

September 29, 2023

Godrej Finance Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	1,000.00	[ICRA]A1+; assigned
Total	1,000.00	

*Instrument details are provided in Annexure-1; Amounts in Rs. crore

Rationale

While arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of Godrej Capital Limited (GCL) and its wholly owned subsidiaries – Godrej Housing Finance Limited (GHFL) and Godrej Finance Limited (GFL) (collectively referred to as the Godrej Capital Group) – as these entities have significant operational and management linkages and operate under the common Godrej brand. GHFL is a housing finance company (HFC) which focuses on housing loans and GFL is the non-banking financial company (NBFC) with a focus on non-housing loans including loans against property (LAP) and small and medium enterprise (SME) loans. Both these companies are ultimately held by Godrej Industries Limited (GIL) through its subsidiary, GCL.

The ratings for the Godrej Capital Group factor in its parentage and expects continued support from GIL (rated [ICRA]AA(Stable)/[ICRA]A1+), which owned ~92% stake in Godrej Capital Limited as on June 30, 2023. In addition to the shared brand name, the company also benefits from the managerial support, operational synergies with the Godrej Group and, leverages on the Group's relations with bankers/lenders. The Godrej Group has extensive experience and established presence in the sectors like consumer goods, real estate, appliances, agriculture and many other businesses and Godrej Capital Group would have access to the Godrej ecosystem and is expected to benefit from the group's experience in the real estate development and related businesses. The rating also factors in its demonstrated ability to raise funds at competitive rates, committed capital support from parent which will support the growth and liquidity over the medium, given the initial stages of operations for the Godrej Capital group.

ICRA takes note of the limited track record of the Godrej Group in the retail lending segment and Godrej Capital Group's nascent stage of operations and consequently muted profitability indicators. While the company has hired seasoned industry professionals with prior experience in retail lending, Godrej Capital Group's ability to grow its portfolio while maintaining control over credit underwriting and achieve adequate profitability would remain the key rating factors.

Key rating drivers and their description

Credit strengths

Management support and operational synergies with the parent group - The Godrej Group has diversified into the financial services business through GHFL and GFL. GHFL and GFL are wholly owned subsidiaries of Godrej Capital Limited, under the ultimate parentage of GIL which holds a 92% stake as on June 30, 2023. GIL is the flagship company of the Godrej Group (Godrej group held 67% equity in GIL as on June 30, 2023). The rating draws comfort from the shared 'Godrej' brand with Godrej Group and access to the Godrej ecosystem.

Adequate capitalization supported by regular capital raise - The Godrej Group is expected to provide continued capital support for the growth of the business. The group had infused capital of ~Rs. 1500 crore till FY2023. GIL has further committed Rs. 1,200 crore in GCL of which Rs. 350 crore had been infused in Q1FY2024. The consolidated gearing for GCL stood at 3.5

times as on March 31, 2023. Given the growth plans and incremental business being funded out of fresh borrowings, the gearing is expected to increase to 5-6 times on consolidated basis for Godrej Capital Group, over the medium term. ICRA expects the support from the parent to be forthcoming as and when required.

Ability to raise funds at competitive rates supported by group; good financial flexibility by virtue of being a part of Godrej group - Godrej Capital Group enjoys good financial flexibility, being a part of the Godrej Group, with ability to raise funds at competitive rates of interest from diverse set of lenders, despite its nascent stage of operations. As on June 30, GHFL and GFL had secured sanctions of ~Rs. 5,980 crore from banks at competitive rates of interest. As on March 31, 2023, bank borrowings account for 86% of the funding mix of Godrej capital group on consolidated basis. While Godrej capital group has been able to diversify its borrowing profile by onboarding healthy mix of lenders and raising funds through Debt Capital Markets, its ability to further diversify its funding profile over the medium to long term would remain a key monitorable. Also, as in the case of all housing finance companies where assets are fairly long-term in nature, the ability of the company to maintain prudent mix of long-term and short-term borrowings, would be imperative from managing the asset-liability profile.

Credit challenges

Nascent stage of operations; profitability muted - ICRA takes note of the early stage of operations for GHFL and GFL which commenced lending operations in November 2020 and March 2022, respectively. The combined AUM for Godrej Capital Limited had grown to Rs. 6,408 crore as on June 30, 2023 from Rs. 5,124 crore on March 31, 2023 (Rs. 1,779 crore on March 31, 2022). ICRA expects the Godrej Capital Group to continue to grow the AUM at a robust pace through further geographical diversification and leveraging the Godrej brand name. Given the highly competitive landscape, Godrej Capital Group will continue to face competition from banks and leading housing finance companies in the prime housing loan segment, which is likely to keep the portfolio yields under pressure. Further, given the nascent stages of operations and hence high operating expenses, the profitability indicators are likely to remain muted over the medium term till the company achieves economies of scale. The Godrej capital group reported a net loss of Rs 31 crore in FY2023 compared to net loss of Rs. 63 crore in FY2022. In this regard, presence of strong promoters with patient capital provides comfort. GHFL had Nil stage 3 assets while GFL had negligible stage 3 assets as on June 30, 2023. However, given the limited seasoning in relation to loan tenure, the asset quality of the portfolio is yet to be tested through economic cycles. Over the long-term, ability to grow the portfolio while maintaining control over credit underwriting and achieve profitability would remain key rating monitorable.

Limited track record of Group in retail lending - Over the years, GIL has evolved as a holding company for the Group's new business initiatives. It has demonstrated its capability to incubate businesses and successfully tied-up joint ventures (JVs) and strategic alliances with leading global players for new businesses. The group however has limited experience in the retail lending segment. ICRA draws comfort from the experienced management team hired from the industry.

