

Godrej Agrovet Limited

September 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Working Capital Facilities	525.00	500.00	[ICRA]A1+; reaffirmed
Fund-based-Working Capital Facilities	60.00	60.00	[ICRA]AA (Stable); re-affirmed
Non-fund based-Working Capital Facilities	70.00	70.00	[ICRA]A1+; re-affirmed
Commercial Paper Programme	650.00	600.00	[ICRA]A1+; re-affirmed
Total	1,305.00	1,230.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) for the Rs. 60-crore¹ fund-based limits of Godrej Agrovet Limited (GAVL or the company)². ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500-crore (reduced from Rs. 525 crore) fund-based limits, the Rs. 70-crore non-fund based limits and the Rs. 600-crore (reduced from Rs. 650 crore) Commercial Paper Programme of GAVL. The outlook on the long-term rating is Stable.

Rationale

The rating re-affirmation factors in GAVL's strong business profile characterised by its diverse agri focused businesses like animal feed, vegetable oil (palm oil plantations), and crop protection (agri inputs), among others. ICRA notes the improvement in GAVL's capital structure and coverage indicators in FY2018 supported by considerable reduction in debt through use of its Initial Public Offer (IPO) proceeds. The ratings also factor in the improved and healthy financial performance of GAVL's subsidiary, Astec LifeSciences Limited (Astec), in FY2018. GAVL's other subsidiary, Creamline Dairy Products Limited (CDPL), witnessed a subdued performance in FY2018, characterised by dip in profitability due to provisioning measures. ICRA notes GAVL's board approval for the scheme of amalgamation of Astec with GAVL, which is subject to further approvals from the shareholders and other regulatory authorities. In the near to medium term, ICRA expects GAVL to derive significant synergy benefits from the above mentioned subsidiaries as it looks to further expand and diversify its agri business profile.

Despite its dominant position in the organised animal feed industry, GAVL's cost structure and profitability remain susceptible to raw material price fluctuations due to its exposure to a highly price sensitive consumer segment. Furthermore, GAVL's agri-focused business portfolio also remains vulnerable to monsoon conditions and Government regulations. Nonetheless, the company's presence across diverse agri-businesses mitigates the risk to some extent. The ratings also derive comfort from GAVL's strong parentage as part of the Godrej Group.

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.

Outlook: Stable

ICRA expects GAVL to continue to benefit from being part of the Godrej Group, a large and established business house in the country. The outlook may be revised to Positive if GAVL achieves substantial scale up in revenues while maintaining the current healthy profitability levels, resulting in strong growth in net cash accruals. The outlook may be revised to Negative if cash accrual is lower than expected or if any major capital expenditure, leveraged acquisitions or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Dominant position in the domestic animal feed industry - GAVL enjoys a dominant position in the domestic organised animal feed industry, with a market share of around 20%. Historically, the animal feed segment has been GAVL's main business, with the company being present across various sub-categories like cattle, broiler, aqua and layer feed. ICRA notes the company's concerted efforts for improving the performance of its animal feed business and will continue to monitor the impact of the same on its future performance.

Diversified business presence insulates the company from downturns in any individual business segment - In FY2013, animal feed contributed more than 80% to GAVL's standalone revenues, thus leading to concentration risks. Over the years, GAVL's focus on the diversification of its revenue streams have led to the segment's contribution to standalone sales decline to ~70% as of FY2018. The diversification has been provided by healthy revenue growth of the other two business segments—vegetable oil and crop protection—with each having a five-year revenue CAGR of ~16%. Additionally, with the acquisition of its majority stake in Astec (agro-chemicals) and CDPL (dairy and allied products) in late FY2016, GAVL achieved further diversification of its revenues, as the contribution of animal feeds to consolidated revenues stood significantly lower at ~50% in FY2018.

