ICRA

October 06, 2023

Godrej & Boyce Manufacturing Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	900.0	900.0	[ICRA]A1+; reaffirmed
Total	**900.0**	**900.0**	

Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the diversified business risk profile of Godrej & Boyce Manufacturing Company Limited (G&B) with presence across multiple consumer and industrial product segments, insulating the company from downturns in any particular sector. The rating also continues to factor in the strong financial flexibility enjoyed by G&B as part of the Godrej Group, which is further augmented by the significant market value of its listed investments in Group entities (valued at Rs. 9,626 crore as of July 2023) and its land and real estate holdings at Vikhroli in Mumbai. Apart from its monetisation potential, the latter also provides a steady lease rental income flow to the company. The ratings also factor in G&B's strategic importance to the Group as its oldest operating company and its strong brand recall. The company enjoys a strong footing in the domestic home and office furniture space and is among the leading players in the domestic refrigerator segment.

These strengths are partially offset by the company's moderate financial risk profile due to its presence in low margin mass products in the consumer products segment and modest profitability in some of the industrial divisions, which coupled with outstanding receivables and ongoing capital expenditure, have resulted in modest debt coverage and return indicators. While the company reported a decent 18% YoY revenue growth in FY2023 backed by revival in demand across key business verticals, its operating margins continued to remain range-bound due to inflationary pressures, which could not be fully passed on to the end-consumers in a few of the divisions. G&B's largest division, appliances, reported negative contribution margins in FY2022-FY2023 following input cost inflation and supply chain disruptions (mainly semiconductor chip shortages). Despite some recovery in contribution margins in the current fiscal on the back of easing inflationary pressures, the same remains marginal at 1% and much lower than historic levels of 6-7%. In line with G&B's plans to enhance its focus on the premium offerings within the appliances division, the divisional margins are expected to further improve over the medium term. G&B continues to face intense competition in the consumer appliances, and furniture and interiors divisions, limiting its pricing power and margins in these divisions, which account for close to half of its revenues. However, the increased thrust on improving market penetration and reach by expanding its distribution network, and focus on premium offerings, are expected to support the performance of these segments over the medium term.

ICRA also takes comfort from the sizeable market value of its listed associate/ Group investments, amounting to Rs. 9,626 crore as of July 2023, which lends it high financial flexibility. Nonetheless, such financial flexibility is also subject to volatility in the stock market. ICRA will continue to monitor the value of G&B's listed investments, going forward.

Going forward, apart from retaining and improving its market share in the appliances and furniture segment to support its profitability, G&B's ability to reduce its fixed costs through cost optimisation will be crucial for maintaining its credit profile. Furthermore, the company's ability to scale up operations across divisions in a profitable manner remains critical to further improvement in its credit profile and, accordingly, would continue to be monitored.

Key rating drivers and their description

Credit strengths

Enjoys strong financial flexibility as part of the Godrej Group; further supported by significant market value of listed Group investments and real estate holdings – As part of the Godrej Group, the company enjoys strong financial flexibility. Through various Group companies, such as Godrej Consumer Products Limited (GCPL; rated [ICRA]AAA (stable)/A1+), Godrej Agrovet Limited (GAVL; rated [ICRA]AA (stable)/A1+), Godrej Industries Limited (GIL; rated [ICRA]AA (stable)/A1+) and Godrej Properties Limited (GPL; rated [ICRA]AA+ (stable)/A1+), the Group has interests in businesses spanning fast moving consumer goods (FMCG), oleo chemicals, animal feed, real estate development and oil palm plantation. ICRA derives considerable comfort from the market value of listed Group investments, with G&B's stake in GCPL (7.33% as of June 2023) and GPL (3.83%) valued at Rs. 9,626 crore as of July 2023. The company had transferred majority stake in GCPL and GIL to other Group investment companies as part of its business restructuring in FY2017; nevertheless, ICRA expects G&B to continue to retain the balance stakes in GCPL and GPL. Further, comfort is also drawn from the company's large land bank at Vikhroli in Mumbai, apart from its holdings in significant commercial real estate, which can be monetised as and when required.

Enjoys strategic importance in the Group; diversified business presence insulates it from downturns in any individual segment – G&B is the oldest operating company in the Godrej Group and is strategically important to it with a diverse business presence spanning 14 business divisions, categorised under two broad segments of consumer products and industrial divisions. Its consumer products division includes consumer appliances, furniture and interiors, security solutions, storage solutions, vending machines and locking solutions; while its industrial divisions include process plant and equipment, material handling equipment, precision engineering, aerospace and tooling, electrical and electronics, and electric motors. In FY2023, G&B derived ~68% of its total revenues from its consumer products division, with the balance generated by the industrial divisions (~26%), followed by the leasing and construction businesses (~4%) and other income. Such diversified presence reduces its dependence on a single sector, thus insulating it from downturns in any individual segment, to a large extent. Furthermore, the steady revenue stream of ~Rs. 300 crore per annum from leasing its commercial real estate also imparts some stability to the company's financial risk profile.