Liquidity position: Adequate

As per consolidated (GHFL+GFL) Asset Liability Management (ALM) profile as on June 30, 2023, the Godrej Capital group had combined total of ~Rs. 2,263 crore against total expected inflows of ~Rs. 1,259 crore over the next one year. Additionally, the group had undrawn lines of Rs. 3,618 crore as on June 30, 2023, to support the liquidity profile. Further, the promoter group is expected to provide continued capital support for the growth of the business and the parentage of the company is expected to support Godrej Capital Group's financial flexibility to raise funding at competitive rates.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Godrej Capital Group's ratings are underpinned by its importance to GIL as the primary financial services business. Any significant change in the shareholding pattern of GCL or a change in the expectation of support from GIL or a deterioration in the credit profile of GIL could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach - Implicit Support from Parent or Group Rating Approach for Consolidation
Parent/Group Support	ICRA expects GIL to extend financial support to Godrej Capital Group for the growth of the business. Godrej Capital group and GIL also share a common name, which in ICRA's opinion would persuade GIL to provide financial support to the group to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Consolidation. Refer to annexure 2

About the company

GFL, incorporated as Ensemble Holdings and Finance Ltd in 1992, held the NBFC license and was a part of the Godrej group. Following a change in shareholding structure in FY2022, it was brought under GCL, with GIL being the ultimate holding parent. The company commenced lending operation in March 2022 to non-mortgage loan segments. Presently the lending portfolio includes SME loans, LAP and construction finance. The loan book has grown to Rs 2,187 crore as on June 30, 2023. In Q1FY2024, GFL reported a net loss of Rs. 17 crore on a total income of Rs. 49 crore compared to net loss of Rs 69 crore on a total income of Rs 65 crore. As on June 30, 2023, the AUM of Rs. 2,187 crore comprises of LAP (84%) and others (16%).

Godrej Industries Limited

GIL is the holding company of the Godrej Group, which has interests in real estate, agriculture and consumer goods (through its subsidiaries, associate companies and JV companies). On standalone basis, apart from being the holding company for the group, the company is engaged in the oleochemicals business, where it is the domestic market leader. As on March 31, 2023, GIL's unencumbered listed investment portfolio (book value) stood at Rs. 4,189.2 crore (market value of unencumbered listed investments remaining at ~Rs. 38,036 crore), with key investments in Godrej Consumer Products Limited (23.7% stake), Godrej Agrovet Limited (64.9% stake) and Godrej Properties Limited (47.3% stake). The company's manufacturing facilities are located in Ambernath (Thane, Maharashtra), Dombivli (Thane, Maharashtra), and Valia (Gujarat). GIL also generates rental income from its Vikhroli premises in Mumbai. The promoters hold 67.17% equity in the company (as on March 31, 2023) while the remaining is held by public.

Key financial indicators

Godrej Finance Limited (Standalone)	FY2022	FY2023
	Audited	Audited
Total Income	-	66
Profit after Tax	-13	-69
Net Worth	52	483
Gross Advances	45	1,345
Total Assets	111	1,684
Return on assets	-7.4%	-3.1%
Return on net worth	-25.8%	-11.6%
Gearing (times)	1.3	2.5
CRAR (%)	43.6%	32.4%
Gross stage 3	-	0.3
Net stage 3	-	0.1
Gross stage 3 (%)	-	0.0%
Net stage 3 (%)	-	0.0%
Solvency (Net stage 3/Net worth)	-	0.0%

Source: Company data, ICRA Research; All ratios as per ICRA calculations; Amount in Rs. crore

Godrej Capital Limited (Rs. crore) (Consolidated)	FY2022	FY2023
	Audited	Audited
Total Income	55	347
Profit after Tax	-63	-31
Net Worth	741	1,455
Total Managed Portfolio	1,786	5,134
Total Assets	2,434	6,430
Return on assets	-5.2%	-0.7%
Return on net worth	-16.5%	-2.8%
Gearing (times)	2.2	3.5
Gross stage 3	-	0.3
Net stage 3	-	0.1
Gross stage 3 (%)	-	0.0%
Net stage 3 (%)	-	0.0%
Solvency (Net stage 3/Net worth)	-	0.0%

Source: Company data, ICRA Research; All ratios as per ICRA calculations; Amounts in Rs. crore

Godrej Industries Limited (standalone) (Rs. crore)	FY2021	FY2022
Operating income	1,855.5	3,339.6
PAT	-107.5	-44.2
OBITDA/OI (%)	7.4%	11.8%
PAT/OI (%)	-5.8%	-1.3%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	4.9
Total Debt/OPBDIT (times)	32.5	15.7
Interest Coverage (times)	0.6	1.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios as per ICRA calculations; Amounts in Rs. crore

Source: Company data, 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 (Rs. crore)	Amount O/s as of September 25, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Sep-29-23			
1	Commercial Paper Programme	Short Term	1,000		[ICRA] A1+	-	-	-

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
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-1: Instrument details as on September 25, 2023

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme*	NA	NA	7-365 days	1,000	[ICRA]A1+

Source: Company; *Proposed

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership*	Consolidation Approach
Godrej Capital Limited	Parent	Full Consolidation
Godrej Finance Limited	100%	Full Consolidation
Godrej Housing Finance Limited	100%	Full Consolidation

Source: Company data; *By GCL

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Branches



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