expansions, if any, on a case-to-case basis.

Exposed to fluctuations in foreign exchange – GCPL is inherently exposed to currency movement risk with its overseas operations, imports and exports. Any adverse movement in currency rates could, therefore, impact its profitability. However, it has a formal hedging policy to safeguard its forex exposure, which mitigates the risk to an extent.

Environmental and Social Risks

Environmental considerations: FMCG companies remain exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste. Accordingly, companies could face operational disruptions if regulatory norms are not complied with. In line with GCPL's vision for FY2025, which is to lead in sustainability action, there has been significant reduction in energy and water consumption in its Indian operations in recent years.

Social considerations: On the social dimension, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being in the manufacturing business, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem is essential for disruption-free operations. Accordingly, the company tries to provide a thriving workplace to its employees and invest in their learning and development.

Liquidity position: Strong

GCPL's liquidity position is strong, supported by free cash and bank balances and liquid investments of Rs. 3,386.6 crore as on March 31, 2023 (on a consolidated basis) and fund-based bank limits of Rs. 108 crore in the domestic market, which have been sparingly utilised. The company also has unsecured fund-based limits of ~$250-300 million (~Rs. 2,400 crore) outside India, of which ~Rs. 1,500 crore has been utilised. With its business expected to chart a stable growth trajectory in the medium term, along with its stable margins and working capital intensity and moderate capex plans (~Rs. 300-350 crore annually), GCPL's free cash flows are likely to remain robust, relative to its repayment obligations (~Rs. 220 crore in FY2024). Hence, its liquidity position is expected to remain strong. However, unusually large dividend outflows and/or significant debt-funded acquisitions may pressurise GCPL's liquidity position, and will, thus, remain key monitorables.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Downward pressure on the rating could emerge if GCPL's profitability and cash accruals weaken on a sustained basis because of any elevated competitive pressures or adverse demand conditions. The rating could also be downgraded if any large capex or inorganic expansion, or any considerable decline in profitability results in significant weakening in the credit metrics with Net debt/ OPBDITA weakening to above 0.75 time on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fast Moving Consumer Goods Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial profile. The company's subsidiaries and step-down subsidiaries are all enlisted in Annexure-II.

About the company

Formed out of a de-merger of the consumer products division of the erstwhile Godrej Soaps Limited in April 2001, GCPL is a part of the Godrej Group of companies. Although GCPL was established in its current form in 2001, it has been operating for almost 100 years, as Godrej Soaps, in the personal care segment.

Currently, GCPL's standalone business includes household insecticides, toilet soaps, hair colours, toiletries, home and car air fresheners and liquid detergents. The company is a market leader in the household insecticide, hair colour and air freshener categories, and the second largest player in the soaps category in the domestic market. GCPL's manufacturing plants are located in Assam, Goa, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Meghalaya, Pondicherry, Sikkim and Tamil Nadu in India and also at various overseas locations including Indonesia, South Africa, Kenya, Mozambique, Nigeria, Ghana, Argentina and Chile, through its subsidiaries. Over the years, its capacity expansions were undertaken in areas where it could avail fiscal benefits extended by the Government, thereby improving its profitability. Over the last decade, GCPL has undertaken several overseas acquisitions to build its presence in key emerging markets outside India, with focus on Asia, Africa and Latin America. These acquisitions give GCPL access to well-established international brands and the distribution and marketing networks of its subsidiaries. Recently, it also acquired the FMCG business of Raymond Consumer Care Limited to strengthen its presence in the deodorant and sexual wellness categories in the domestic market.

Key financial indicators (Audited)

GCPL– Consolidated (Amount in Rs. crore)	FY2022	FY2023
Operating income	12,276.5	13,316.0
PAT	1,783.1	1702.5
OPBDIT/OI	20.3%	19.1%
PAT/OI	14.5%	12.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.7	0.4
Interest coverage (times)	12.0	8.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA: Not Available

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 (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating on			Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					07-Jul-23	04-May-23	26-Apr-23	29-Jun-22	28-Jun-21	30-Apr-20
1	**Fund-based Facilities**	Long-term/ Short-term	-	--		-	-	-	-	**[ICRA]AA+ (Stable) / [ICRA]A1+**
2	**Non-fund Based Facilities**	Long-term/ Short-term	-	--		-	-	-	-	**[ICRA]AA+ (Stable) / [ICRA]A1+**
3	**Fund-based / Non-fund Based Facilities**	Long-term/ Short-term	800.00	--	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable) / [ICRA]A1+**
4	**Commercial Paper Programme**	Short-term	3,000.00	--	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based / Non-fund Based Facilities	Simple
Commercial Paper	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, is available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term / Short-term, Fund-based / Non-fund Based Facilities	NA	NA	NA	800.0	[ICRA]AAA (Stable)/ [ICRA] A1+
INE102D14849	Commercial Paper	April 2023	7.23%	September 2023	727.9	[ICRA]A1+
INE102D14856	Commercial Paper	May 2023	7.38%	December 2023	477.5	[ICRA]A1+
INE102D14864	Commercial Paper	May 2023	7.47%	March 2024	469.8	[ICRA]A1+
INE102D14872	Commercial Paper	May 2023	7.14%	July 2023	245.9	[ICRA]A1+
NA*	Commercial Paper	NA	NA	NA	1078.9	[ICRA]A1+

