ICRA

January 12, 2017

Godrej Consumer Products Limited

Instrument*	Rated Amount (in Rs. Crore)	Rating Action
Long-term/Short-term, Fund-based facilities	30.00	[ICRA]AA+ (stable) / [ICRA]A1+ reaffirmed
Long-term/Short-term, Non Fund-based facilities	170.00	[ICRA]AA+ (stable) / [ICRA]A1+ reaffirmed
Long-term/Short-term, Fund-based/Non Fund-based facilities	1,025.00	[ICRA]AA+ (stable) / [ICRA]A1+ reaffirmed
Commercial Paper Programme	200.00 (enhanced from 150.00)	[ICRA]A1+ reaffirmed
Total	**1,425.00**	**-**

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the ratings of [ICRA]AA+ (pronounced ICRA double A plus) and [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 30.0 crore[1] secured, fund based bank limits, Rs. 170.0 crore secured, non-fund based bank limits, and Rs. 1,025.0 crore unsecured, fund based and non-fund based bank limits of Godrej Consumer Products Limited (GCPL)[2]. The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 200.0 crore (enhanced from Rs. 150.0 crore) short-term debt/Commercial Paper programme of GCPL.

Rationale

The reaffirmation of ratings factors in the well diversified presence of the company in the fast moving consumer goods industry – across the three core categories (personal care, home care and hair care) and the three geographies of focus (Asia, Africa and Latin America), the leading market presence of the company across majority of the segments and markets it is present in, the healthy financial profile of the company characterized by healthy profitability, strong cash accruals, moderate gearing and comfortable debt coverage indicators, and the financial flexibility enjoyed by the company by virtue of being part of the Godrej Group of companies.

The ratings are, however, constrained by the competition in few of the markets which may constrain further expansion in margins, and enhanced geo-political, regulatory and currency risks on account of presence across multiple geographies. It is to be noted that, despite all the above mentioned challenges, GCPL has sustained relatively high margins in FY2016 as well as the current fiscal in its international as well as domestic operations. On the domestic front, GCPL has been facing competition in the personal care and hair care segments; however, product repositioning/brand extensions have helped GCPL maintain its competitive position in the personal care segment in FY2016 and current fiscal. Further, innovation led new product/format launches in the hair care and personal/home care categories are expected to drive growth during the current year.

Despite the large inorganic investments over the past five years, the consolidated financial profile of the company remains healthy characterised by strong cash accruals, moderate capital structure - moderated post debt funded acquisition of Strength of Nature in Q1 FY2017, comfortable debt coverage indicators, and adequate liquidity as evidenced by sizeable cash and bank balances, moderately utilized working capital facilities and fairly spread out debt repayment obligations. While the company is expected to continue to grow through inorganic acquisitions, ICRA expects the company to maintain healthy financial risk profile and will continue to evaluate the impact of such investments on a case to case basis.

Key Rating Drivers

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Credit Strengths

- Leadership position in domestic household insecticide category, innovation and strong brands resulting in higher than industry average growth rate and steady traction in market shares
- Second largest domestic toilet soaps player; with value for money (VFM) proposition and recent product repositioning/brand extensions providing considerable growth opportunities
- Leadership position in the domestic hair colour segment, with strong product offerings across product formats, targeting various price points
- Strong last mile distribution network and continued focus on innovation, the key drivers of GCPL's competitive position in the FMCG industry
- Successful integration of recent overseas acquisitions have led to significant synergy benefits and helped diversify GCPL's product portfolio and geographic presence, besides aiding revenue growth
- Comfortable financial profile characterized by healthy profitability, strong cash accruals, moderate gearing and comfortable debt coverage indicators; financial flexibility enjoyed by virtue of being part of the Godrej Group of companies

Credit Challenges

- Intense competition in the domestic businesses, especially in the soaps and hair colour categories
- Vulnerability to international palm oil prices - the key raw material for the soaps business - although increasing contribution from household insecticides and hair colours mitigates the risk to some extent
- Several acquisitions undertaken in rapid succession indicates increased risk appetite of the management, also subjecting the consolidated entity to enhanced political, regulatory and currency risks; nonetheless, geographic and category diversification thus achieved mitigates these risks to some extent

Sensitivities

- Adverse currency fluctuations and increase in commodity prices would dampen the operating and financial performance

Description of key rating drivers highlighted above:

GCPL enjoys a leadership position across many of the product categories it is present in – in both domestic and international markets. GCPL's inorganic acquisitions of Sara Lee's share in the erstwhile Godrej Sara Lee Limited in India, 'Megasari Group' in Indonesia, stakes in 'Darling Group' operations in South Africa, Mozambique, Nigeria, and Kenya , 'Rapidol' and 'Frika' in South Africa, 'Tura' brand in Nigeria, 'Issue Group', 'Argencos' and 'Cosmetica Nacional' in Latin America, and 'Keyline Brands' and 'Soft and Gentle' in Europe have helped the company in extracting synergies in terms of supply chain efficiencies, product cross pollinations and stronger distribution network, besides diversifying GCPL's product portfolio and geographical reach. Successful integration of these acquired businesses with the existing business, along with moderate profitability and strong cash accruals of these entities provide comfort to the ratings. During the current fiscal, GCPL has acquired 100% stake in Strength of Nature LLC (presence in USA, Africa and Caribbean) and 75% stake in Canon Chemicals Limited (Kenya), further strengthening the product portfolio and geographical presence. Further, many of the product categories the company is present in are less penetrated and thus provide significant opportunities for future growth.