Strong brand name; established footing in home and office furniture space; leading player in refrigerator segment – By virtue of its established presence in the consumer appliances and locks business, the 'Godrej' brand held by G&B has become a household name and has been suitably exploited by the company to expand its product portfolio across businesses. The company also has a strong footing in the home and office furniture space through its Interio brand and is well poised to capture a higher share in the growing organised market. In the consumer durables space, the company enjoys a respectable presence in the refrigerator market with 7.0% volume market share in FY2023. It is also reasonably placed in the washing machine and air conditioner markets with a volume market share[1] of 3.9% and 2.8%, respectively, during the same period. The company is aiming to strengthen its product portfolio and get into high-end products across different appliance categories. It also plans broader geographic penetration through expansion in the rural and tier-II/III markets. Furthermore, the company plans to roll out new products across different segments to further strengthen its product portfolio. Such efforts are expected to augur well for the future growth prospects of the company and claw back some of its lost market share, going forward.

Credit challenges

Moderate financial risk profile – The company has a moderate financial risk profile due to its presence in low margin, mass products in the consumer products segment and modest profitability in some of the industrial divisions, which coupled with long outstanding receivables and sizeable capex incurred over the past few years, have resulted in modest debt coverage and return indicators. While a majority of G&B's business divisions reported margin expansion in FY2023, the appliances division posted negative contribution margins, primarily on account of input cost inflation that could not be passed on to the customers due to high competitive intensity, and also due to supply chain related challenges. Accordingly, the company continued to

[1] *Market share data as per company*

report a suppressed operating margin in FY2023 at 6.6%. In the current fiscal, this is expected to improve, supported by revenue expansion across key businesses coupled with the softening seen in input costs.

Intense competition in the consumer appliances and furniture businesses – The company derives around 25–30% of its revenue from the consumer appliances business where it faces intense competition from global players such as Samsung, LG, Whirlpool, Voltas and a number of other companies. Given the recent contraction seen in G&B's market share across addressable sub-segments in the appliances division, its ability to take corrective measures to expand its market share will be crucial to support its business risk profile, going forward. Competitive intensity also remains quite high in the furniture and interiors business on account of competition from both organised and unorganised players. While G&B has demonstrated healthy revenue growth momentum in the division, its ability to maintain a healthy profitability in the segment remains monitorable, especially in wake of heightening competition.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by its balance of free cash and liquid investments of ~Rs. 488 crore (in addition to earmarked deposits of ~Rs. 98 crore) and unutilised working capital lines of ~Rs. 300 crore as on March 31, 2023 (after earmarking Rs. 900 crore for commercial paper issuances from the total working capital limit of Rs. 1,200 crore). Considering the improvement in sales momentum, ICRA expects G&B's cash flow from operations of Rs. 700-800 crore and its existing liquidity to remain sufficient to fund its capex spends of ~Rs. 600-700 crore and debt repayment obligations of Rs. 390 crore (including Rs. 132 crore of Public Fixed Deposits which are renewable) in the current fiscal. While the company has reliance on short-term borrowings for meeting some of its funding requirements, the rolling-over nature of most of the short-term funding instruments provides some comfort. Further, the sizeable market value of its investments in associate/group companies amounting to Rs. 9,626 crore as of July 2023 lends strong financial flexibility to G&B. Apart from the above, the financial flexibility is enhanced by the company's real estate and land holdings. In addition, as part of the Godrej Group, G&B enjoys healthy access to debt markets and strong relationships with the banks. These factors, cumulatively, are expected to support the company's liquidity position.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on G&B's rating could arise if there is a weakening of cash flow generation and/ or a stretch in its working capital cycle or higher than expected debt-funded capex leading to a material and sustained deterioration in its financial risk profile. Any considerable decline in the value of quoted investments, which negatively impacts its financial flexibility would also be a credit negative.

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 standalone financials of G&B.

About the company

G&B is a part of the Godrej Group, which is engaged in diverse business segments spanning home appliances, FMCG, consumer products, industrial products (process plant and equipment), oleo chemicals, animal feed, real estate development and oil palm plantation through various Group companies. G&B was a holding-cum-operating company until March 2017, when its majority stake in GIL (~58%) and GCPL (~27%) was transferred to other Group investment companies, while retaining 7.34% stake in GCPL and 4.64% in GPL at that time (G&B held 7.33% and 3.83% stakes in GCPL and GPL, respectively, as of June 2023). The rationale for the restructuring was to enhance the company's flexibility for any future corporate action, such as an Initial Public Offering (IPO), public listing of an individual division or a strategic partner coming on board.

G&B began its journey by manufacturing high quality locks in 1897. Currently, the company operates in diverse business divisions, offering consumer, office and industrial products and services across India and the globe. G&B's main production facility is in Mumbai (Vikhroli), while its manufacturing units are at Khalapur, Shirwal and Shindewadi (Maharashtra), Mohali (Punjab), Bhagwanpur and Haridwar (Uttarakhand), Dahej (Gujarat) and Chennai (Tamil Nadu).

Key financial indicators

G&B (standalone)	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	12,345.4	14,573.9
PAT (Rs. crore)	372.8	211.0
OPBDIT/OI (%)	6.7%	6.6%
PAT/OI (%)	3.0%	1.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	4.1	3.5
Interest Coverage (times)	4.6	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: G&B, 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 Outstanding as of August 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					October 6, 2023	October 27, 2022	October 29, 2021	October 15, 2020
1	Commercial Paper Programme	Short-term	900.00	900.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company

Complexity level of the rated instruments

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, are available on ICRA's website: Click Here

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Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE982D14AQ4	Commercial Paper 1	18-Aug-2023	7.12%	8-Nov-2023	700.0	[ICRA]A1+
NA*	Commercial Paper 2	NA	NA	NA	200.0*	[ICRA]A1+

Source: *Company; *not yet placed*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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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