

December 18, 2023

Godrej Industries Limited: [ICRA]AA (Stable) assigned to Rs. 500.00-crore Non-Convertible Debenture Programme; [ICRA]A1+ assigned to enhanced Rs. 1,000.00-crore Commercial Paper Programme; ratings reaffirmed for other facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	4,250.00	4,250.00	[ICRA]AA (Stable); reaffirmed
Non-Convertible Debenture Programme	-	500.00	[ICRA]AA (Stable); assigned
Non-Convertible Debenture Programme	750.00	-	[ICRA]AA (Stable); reaffirmed and withdrawn
Long-term Fund-based Facilities – CC	90.00	90.00	[ICRA]AA (Stable); reaffirmed
Long-term – Term Loans	384.60	230.77	[ICRA]AA (Stable); reaffirmed
Short-term – Non-fund Based Facilities	126.00	126.00	[ICRA]A1+; reaffirmed
Long-term/Short-term – Unallocated	1,539.40	1,693.23	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Commercial Paper Programme	2,500.00	3,500.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	9,640.00	10,390.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings draw comfort from Godrej Industries Limited's (GIL) position as the holding company of the Godrej Group (Group) of companies and GIL's healthy investment portfolio in Group companies. GIL's primary listed investee entities include Godrej Consumer Products Limited (GCPL; [ICRA]AAA (Stable)/[ICRA]A1+), Godrej Properties Limited (GPL; [ICRA]AA+ (Stable)/[ICRA]A1+), and Godrej Agrovet Limited (GAVL; [ICRA]AA (Stable)/[ICRA]A1+), which are present in diverse business segments and have healthy credit profiles. The company's healthy listed investment portfolio lends strong financial flexibility because of its market value, which is significantly higher than the debt outstanding. The company's market value of listed investments was significant at ~Rs. 50,500 crore as on September 30, 2023 and its market cover (market value of unencumbered listed investments/ total debt) has remained above 6.0 times historically. GIL's investment portfolio is also a source of dividend income, though the same has remained volatile.

ICRA notes that GIL's standalone operating performance remained constrained over the past few quarters on account of challenges faced by the global oleochemicals industry. With significant raw material price corrections and destocking strategies, the volume off-take from its key customers as well as realisations have declined over the past few quarters, and are expected to remain so over the near-term. Also, the company's leverage and coverage indicators remain moderate. While there are no major investment requirements in its listed investee companies over the next two to three years, GIL plans to continue to invest in Godrej Capital Limited (GCL) for strategic purposes. GIL has invested ~Rs. 2,100 crore in GCL till date and has further investment of Rs. 2,000-2,500 crore planned over the next two to three years to support its growth plans. ICRA notes that the increase in debt to fund these investments would lead to a stretch in the coverage ratios of GIL over the medium term. While any additional investments undertaken by GIL would increase its debt from current levels, its strong financial flexibility arising from the significant market value of listed investments over its debt provides comfort. ICRA notes that while the company's investments in GCL have resulted in diversification of GIL's business areas into housing finance and non-banking

finance (NBFC), the NBFC business is currently at a nascent stage of operations and its ability to sustainably scale up operations in a profitable manner remains to be seen. ICRA also notes GIL's high reliance on short-term borrowings for meeting its funding requirements, exposing it to refinancing risks. However, the company has been able to refinance its commercial paper at lower rates than its peers in the rating category, indicating its strong financial flexibility and investor comfort.

Key rating drivers and their description

Credit strengths

Position as the holding company of the Godrej Group – GIL is the holding company of the Godrej Group and has a sizeable investment portfolio of investments in subsidiaries and other Group companies. 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.

Healthy credit profile of large investee companies in portfolio; diverse portfolio mitigates sector-specific risks to large extent – Three listed investee companies—GCPL (rated [ICRA]AAA (Stable)/[ICRA]A1+), GPL (rated [ICRA]AA+ (Stable)/[ICRA]A1+) and GAVL (rated [ICRA]AA (Stable)/[ICRA]A1+)—have strong credit profiles. While there are no major investment requirements in its listed investee entities, GIL plans to continue to invest in GCL. GIL has invested Rs. 2,100 crore in GCL till date and plans to invest additional Rs. 2,000-2,500 crore (to be funded through debt) over the next two to three years to support its growth plans. In terms of dividends, GCPL and GAVL account for 100% of the dividend income earned by GIL. GPL has historically not paid dividends. ICRA notes that dividend income for GIL has also been volatile over the years.

