

March 04 2021

Godrej Industries Limited: Update

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-Convertible Debenture Programme	1,500.00	1,500.00	[ICRA]AA (Stable); outstanding
Long-term, Fund-based Facilities	90.00	90.00	[ICRA]AA (Stable); outstanding
Long-term Loans	1,200.00	1,200.00	[ICRA]AA (Stable); outstanding
Long-term, Non-fund Based Facilities	50.00	50.00	[ICRA]AA (Stable); outstanding
Short-term Loans	200.00	200.00	[ICRA]A1+; outstanding
Short-term, Non-fund Based Facilities	600.00	600.00	[ICRA]A1+; outstanding
Commercial Paper Programme	1,440.00	1,440.00	[ICRA]A1+; outstanding
Commercial Paper Programme^	60.00	60.00	[ICRA]A1+; outstanding
Total	5,140.00	5,140.00	

^Carved out of the above mentioned long-term, fund-based limits

*Instrument details are provided in Annexure-1

Rationale

On February 12, 2021, Godrej Industries Limited (GIL) announced expansion and diversification into housing finance business through acquisition of 95% stake in Godrej Housing Finance Limited (GHFL) from Anamudi Real Estates LLP (AREL). For the purpose of this acquisition, GIL will acquire 51.16% stake (to be further increased to 81.25%) in Pyxis Holdings Private Limited (PHPL) from AREL for an amount not exceeding Rs. 0.10 crore. Subsequently, GIL will infuse equity in PHPL to facilitate the acquisition of GHFL at a cash consideration of Rs. 347 crore. PHPL will also acquire 100% stake in Ensemble Holdings and Finance Limited (EHFL) from GIL, and will become the ultimate holding company for GIL's housing finance and non-banking finance business. The indicative timeline for completion of the transaction is 120 days, subject to the shareholders' approval and requisite statutory approvals, including that from the Reserve Bank of India (RBI). GIL announced its Board approval for raising an amount not exceeding Rs. 1,500 crore via debt instruments over the next one year. The funds will primarily be utilised towards scaling up the housing finance and non-banking finance businesses during the next two years.

Coupled with the ongoing investment and capital expenditure (capex) plans, this acquisition will result in an increase in GIL's standalone net leverage (net debt/OPBDITA¹) over the next few years. However, ICRA draws comfort from the sizeable market value of GIL's listed investments vis-à-vis its net debt outstanding, as reflected in its net debt/market value of listed investments of 7.0% as on December 31, 2020 (10.4% as on March 31, 2020), which lends high financial flexibility. GIL has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue. ICRA notes that volatile stock market conditions may reduce GIL's financial flexibility arising from the market value of its listed investments in Group entities. ICRA notes that the acquisition will result in diversification of GIL's business areas into housing finance and non-banking finance and leverage the Group's established presence in the real estate sector via Godrej Properties Limited. However, the company's ability to scale up and generate cash flows from the financial services business, thereby leading to an improvement in the credit metrics, would be a key monitorable.

The rating takes into account the status of GIL as the flagship company of the Godrej Group and its leadership position in its core business of oleochemicals in the domestic market. GIL has a healthy portfolio of investments in the Group companies, which provides a stable source of dividend income and lends financial flexibility because of its market value, which is

¹ Operating profit before depreciation, interest, tax and amortisation

significantly higher than its net debt outstanding. Besides being an investment holding company, GIL's standalone business profile remains restricted to its oleochemicals and estate management businesses.

Over the years, GIL has gradually evolved as a holding company for the Group's new business initiatives and has demonstrated its capability to incubate businesses. While the ratings favourably factor in the diverse business profile of GIL's investee companies, its credit profile remains vulnerable to their performances and funding requirements.

In 9M FY2021, GIL reported ~13% YoY decline in its standalone operating income (OI), primarily due to lower dividend income from its investee companies. This further resulted in a net loss of Rs. 66.1 crore in 9M FY2021, against a profit after tax (PAT) of Rs. 29.8 crore in 9M FY2020. Its financial profile remains vulnerable to the cyclicity in its oleochemicals business, which has remained volatile over the years owing to fluctuating raw material prices.

The company's leverage and coverage indicators remain moderate. ICRA notes that GIL's reliance on short-term borrowings for meeting its funding requirements leads to refinancing risks. Nonetheless, following the issue of Rs. 1,500 crore non-convertible debentures in the current fiscal, through two tranches of Rs. 750 crore each in July 2020 and October 2020, its debt mix has improved sequentially.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities, key financial indicators: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Besides GIL's standalone business, ICRA considers the expected dividend inflows and incremental investments in investee companies. ICRA also considers the credit quality of the investee companies and financial flexibility arising from the market value of GIL's quoted equity investments in Group entities.

About the company

A conglomerate with interests and leadership positions across diverse areas, GIL is a part of the Godrej Group. The Godrej Group held a 66.37% equity in the company as on December 31, 2020. GIL is one of the Group's holding companies, which is involved in the oleochemicals business on a standalone basis. It has significant interests in real estate, agriculture and consumer goods (through its subsidiaries, associate companies and joint venture (JV) companies).

As on December 31, 2020, GIL's investment portfolio stood at ~Rs. 2,639 crore (market value of listed investments remaining at ~Rs. 41,893 crore), with key investments in Godrej Consumer Products Limited (23.8% stake), Godrej Agrovet Limited (59.5% stake) and Godrej Properties Limited (a 49.4% stake). The company's manufacturing facilities are located in Ambarnath (Thane, Maharashtra), Dombivali (Thane, Maharashtra), Wadala (Mumbai) and Valia (Gujarat). GIL also generates income from its premises in Vikhroli, Mumbai, which are given out to various corporates on a leave-and-license basis.

