

July 17, 2024

Godrej Housing Finance Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	1,000.00	2,000.00	[ICRA]A1+; reaffirmed and assigned
Total	1,000.00	2,000.00	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating, 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 GCL Group as these entities have significant operational and management linkages and operate under the common Godrej brand. GHF is a housing finance company (HFC), which focuses on housing loans, while GFL is a non-banking financial company (NBFC) with a focus on non-housing loans, including loan against property (LAP) and small and medium enterprise (SME) business loans. Both companies are ultimately held by Godrej Industries Limited (GIL; rated [ICRA]AA (Stable)/[ICRA]A1+) through its subsidiary, GCL.

The rating factors in the parentage with continued support expected from GIL, which held an 89.5% stake in GCL as on March 31, 2024. In addition to the shared brand name, the company benefits from managerial support and operational synergies with the Godrej Group. It leverages the Godrej Group's relations with bankers/lenders, supporting the GCL Group's financial flexibility and liquidity profile. The Godrej Group has extensive experience and an established presence in sectors like consumer goods, real estate, appliances, agriculture, etc. The GCL Group would have access to the Godrej ecosystem and is expected to benefit from the parent group's experience in the real estate development and related businesses. The rating also considers the GCL Group's ability to raise funds at competitive rates and the committed capital support from the parent, which will aid growth and liquidity over the medium term, given the evolving stage of operations.

ICRA takes note of the GCL Group's limited portfolio seasoning, given the recent track record of operations. Thus, the asset quality is yet to be tested across economic cycles. Also, since the GCL Group is still in expansion phase, its profitability indicators are currently muted. Going forward, its ability to grow its portfolio, while maintaining control over credit underwriting, and achieve adequate profitability would remain the key monitorable.

Key rating drivers and their description

Credit strengths

Management support and operational synergies with parent group – The Godrej Group has diversified into the financial services business through GHFL and GFL. GHFL and GFL are wholly-owned subsidiaries of GCL, under the ultimate parentage of GIL, which held an 89.5% stake in GCL as on March 31, 2024. GIL is the flagship company of the Godrej Group (67% equity in GIL as on March 31, 2024). The rating draws comfort from the shared Godrej brand with the Godrej Group and access to the Godrej ecosystem, which includes the customer base of Godrej Properties Limited (GPL) and other Godrej Group entities.

Adequate capitalisation, supported by regular capital raise – The Godrej Group is expected to provide continued capital support for the growth of the business. It had infused capital of ~Rs. 2,210 crore till FY2024. GCL had infused an additional Rs. 300 crore in GHFL and GFL in Q1 FY2025. GCL's consolidated gearing stood at 4.0 times as on March 31, 2024. Given the growth plans and with incremental business being funded out of fresh borrowings, the gearing is expected to increase to 5-5.5 times

on a consolidated basis over the medium term. Nevertheless, ICRA expects 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 –The GCL Group enjoys good financial flexibility, as it is a part of the Godrej Group, with the ability to raise funds at competitive rates of interest from a diverse set of lenders despite its nascent stage of operations. As on March 31, 2024, GHFL and GFL had secured sanctions of ~Rs. 10,489 crore from banks at competitive rates of interest. As on March 31, 2024, bank borrowings accounted for 80% of the GCL Group's funding mix on a consolidated basis. While it has been able to diversify its borrowing profile by onboarding a 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 HFCs with assets that are fairly long term in nature, the company's ability to maintain a prudent mix of long-term and short-term borrowings would be imperative for managing the asset-liability profile.

Credit challenges

Nascent stage of operations; muted profitability – ICRA takes note of the early stage of operations of GHFL and GFL, which commenced lending operations in November 2020 and March 2022, respectively. The combined assets under management (AUM) of the GCL Group increased by 110.01% to Rs. 10,761 crore as on March 31, 2024 from Rs. 5,124 crore on March 31, 2023. ICRA expects the GCL Group to continue growing the AUM at a robust pace through further geographical diversification and by leveraging the Godrej brand.

Given the highly competitive landscape, the GCL Group will continue to face competition from banks and leading HFCs in the prime housing loan segment, which is likely to keep the portfolio yields under pressure. Further, given the nascent stage of operations and hence the high operating expenses, the profitability indicators are likely to remain muted over the medium term till the companies achieve economies of scale. The GCL Group reported a first-time net profit of Rs. 51 crore in FY2024 compared with a net loss of Rs. 31 crore in FY2023, providing some visibility on the earnings trajectory. In this regard, the presence of strong promoters with patient capital provides comfort.