Relatively lower debt levels than market value of unencumbered investments – The company's market cover has been historically higher than 6.0 times, resulting in strong financial flexibility. Despite some moderation expected in market cover on account of anticipated increase in debt levels to finance further investments, the ratio is expected to remain at comfortable levels, going forward. GIL has monetised part of its investments to support its cash flows in the past, on need basis, and this is expected to continue going forward as well.

Leadership position in the domestic oleochemicals industry – The company has a strong market position in the domestic oleochemicals industry, with presence in various sub-segments (like fatty acids, fatty alcohols, glycerine and surfactants). GIL also caters to export markets through this segment. Revenues from this segment grew by ~80% in FY2022 and 36% in FY2023 due to high demand and increase in realisations. However, due to industry-wide price corrections and destocking, GIL's revenues from the oleochemicals business degrew by ~35% YoY in H1 FY2024, with adjusted operating margins (excluding dividend income) reducing to 7.8% from 14.0% in FY2023. Revenue growth and profitability from the oleochemicals business are expected to remain muted in the near term.

Credit challenges

Moderate coverage indicators and refinancing risks – GIL's coverage indicators remain moderate because of its sizeable debt (net debt of ~Rs. 6,900 crore, as on September 30, 2023), which has been primarily deployed towards capex requirements, increased investments in key subsidiaries and incremental working capital requirements. The company's interest coverage ratio was 0.8 times for H1 FY2024 (1.5 times in FY2023) and its net debt/OPBDITA was 14.8 times for H1 FY2024 (8.3 times in FY2023). ICRA also notes GIL's high reliance on short-term borrowings for meeting its funding requirements, which exposes it to refinancing risks; although the company's ability to refinance at competitive interest rates mitigates this to an extent. The ongoing investment and capital expenditure (capex) plans will result in an increase in GIL's standalone debt levels over the medium term. However, ICRA draws comfort from the sizeable market value of its listed investments vis-à-vis its debt outstanding, which lends strong financial flexibility.

Cyclicality in oleochemicals business results in lumpy cash flows; susceptible to raw material price movements – GIL's standalone business profile remains dominated by its oleochemicals business, which contributes 85-95% to its standalone

revenues. Thus, GIL's financial profile remains vulnerable to the performance of this cyclical business. Cyclicity was visible in H1 FY2024 when the revenues and profitability were impacted by lower demand and significant price corrections by industry players. However, dividend income and monetisation of investments in the past have supported its cash flows and are expected to continue going forward as well.

Environmental and Social Risks

Environmental considerations: Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for production, handling, disposal and transportation of chemical products. Some products can face restrictions/substitution over time because of their hazardous nature and availability of more environment-friendly products. Additionally, as some of its end-user industries may remain exposed to environmental risks, the off-take from such consumers may face negative impact. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. However, GIL has a demonstrated track record of running its operations safely, and ICRA expects the same to continue going forward as well. GIL's investee companies also remain exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste and indirect exposure to physical climate risks. The companies have been actively taking measures to improve their environmental impact by reducing energy, water and plastic consumption, and increasing green initiatives, among others.

Social considerations: GIL and its investee entities are exposed to the risk of shift in consumer preferences over time to more environment-friendly products. Further, operating responsibly is an imperative and instances of non-compliance with the environmental, health and safety norms could have an adverse impact, constraining GIL's ability to operate or expand capacity. However, GIL has not had any material safety lapses in its manufacturing facilities in the last several years and this is likely to continue going forward as well. GIL is also vulnerable to data security and data privacy risks and has reasonable reliance on human capital. Overall, it faces moderate exposure to social risk.

Liquidity position: Adequate

The company's standalone liquidity position remains adequate with sizeable market value buffer on its listed investments lending strong financial flexibility. GIL had free cash and bank balances and liquid investments amounting to Rs. 401 crore and undrawn working capital lines of ~Rs. 1,000 crore, as on September 30, 2023 (outside its drawing power). Further, being the Godrej Group's holding company, GIL can access capital markets at short notice and enjoys strong relationships with banks. The company also has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue going forward as well. These factors are cumulatively expected to support the company's liquidity position over the medium term. The company is expected to have modest accruals from its oleochemicals business and dividend income in FY2024 and FY2025. Against these, it has moderate capex plans and debt repayments (Rs. 77-crore long-term debt and Rs. 2,415-crore CP in H2 FY2024, and Rs. 897.9 crore long-term debt in FY2025), of which NCD and CP repayments are expected to be refinanced. GIL also has additional investment of Rs. 2,000-2,500 crore planned in GCL over the next two to three years, which would be funded through debt.

