

October 27, 2022

## Godrej & Boyce Manufacturing Company 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	700.0	900.0	[ICRA]A1+; reaffirmed / assigned for enhanced limits
<b>Total</b>	<b>700.0</b>	<b>900.0</b>	

\*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 positively 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. 8,101 crore as on September 30, 2022) 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. ICRA notes the strategic importance of G&B to the Group as its oldest operating company and its strong brand recall. The company enjoys a strong footing in the home and office furniture space and is among the leading players in the 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 long outstanding receivables and ongoing capital expenditure, have resulted in modest debt coverage and return indicators. While the company was able to improve the gross contribution margin in the industrial division in FY2022, the consumer products division reported a marginal moderation in its segmental margin, largely attributable to the suppressed margins in the appliances division due to increase in raw material costs which could not be fully passed on to the end consumers. While the segmental margin of appliances division continued to remain suppressed in 5M FY2023 as well, the recent softening seen in the raw material prices coupled with incremental sales traction anticipated in H2 FY2023 due to the festive season and the company's plans to increase presence in premium offerings is expected to support margin revival in the segment 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 in the medium term.

ICRA also takes comfort from the sizeable market value of its listed Group investments, amounting to Rs. 8,101 crore as on September 30, 2022, 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 the listed investments of G&B going forward.

Going forward, apart from retaining its market share in the appliances and furniture segment to support its profitability, the ability of the company to reduce its fixed costs through cost optimisation will be crucial for maintaining its credit profile. Furthermore, any adverse effect on sourcing critical components for G&B's consumer appliances division due to ongoing geopolitical challenges and associated supply chain constraints, leading to deterioration in the division's performance, will be a key monitorable.

## Key rating drivers and their description

### Credit strengths

**Enjoys strong financial flexibility as part of the Godrej Group; this is 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) ([ICRA]AA (stable)/A1+), Godrej Industries Limited (GIL) ([ICRA]AA (stable)/A1+) and Godrej Properties Limited (GPL) ([ICRA]AA+ (stable)/A1+), the Group has interests in business segments 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 (7.34% stake) and GPL (3.83% stake) valued at Rs. 8,101 crore as on September 30, 2022. 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 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.

**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. The company in FY2022 derived ~68% of its total revenues from its consumer products division, with the balance generated by the industrial divisions (~25%), 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 downturns in any individual segment, to an extent. Furthermore, the steady revenue stream of ~Rs. 290 crore per annum from leasing its commercial real estate also imparts some stability to the company's financial risk profile.

**Strong brand name; strong footing in home and office furniture space; leading player in refrigerator segment** – By virtue of its long-standing 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 7.1% volume market share in FY2022. It is also reasonably placed in the washing machine and air conditioner markets with a volume market share<sup>1</sup> of 4.1% and 2.5%, respectively in 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/tier-III markets. Such efforts are expected to augur well for the future growth prospects of the company and claw back some 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 operational divisions of G&B reported YOY expansion in their respective segmental margins, the appliances division reported sharp contraction in its segmental margins for the fiscal, primarily on account of input cost inflation which could not be passed on to the customers due to high competitive intensity. Accordingly, the company reported moderate decline in its operating margin, from 7.4% (FY2021) to 6.7% (FY2022). In the current fiscal, the revenue

<sup>1</sup> Market share data as per company; it is for premium appliance categories only

base as well as profitability in 5MFY2023 has been better than 5MFY2022, highlighting the underlying recovery. Although the contemporary bottlenecks such as input cost inflation and semiconductor chip shortages are expected to have a near-term impact on the profitability of few of the major divisions of the company, these are expected to stabilize over the medium term.

**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, the company's ability to take corrective measures to expand its market share will be crucial to support its business risk profile, going forward. On the other hand, while the competitive intensity is quite high in the furniture and interiors business as well on account of competition from both organised and unorganised players, G&B has demonstrated healthy revenue growth momentum in the division, and has also been able to protect its margins to a large extent.

## Liquidity position: Adequate

The company's liquidity profile is **adequate** supported by its balance of free cash and liquid investments of ~Rs. 293 crore as on March 31, 2022 and unutilised working capital lines of ~Rs. 200 crore as on March 31, 2022 as well as May 31, 2022. Considering the improvement in sales momentum, ICRA expects G&B's cash flow from operations of Rs. 500-600 crore to remain sufficient to fund its capital expenditure spends of ~Rs. 500 crore in the current fiscal. While the company has reliance on short-term borrowings for meeting 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 Group companies amounting to ~Rs. 8,101 crore (as on September 30, 2022) lends strong financial flexibility to G&B. The company also has access to sizeable amount of undrawn working capital facilities and standby credit lines, thereby providing liquidity cushion to the company. Apart from the above, the financial flexibility is enhanced by the company's real estate and land holdings. In addition, being a part of the Godrej Group, G&B enjoys healthy access to capital 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	<a href="#">Corporate Credit Rating Methodology</a>
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 (currently holds 3.83%). 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 located at Mumbai (Vikhroli), while its manufacturing units are located at Khalapur, Shirwal and Shindewadi (Maharashtra), Mohali (Punjab), Bhagwanpur and Haridwar (Uttarakhand), Dahej (Gujarat) and Chennai (Tamil Nadu).

#### Key financial indicators

Godrej & Boyce Manufacturing Company Limited – Standalone	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	9,990.1	12,345.4
PAT (Rs. crore)	99.8	373.0
OPBDIT/OI (%)	7.4%	6.7%
PAT/OI (%)	1.0%	3.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDIT (times)	4.3	4.1
Interest Coverage (times)	3.5	4.4

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					October 27, 2022			
1	Commercial Paper Programme	Short-term	900.00	700.00	[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: [www.icra.in](http://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
INE982D14AI1	Commercial Paper 1	28-Sep-2022	6.13%	21-Dec-2022	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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