Source: *Company; *yet to be placed*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership^	Consolidation approach
Godrej Household Products (Lanka) Pvt. Ltd.	100%	Full Consolidation
Godrej South Africa Proprietary Ltd	100%	Full Consolidation
Godrej Consumer Products Bangladesh Ltd*	100%	Full Consolidation
Godrej Household Products (Bangladesh) Pvt. Ltd.	100%	Full Consolidation
Beleza Mozambique LDA	100%	Full Consolidation
Consell SA*	100%	Full Consolidation
Cosmetica National	100%	Full Consolidation
Charm Industries Limited	100%	Full Consolidation
Canon Chemicals Limited	100%	Full Consolidation
Darling Trading Company Mauritius Ltd	100%	Full Consolidation
Deciral SA	100%	Full Consolidation
DGH Phase Two Mauritius	100%	Full Consolidation
DGH Tanzania Limited	100%	Full Consolidation
Frika Weave (PTY) LTD	100%	Full Consolidation
Godrej Africa Holdings Limited	100%	Full Consolidation
Godrej Consumer Holdings (Netherlands) B.V.	100%	Full Consolidation
Godrej Consumer Investments (Chile) Spa	100%	Full Consolidation
Godrej Consumer Products (Netherlands) B.V.	100%	Full Consolidation
Godrej Consumer Products Dutch Coöperatief U.A.	100%	Full Consolidation
Godrej Consumer Products Holding (Mauritius) Limited	100%	Full Consolidation
Godrej Consumer Products International (FZCO)	100%	Full Consolidation
Godrej East Africa Holdings Ltd	100%	Full Consolidation
Godrej Global Mid East FZE	100%	Full Consolidation
Godrej Holdings (Chile) Limitada	100%	Full Consolidation
Godrej Indonesia IP Holdings Ltd	100%	Full Consolidation
PT. Godrej distribution Indonesia	100%	Full Consolidation
Godrej Mauritius Africa Holdings Limited	100%	Full Consolidation
Godrej Mid East Holdings Limited	100%	Full Consolidation
Godrej Netherlands B.V.	100%	Full Consolidation
Godrej Nigeria Limited	100%	Full Consolidation
Godrej Peru SAC	100%	Full Consolidation
Godrej SON Holdings INC	100%	Full Consolidation
Godrej Tanzania Holdings Ltd	100%	Full Consolidation
Godrej (UK) Ltd	100%	Full Consolidation
Godrej West Africa Holdings Ltd.	100%	Full Consolidation
Hair Credentials Zambia Limited	100%	Full Consolidation
Hair Trading (offshore) S. A. L	51%	Full Consolidation
Indovest Capital*	100%	Full Consolidation
Issue Group Brazil Limited*	100%	Full Consolidation

Company Name	Ownership^	Consolidation approach
Kinky Group (Pty) Limited	100%	Full Consolidation
Laboratoria Cuenca S.A	100%	Full Consolidation
Lorna Nigeria Ltd.	100%	Full Consolidation
Old Pro International Inc	100%	Full Consolidation
Panamar Producciones S.A.*	100%	Full Consolidation
PT Ekamas Sarijaya	100%	Full Consolidation
PT Indomas Susemi Jaya	100%	Full Consolidation
PT Megasari Makmur	100%	Full Consolidation
PT Sarico Indah	100%	Full Consolidation
Sigma Hair Industries Limited	100%	Full Consolidation
Strength of Nature LLC	100%	Full Consolidation
Style Industries Limited	100%	Full Consolidation
Subinite (Pty) Ltd.	100%	Full Consolidation
Weave Ghana Ltd	100%	Full Consolidation
Weave IP Holdings Mauritius Pvt. Ltd.	100%	Full Consolidation
Weave Mozambique Limitada	100%	Full Consolidation
Weave Senegal Ltd*	100%	Full Consolidation
Weave Trading Mauritius Pvt. Ltd.	51%	Full Consolidation
Godrej CP Malaysia SDN. BHD	100%	Full Consolidation

*Source: As on March 31, 2023; *under voluntary liquidation*

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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.

For more information, visit www.icra.in

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