Rating sensitivities

Positive factors – Significant improvement in the credit profile of the major investee companies and a sizeable reduction in debt levels, leading to improved leverage metrics on a sustained basis, would be a positive rating trigger.

Negative factors – Downward pressure on the rating could arise if there is any significant weakening in the credit profile of GIL's major investee companies, leading to a significant decline in the market value of GIL's investments, leading to market value of its unencumbered equity shares in the listed companies going below 4.0 times its outstanding debt, on a sustained basis, limiting its financial flexibility. Moreover, any further deterioration in GIL's asset-liability mismatch (ALM) position, or material weakening of GIL's standalone business and financial profile, which stretches its cash flows on a sustained basis, may also lead to a downward pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Investment Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

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 JVs). On a standalone basis, apart from being the Group's holding company, GIL is engaged in the manufacturing of oleochemicals, where it is the domestic market leader across various sub-segments (like fatty acids, fatty alcohols, glycerine and surfactants). Its chemicals business caters to several end-user industries including FMCG, oil and gas, chemicals intermediates, pharmaceuticals, tyres etc. As on September 30, 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. 50,528 crore), with key investments in GCPL (23.7% stake), GAVL (64.9% stake) and GPL (47.3% stake). The company's manufacturing facilities are in Ambarnath (Thane, Maharashtra), Dombivli (Thane, Maharashtra), and Valia (Gujarat). GIL also generates rental income from its Vikhroli premises in Mumbai. The promoters hold 67.16% equity in the company (as on September 30, 2023), while the remaining is held by the public.

Key financial indicators (audited)

GIL Standalone	FY2022	FY2023	H1 FY2024
Operating income	3,339.6	4,488.0	1,586.5
PAT	-44.2	232.6	-34.0
OPBDIT/OI	11.8%	16.3%	14.7%
PAT/OI	-1.3%	5.2%	-2.1%
Total outside liabilities/Tangible net worth (times)	4.9	4.7	4.8
Total debt/OPBDIT (times)	15.7	9.5	15.7
Interest coverage (times)	1.1	1.5	0.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
				Dec 18, 2023	Dec 20, 2022	Nov 11, 2022	Feb 22, 2022	Nov 22, 2021	Mar 19, 2021	Mar 04, 2021, Dec 03, 2020
1 Non-Convertible Debenture Programme	Long-term	4,250.00	3,200.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Non-Convertible Debenture Programme	Long-term	500.00	-	[ICRA]AA (Stable)	-	-	-	-	-	-
3 Non-Convertible Debenture Programme	Long-term	750.00	-	[ICRA]AA (Stable) withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4 Long-term fund-based facilities – CC	Long-term	90.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5 Long term Term-Loans	Long-term	230.77	230.77	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6 Non-fund Based Facilities	Long-term	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7 Short-term Term Loans	Short-term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8 Short Term – Non-fund-based facilities	Short-term	126.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9 Long term/Short term unallocated	Long-term/short-term	1,693.23	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-	-	-

