

October 29, 2024

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 exceptional financial flexibility enjoyed by G&B for being a part of the Godrej Group, which is further augmented by the significant market value of its listed investments in associate entities (valued at Rs. 14,214 crore as of August 2024) 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 Godrej Enterprises 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 divisions. Besides, outstanding receivables and ongoing capital expenditure have resulted in modest debt coverage and return indicators. While the company reported a moderate 11% YoY revenue growth in FY2024, backed by steady demand across the key business verticals, its operating margins continued to remain range-bound due to inflationary pressure, which could not be fully passed on to the end-consumers in some of the divisions. While the appliances division (the largest division in terms of revenue contribution) has reported some improvement in its contribution margin, from -2.0% in FY2023) to 2.2% in FY2024 and further to 2.9% in 5M FY2025, the same remains much lower than the historic level of 6-7% and the division's industrial peers. 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, 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 investments, 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.

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. Besides, the company's ability to scale up operations across divisions in a profitable manner remains critical for further improvement in its credit profile and, accordingly, would continue to be monitored.

Key rating drivers and their description

Credit strengths

Enjoys exceptional financial flexibility for being a part of the Godrej Enterprises Group; further supported by significant market value of listed investments and real estate holdings – As a part of the Godrej Enterprises Group, the company enjoys exceptional financial flexibility. The company has interests in various businesses spanning electronic appliances, home and office furniture, locks, security solutions, storage solutions, real estate development and heavy engineering projects. ICRA derives considerable comfort from the market value of listed investments in the associate entities, with G&B's stake in GCPL (7.33% as of September 2024) and GPL (3.83% as of September 2024) valued at Rs. 14,214 crore as of August 2024. The company had transferred the majority stake in GCPL and GIL to other Group investment companies as a part of its business restructuring in FY2017. Nevertheless, ICRA expects G&B to continue to retain the balance stake 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.

Diversified business presence insulates it from downturn in any single segment – G&B is the oldest operating company in the Godrej Enterprises 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. Its industrial divisions include process plant and equipment, material handling equipment, precision engineering, aerospace and tooling, electrical and electronics, and electric motors. In FY2024, G&B derived ~68% of its total revenues from its consumer products division, with the balance generated by the industrial division (~26%), followed by the leasing and construction businesses (~6%) and other income. Such diversified presence reduces its dependence on a single sector, thus insulating it from downturn in any single segment, to a large extent. 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; established presence in home and office furniture space; renowned player in the 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 used 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 decent presence in the refrigerator market with a 6.3% volume market share in FY2024. It is also reasonably placed in the washing machine and air conditioner markets with a volume market share¹ of 3.6% and 3.9%, 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 geographical penetration through expansion in the rural and tier-II/III markets. The company also 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 regain 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 most of G&B's business divisions reported margin expansion in FY2024, the storage solutions division posted a steep decline in margins, primarily on account of input cost inflation that could not be passed on to the customers due to intense competition. Nevertheless, the company reported a decent YoY improvement in its operating margin in FY2024 at 7.5%, with improved profitability for the appliances division fueling some improvement in margins on a YoY basis. Going

¹ Market share data as per company

forward, revenue expansion across key businesses coupled with the softening seen in input costs are likely to aid in a gradual margin expansion for the company.

Intense competition in the consumer appliances and furniture businesses – The company derives 25-30% of its revenue from the consumer appliances business, where it faces intense competition from players such as Samsung, LG, Whirlpool, Voltas and a number of other companies. G&B's market share across addressable sub-segments in the appliances division remains limited. Hence, its ability to take corrective measures to expand its market share will be crucial to support its business risk profile, going forward. Competition 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 during FY2023-FY2024, 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. 355 crore and unutilised working capital lines of ~Rs. 300 crore as on March 31, 2024 (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 over the medium term, and its existing liquidity to remain sufficient to fund its capex spends of ~Rs. 400-500 crore net addition and debt repayment obligations of Rs. 702 crore (including Rs. 378 crore of public fixed deposits which are renewable) in FY2025. While the company has dependence 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 companies amounting to Rs. 14,214 crore as of August 2024 lends an exceptional 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, the company enjoys easy access to debt markets and enjoys strong relationships with banks as it is a part of the Godrej Enterprises Group. These factors, cumulatively, are expected to support the company's liquidity position, going forward.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Pressure on G&B's rating could arise if there is 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 affects 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 Enterprises Group, which operates in diverse business segments spanning home appliances, locks, consumer products, industrial products (process plant and equipment), real estate development and IT solutions 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 a 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 September 2024). 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. At present, the company operates in diverse business divisions, offering consumer, office and industrial products and services across India and overseas. 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). The company is in the process of relocating a few of its operational divisions from Vikhroli to Khalapur for better cost efficiency and logistical ease.

Key financial indicators

G&B – Standalone	FY2023 Audited	FY2024 Audited
Operating Income (Rs. crore)	14,573.9	16,221.7
PAT (Rs. crore)	211.0	409.0
OPBDIT/OI (%)	6.6%	7.5%
PAT/OI (%)	1.4%	2.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.7
Total Debt/OPBDIT (times)	3.5	2.9
Interest Coverage (times)	4.1	4.6

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 (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
			Oct 29, 2024	Oct 6, 2023	Oct 27, 2022	Oct 29, 2021
1 Commercial Paper Programme	Short-term	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](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE982D14AY8	Commercial Paper	5-Aug-2024	7.20%	28-Oct-2024	700.00	[ICRA]A1+
INE982D14AZ5	Commercial Paper	19-Sep-2024	7.38%	18-Dec-2024	200.00	[ICRA]A1+

Source: Company

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

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About ICRA Limited:

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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.

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Branches



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