Limited portfolio seasoning; asset quality yet to be tested across cycles – GFL and GHFL reported gross stage 3 of 0.2% and 0.004%, respectively, as on March 31, 2024. However, given the limited seasoning in relation to the loan tenure, the asset quality is yet to be tested through economic cycles. Thus, there could be some uptick in delinquencies as the portfolio seasons. Over the long term, the ability to grow the portfolio while maintaining control over credit underwriting and achieving profitability would remain a key rating monitorable.

Liquidity position: Adequate

As per the consolidated (GHFL+GFL) asset-liability management (ALM) profile as on March 31, 2024, the GCL Group's combined total outflow stood at ~Rs. 6,205 crore against the total expected inflow of ~Rs. 8,378 crore over the next one year. Additionally, it had undrawn lines of Rs. 5,878 crore as on March 31, 2024, supporting the liquidity profile. Further, the promoter group is expected to continue providing capital support for business growth and the parentage is expected to boost GCL's financial flexibility to raise funds at competitive rates.

Rating sensitivities

Positive factors – Not applicable

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	ICRA expects GIL to extend financial support to the GCL Group for business growth. The GCL Group and GIL share a common name, which, in ICRA's opinion, would persuade GIL to provide financial support to the GCL Group to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Consolidation; refer to Annexure II

About the company

Godrej Housing Finance Limited (GHFL) was incorporated in October 2018 as a housing finance company (HFC) and is registered with National Housing Bank (NHB). It is owned by the Godrej Family through Godrej Capital Limited. The company is headquartered in Mumbai with a presence in Maharashtra, Karnataka, Gujarat, Haryana and Delhi NCR. It reported a net profit of Rs. 80 crore in FY2024 on total income of Rs. 491 crore as on March 31, 2024 compared to a net profit of Rs. 38 crore in FY2023 on total income of Rs. 280 crore as on March 31, 2023. The net worth stood at Rs. 904 crore as on March 31, 2024. As on March 31, 2024, the AUM of Rs. 5,463 crore comprised Housing Loans (75%) and Non-Housing Loans 25%).

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 joint venture (JV) companies). Additionally, on a standalone basis, it is engaged in the oleochemicals business, where it is the domestic market leader in various sub-segments (like fatty acids, fatty alcohols, glycerine and surfactants). Its chemical business caters to several end-user industries including fast moving consumer goods (FMCGs), oil and gas, chemical intermediates, pharmaceuticals, tyres, etc.

As on March 31, 2024, GIL's unencumbered listed investment portfolio (book value) stood at Rs. 4,189.2 crore (market value remained ~Rs. 66,722 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 in Ambarnath (Thane, Maharashtra), Dombivli (Thane), 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, 2024) while the rest is held by the public.

Key financial indicators

Godrej Housing Finance Limited (standalone)	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	61	280	491
Profit after tax	-76	38	80
Total managed assets	2,013	4,530	5,816
Return on managed assets	-6.4%	1.2%	1.5%
Managed gearing (times)	3.6	5.6	5.3
CRAR	21.8%	24.4%	24.9%
Gross stage 3	0.0%	0.0%	0.004%

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

Godrej Capital Limited (consolidated)	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	55	347	896
Profit after tax	-63	-31	51
Total managed assets	2,434	6,257	11,012
Return on managed assets	-5.2%	-0.7%	0.6%
Managed gearing (times)	2.1	3.5	4.0

Godrej Capital Limited (consolidated)	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Gross stage 3	0.0%	0.0%	0.1%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
				Jul-17-2024	Sep-29-2023	Dec-14-2022	Jun-30-2022	Mar-21-2022
1	Commercial paper programme	Short term	2,000	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details as on July 12, 2024

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE02JD14435	Commercial paper programme	15-Mar-2024	NA	13-Mar-2025	150.00	[ICRA]A1+
INE02JD14443	Commercial paper programme	10-May-2024	NA	09-Aug-2024	100.00	[ICRA]A1+
INE02JD14450	Commercial paper programme	17-May-2024	NA	16-Aug-2024	200.00	[ICRA]A1+
INE02JD14468	Commercial paper programme	03-Jun-2024	NA	02-Sep-2024	100.00	[ICRA]A1+
INE02JD14476	Commercial paper programme	04-Jun-2024	NA	03-Sep-2024	100.00	[ICRA]A1+
INE02JD14484	Commercial paper programme	12-Jun-2024	NA	11-Sep-2024	100.00	[ICRA]A1+
INE02JD14500	Commercial paper programme	10-Jul-2024	NA	31-Jan-2025	100.00	[ICRA]A1+
INE02JD14492	Commercial paper programme	12-Jul-2024	NA	07-Feb-2025	75.00	[ICRA]A1+
NA	Commercial paper programme*	NA	NA	7-365 days	1,075.00	[ICRA]A1+

Source: Company; *Proposed

Annexure II: 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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