During FY2013 and FY2014, the company's operating margins were constrained owing to pursuance of product innovation related growth which also entailed higher advertisement and promotion expenses. However, with some of the new innovation based launches having achieved significant scale, GCPL's operating margins since last two fiscals have witnessed a steady improvement. Going forward, we expect the company to continue to invest in new products and variants. This coupled with focus on premiumisation several cost rationalisation initiatives (like Project Pi) is likely to help GCPL in maintaining its margins at historic levels.

GCPL's inorganic investments have added new businesses to the consolidated business profile. These businesses – having sizeable scale individually – have a significant bearing on consolidated performance of the company. ICRA notes that the consolidated performance has largely been stable in FY2016, though it has moderated in the current fiscal due to macro-economic slowdown in some of the markets like Indonesia, Latin America and the UK. In the current fiscal, the revenue growth in consolidated operations has been largely contributed by addition of Strength of Nature and Canon Chemicals businesses. Though the operating margins of some of the businesses in the international portfolio have remained volatile over the past three years impacted by cost pressures and currency fluctuations, they continue to remain within a comfortable range. Further, addition of relatively higher margin businesses like Strength of Nature is likely to aid GCPL's consolidated margins in the near to medium term. ICRA will continue to monitor the performance of these investments, which would be critical to sustaining GCPL's credit profile in the future.

Analytical Approach:
For arriving at the ratings, ICRA has taken a consolidated view of Godrej Consumer Products Limited.

Links to applicable criteria
Rating Methodology for Fast Moving Consumer Goods Industry

About the Company:
Formed out of a de-merger of the consumer products division of the erstwhile Godrej Soaps Limited in April 2001, Godrej Consumer Products Limited (GCPL) is part of the Godrej Group of companies. Though GCPL was formed in its current form in 2001, it has been operating for more than 80 years, as Godrej Soaps, in the personal care segment. Currently, GCPL's standalone business includes household insecticides, toilet soaps, hair colorants, toiletries and liquid detergents. The company is a market leader in household insecticide, hair colour and liquid detergent categories, and the second largest player in the soaps category in the domestic market. GCPL has manufacturing plants in Assam, Goa, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Meghalaya, Pondicherry, Sikkim and Tamil Nadu. GCPL's capacity expansions over the years have been undertaken in areas where it can avail of fiscal benefits extended by the government, thereby improving its profitability. Over the past five years, GCPL has undertaken several overseas acquisitions to build its presence in key emerging markets outside India, with focus on Asia, Africa and Latin America. These acquisitions give GCPL access to well-established international brands and the subsidiaries' distribution and marketing networks. The performance of the overseas subsidiaries continues to remain stable.

On a consolidated basis, for financial year ended March 31, 2016, GCPL reported profit after tax (PAT) of Rs. 1,158.9 crore on an operating income of Rs. 8,968.1 crore as against a PAT of Rs. 976.4 crore on an operating income of Rs. 8,276.7 crore during financial year ended March 31, 2015. GCPL's consolidated operating income grew by 9.2% to Rs. 4,483.0 crore and PAT grew by 68.6% to Rs. 565.6 crore for the half year ending September 30, 2016, over the corresponding period of the previous year.

On a standalone basis, for financial year ended March 31, 2016, GCPL reported profit after tax (PAT) of Rs. 739.7 crore on an operating income of Rs. 4,811.8 crore as against a PAT of Rs. 654.5 crore on an operating income of Rs. 4,430.1 crore during financial year ended March 31, 2015. GCPL's standalone operating income grew by 3.9% to Rs. 2,304.3 crore and net profit grew by 13.9% to Rs. 363.5 crore for the half year ending September 30, 2016, over the corresponding period of the previous year.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	November 2015	September 2014	December 2013
1	Cash Credit/ WCDL	Long Term/ Short Term	30.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA] A1+
2	Letter of Credit/ Bank Guarantee	Long Term/ Short Term	170.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA] A1+
3	Unsecured Fund Based/Non Fund Based Bank Facilities	Long Term/ Short Term	1,025.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA] AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
4	Commercial Paper	Short Term	200.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit/WCDL	-	-	-	30.00	[ICRA]AA+ (Stable)/[ICRA]A1+
Letter of Credit/Bank Guarantee	-	-	-	170.00	[ICRA]AA+ (Stable)/[ICRA]A1+
Unsecured Fund Based/Non Fund Based Bank Facilities	-	-	-	1,025.00	[ICRA]AA+ (Stable)/[ICRA]A1+
Commercial Paper	-	-	2-3 months	200.00	[ICRA]A1+

Source: Godrej Consumer Products Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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