Capital structure and coverage indicators witnessed significant improvement in FY2018 supported by considerable reduction in debt through use of its IPO proceeds - In FY2018, marginal revenue growth and improvement in operating profit margin coupled with considerable reduction in debt, through use of IPO proceeds, led to a significant improvement in GAVL's capital structure on a standalone basis (gearing at 0.2 time in FY2018 over 0.5 in FY2017). Coupled with the healthy performance of Astec in FY2018, this resulted in a similar improvement in capital structure on a consolidated basis as well (gearing at 0.2 time in FY2018 over 0.5 time in FY2017).

Strong financial flexibility as part of the Godrej Group - GAVL is a subsidiary of Godrej Industries Limited (GIL), which is the flagship company of the Godrej Group, a large and established business house in the country. This imparts significant financial flexibility to GAVL, as it helps it to maintain its access to capital markets and enjoy healthy relationships with banks.

Credit challenges

GAVL's cost structure and profitability remain susceptible to raw material price fluctuations - Despite its dominant position in the organised animal feed industry, GAVL's cost structure and profitability remain susceptible to raw material price fluctuations due to its exposure to a highly price sensitive consumer segment.

Agri-focused business portfolio vulnerable to monsoon conditions and Government regulations - Since the company is present in agri-related businesses, its revenues and margins are vulnerable to monsoon conditions as well as Government regulations to some extent, which may restrict its ability to expand its operations. Nonetheless, its presence across diverse agri-businesses mitigates the risks to some extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Godrej Agrovet Limited is a part of the Godrej Group, which is engaged in diverse business segments spanning home appliances, fast moving consumer goods, consumer products, industrial products, oleo chemicals, animal feed, real estate development, and oil palm plantation through various Group companies.

GAVL's product segments primarily cater to the rural sector and agricultural community. On a standalone basis, the company has three major business segments—animal feed, vegetable oil (oil palm plantation) and crop protection (agri inputs). The company is one of the largest organised animal feed manufacturers in India. It offers cattle, poultry, fish and speciality feed categories in its product portfolio. It has over 64,000 hectares of palm tree plantations across six states for producing crude palm oil, palm kernel oil and palm kernel cake. It is also a niche player in select agri-inputs like insecticides, fungicides, soil conditioners and organic manure, with a pan India network of ~6,000 distributors.

On a consolidated basis, through its subsidiaries, GAVL has interests in businesses like agro-chemicals (Astec) and dairy products (CDPL). Through its joint ventures, GAVL also has interests in integrated poultry (Godrej Tyson Foods Limited) and animal feed (ACI Godrej Agrovet Private Ltd., Bangladesh).

In Q1 FY2019, on a standalone basis, the company reported a net profit of Rs. 72.9 crore on an operating income of Rs. 1,110.0 crore, as compared to a net profit of Rs. 61.2 crore on an operating income of Rs. 970.1 crore in Q1 FY2018.

In Q1 FY2019, on a consolidated basis, the company reported a net profit of Rs. 81.0 crore on an operating income of Rs. 1,484.4 crore, as compared to a net profit of Rs. 76.1 crore on an operating income of Rs. 1,344.1 crore in Q1 FY2018.

Key financial indicators (audited) - Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	4,914.3	5,190.6
PAT (Rs. crore)	272.9	251.0
OPBDIT/OI (%)	9.0%	8.7%
RoCE (%)	20.7%	20.7%
Total Debt/TNW (times)	0.5	0.2
Total Debt/OPBDIT (times)	1.5	0.9
Interest coverage (times)	5.1	10.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					January 2018	July 2017	August 2016	August 2015	
1	Fund-based-Working Capital Facilities	500.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based-Working Capital Facilities	60.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-fund-based-Working Capital Facilities	70.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	600.00	NA	[ICRA]A1+	[ICRA]A1+	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term Loans	NA	NA	NA	500.00	[ICRA]A1+
NA	Cash Credit/WCDL	NA	NA	NA	60.00	[ICRA]AA (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	70.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	600.00	[ICRA]A1+

Source: Godrej Agrovet Limited

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