During 9M FY2021, GIL, on a standalone basis, reported a net loss of Rs. 66.1 crore on an OI of Rs. 1308.0 crore, against a profit after tax of Rs. 30.8 crore on a OI of Rs. 1,502.5 crore in 9M FY2020.

Key financial indicators (audited)

GIL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	2144.4	1968.7
PAT (Rs. crore)	-101.4	30.8
OPBDIT/OI (%)	19.3%	15.5%
PAT/OI (%)	-4.7%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.1
Total Debt/OPBDIT (times)	7.7	9.5
Interest Coverage (times)	1.7	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 4, 2021 Dec 3, 2020	Feb 25, 2020 Nov 20, 2019	Jan 17, 2019	Jan 8, 2018
1	Non-Convertible Debenture Programme	Long-term	1,500.00	1,500.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
2	Non-Convertible Debenture Programme	Long-term	-	NA	-	-	-	Withdrawn
3	Fund-based Facilities	Long-term	90.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Term Loans	Long-term	1,200.00	593.75	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-fund Based Facilities	Long-term	50.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Public Deposits	Medium-term	-	NA	-	-	-	Withdrawn
7	Short-term Loans	Short-term	200.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Non-fund Based Facilities	Short-term	600.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Commercial Paper Programme [^]	Short-term	60.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
10	Commercial Paper Programme	Short-term	1,440.00	920.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore; *as on September 30, 2020; ^ carved out of the above mentioned long-term, fund-based limits

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE233A08022	Non-Convertible Debenture	Jul-2020	6.24%	Jul-2023	750.00	[ICRA]AA (Stable)
INE233A08030	Non-Convertible Debenture	Oct-2020	6.43%	Apr-2024	750.00	[ICRA]AA (Stable)
NA	Fund-based Facilities	NA	NA	NA	90.00	[ICRA]AA (Stable)
NA	Term Loan 1	Mar-2019	1 year MCLR	Mar-2025	500.00	[ICRA]AA (Stable)
NA	Proposed Term Loans	NA	NA	NA	700.00	[ICRA]AA (Stable)
NA	Non-fund Based Facilities	NA	NA	NA	50.00	[ICRA]AA (Stable)
NA	Short-term Loans	NA	NA	NA	200.00	[ICRA]A1+
NA	Non-fund Based Facilities	NA	NA	NA	600.00	[ICRA]A1+
NA	Commercial Paper Programme [^]	NA	NA	7-365 days	60.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	1,440.00	[ICRA]A1+

Source: Company; [^]Carved out of the above mentioned long-term, fund-based limits

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

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About ICRA Limited:

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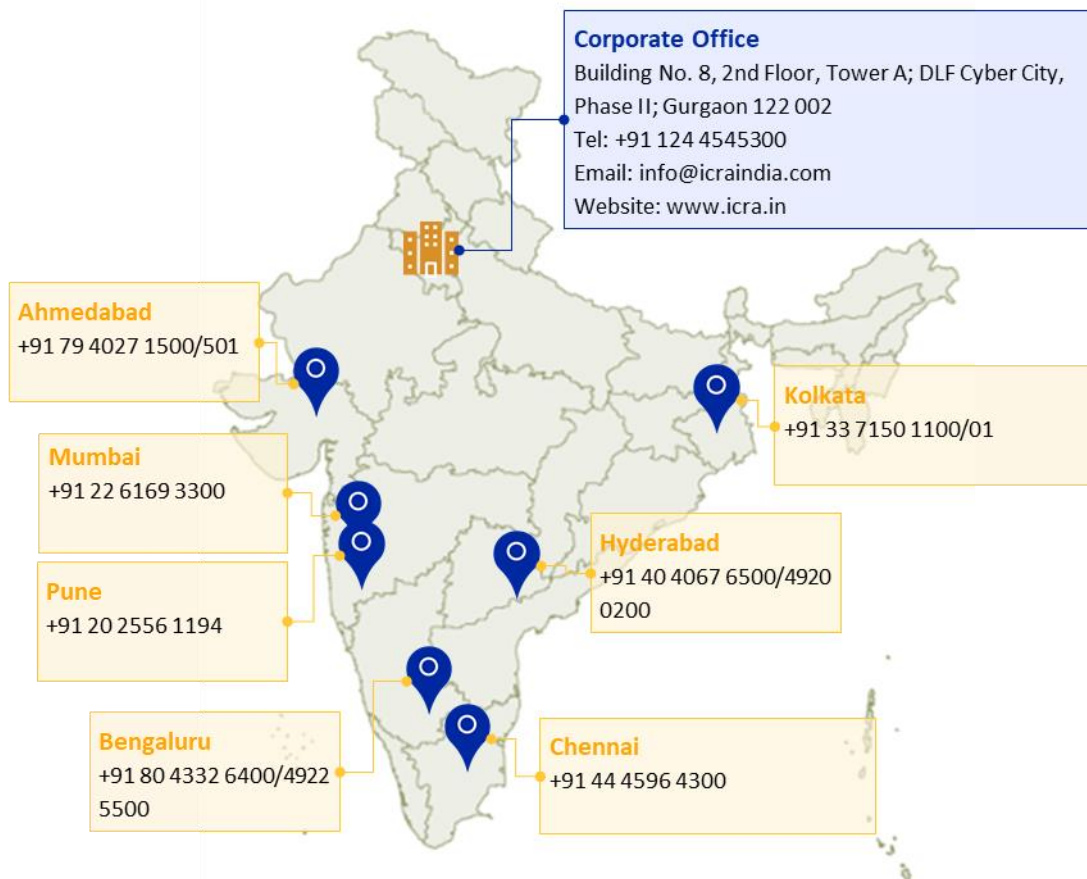


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