10	Commercial Paper Programme	Short-term	3,500.00	2,415.00	[ICRA]A1+						
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debenture Programme	Very Simple
Proposed Non-Convertible Debenture Programme	Very Simple
Long-term fund-based facilities – CC	Simple
Long term Term-Loans	Simple
Short Term – Non-fund-based facilities	Very Simple
Long term/Short term unallocated	NA
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 I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE233A08030	NCD	28-Oct-20	6.43%	26-Apr-24	750.00	[ICRA]AA(Stable)
INE233A08048	NCD	14-May-21	6.92%	14-May-25	750.00	[ICRA]AA(Stable)
INE233A08055	NCD	28-Sep-21	7.58%	28-Sep-28	750.00	[ICRA]AA(Stable)
INE233A08071	NCD	20-Mar-23	8.30%	12-Jun-26	250.00	[ICRA]AA(Stable)
INE233A08063	NCD	20-Mar-23	8.35%	12-Dec-25	300.00	[ICRA]AA(Stable)
INE233A08089	NCD	27-Sep-23	8.29%	26-Feb-27	400.00	[ICRA]AA(Stable)
INE233A08022	NCD	16-Jul-20	6.24%	14-Jul-23	750.00	[ICRA]AA(Stable) withdrawn
Yet to be placed	Proposed NCD	-	-	-	1,550.00	[ICRA]AA(Stable)
NA	Long-term Term Loan	28-Mar-19	1Y-MCLR	31-Mar-25	230.77	[ICRA]AA(Stable)
NA	Fund Based – Working Capital	-	-	-	90.00	[ICRA]AA(Stable)
NA	Non – Fund Based Short Term	-	-	-	126.00	[ICRA]A1+
NA	Long-term/Short Term unallocated	-	-	-	1,693.23	[ICRA]AA(Stable)/[ICRA]A1+
INE233A14B78	Commercial Paper	21-Sep-23	7.06%	21-Dec-23	75.00	[ICRA]A1+
INE233A14B86		22-Sep-23	7.05%	22-Dec-23	75.00	[ICRA]A1+
INE233A14B94		25-Sep-23	7.05%	26-Dec-23	75.00	[ICRA]A1+
INE233A14C28		3-Oct-23	7.10%	2-Jan-24	50.00	[ICRA]A1+
INE233A14C10		4-Oct-23	7.10%	3-Jan-24	50.00	[ICRA]A1+
INE233A14C36		5-Oct-23	7.10%	4-Jan-24	25.00	[ICRA]A1+
INE233A14C02		6-Oct-23	7.10%	5-Jan-24	75.00	[ICRA]A1+
INE233A14C44		9-Oct-23	7.09%	8-Jan-24	75.00	[ICRA]A1+
INE233A14C51		12-Oct-23	7.16%	11-Jan-24	75.00	[ICRA]A1+
INE233A14C85		17-Oct-23	7.19%	16-Jan-24	75.00	[ICRA]A1+
INE233A14C77		18-Oct-23	7.19%	17-Jan-24	75.00	[ICRA]A1+
INE233A14C69		19-Oct-23	7.19%	18-Jan-24	75.00	[ICRA]A1+
INE233A14C93		20-Oct-23	7.19%	19-Jan-24	75.00	[ICRA]A1+
INE233A14D01		23-Oct-23	7.17%	22-Jan-24	75.00	[ICRA]A1+
INE233A14D19		26-Oct-23	7.17%	25-Jan-24	75.00	[ICRA]A1+
INE233A14D27		27-Oct-23	7.16%	24-Jan-24	75.00	[ICRA]A1+
INE233A14D35		31-Oct-23	7.16%	30-Jan-24	75.00	[ICRA]A1+
INE233A14D43		2-Nov-23	7.23%	1-Feb-24	75.00	[ICRA]A1+
INE233A14D68		6-Nov-23	7.22%	5-Feb-24	75.00	[ICRA]A1+
INE233A14D50		8-Nov-23	7.22%	7-Feb-24	75.00	[ICRA]A1+
INE233A14D84		9-Nov-23	7.25%	8-Feb-24	75.00	[ICRA]A1+
INE233A14D76		10-Nov-23	7.25%	9-Feb-24	75.00	[ICRA]A1+
INE233A14D92		13-Nov-23	7.22%	12-Feb-24	75.00	[ICRA]A1+
INE233A14E00		16-Nov-23	7.22%	15-Feb-24	75.00	[ICRA]A1+
INE233A14E18		17-Nov-23	7.22%	16-Feb-24	75.00	[ICRA]A1+
INE233A14E26		23-Nov-23	7.24%	22-Feb-24	75.00	[ICRA]A1+
INE233A14E34		24-Nov-23	7.24%	23-Feb-24	75.00	[ICRA]A1+
INE233A14E67		28-Nov-23	7.29%	27-Feb-24	75.00	[ICRA]A1+
INE233A14E42		29-Nov-23	7.29%	28-Feb-24	40.00	[ICRA]A1+
INE233A14E59		30-Nov-23	7.29%	29-Feb-24	75.00	[ICRA]A1+

INE233A14E75		1-Dec-23	7.29%	1-Mar-24	75.00	[ICRA]A1+
INE233A14E91		4-Dec-23	7.29%	4-Mar-24	75.00	[ICRA]A1+
INE233A14E83		5-Dec-23	7.29%	5-Mar-24	75.00	[ICRA]A1+
INE233A14F09		6-Dec-23	7.29%	6-Mar-24	75.00	[ICRA]A1+
Yet to be placed		-	-	-	1,085.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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