

Godrej & Boyce Manufacturing Company Limited

January 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	600.0	600.0	[ICRA]A1+; Reaffirmed
Total	600.0	600.0	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in the strong financial flexibility enjoyed by Godrej & Boyce Manufacturing Company Limited (G&B) as part of the Godrej Group. ICRA notes its strategic importance to the Group as the oldest operating company in it, and its diversified business risk profile with presence across the consumer and industrial product segments. The company's financial flexibility is enhanced by the market value of investments in Group companies (significantly in excess of the book value) and sizeable real estate asset holdings at Vikhroli in Mumbai. Apart from its monetisation potential, the latter also provides a steady rental revenue stream. ICRA also notes the company's strong brand name, with presence across consumer appliances, home and office furniture and locks segments.

The strengths are partially offset by moderate operating profitability of the company due to presence in low margin mass products, subdued performance of security solutions and prima division in FY2018 and high fixed costs. Though there has been a turnaround in the profitability of the industrial products division in FY2018 and the current fiscal primarily driven by the process plant and equipment division, precision engineering, aerospace and tooling segment and electrical and electronics division, the sustainability of the same remains to be seen. ICRA also notes that sizeable receivables (approximately 31% of its outstanding debtors as on March 31, 2018) remain pending for more than a year, which are primarily from the electrical and electronics division and the project business. Recovery of these dues would help improve the company's liquidity position. Further, G&B continues to face stiff competition in the consumer appliances, and furniture and interiors divisions.

Outlook: Not Applicable

Key rating drivers

Credit Strengths

Strong financial flexibility as part of the Godrej Group; enjoys strategic importance to the Group - Being part of the Godrej Group, the company enjoys strong financial flexibility. Through various Group companies, such as Godrej Consumer Products Limited (GCPL) (rated [ICRA]AA+ (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. G&B is the oldest operating company in the Godrej Group, and is strategically important to it with a diverse business presence.

Financial risk profile supported by significant market value of listed Group investments and real estate holdings - ICRA derives considerable comfort from the market value of listed Group investments, GCPL (7.34% stake) and GPL (4.64% stake) valued at approximately Rs. 6,800 crore as on December 31, 2018. After its business restructuring during FY2017, wherein the company transferred majority stakes in GCPL and GIL to other Group investment companies, ICRA expects

G&B to continue to retain the balance stake in GCPL and GPL. Further, the company has a large land bank at Vikhroli in Mumbai, apart from holding significant commercial real estate, which can be monetised as and when required.

Diversified business presence insulates the company from downturns in any individual business segment - The company derived 70% of its FY2018 revenues from the consumer products segment, which includes appliances, furniture and interiors, security solutions, storage solutions, prima and locks, etc. Another 23% of overall revenues was generated by the industrial products segment, which includes process plant and equipment, material handling equipment, precision engineering, aerospace and tooling, electrical and electronics, and electric motors. The rest is driven by the construction, RMC, real estate and property development segments. The steady revenue stream of over Rs. 200 crore from leasing its commercial real estate imparts stability to the financial risk profile. Thus, G&B's diversified presence across businesses insulates it from downturns in any individual segment.

Strong brand name; strong footing in the home and office furniture space; among the leading players in the refrigerator segment - By virtue of its long 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 has a strong footing in the home and office furniture space 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 an ~10.5% volume market share. It is also reasonably placed in the washing machine market with an ~6.9% volume market share¹.

Credit Challenges

Overall profitability moderate due to subdued performance of few business divisions and high fixed costs – The company's operating margins at a standalone level improved to 7.3% in FY2018 from 6.5% in FY2017 primarily due to improvement in performance of the process plant and equipment division, and turnaround in the precision engineering, aerospace and tooling segments. However, the overall operating margins continue to remain moderate due to its presence in low margin mass products and subdued performance of the security solutions and prima divisions during FY2018. Further, the electrical and electronics division reported losses till FY2018 due to under-par performance in power distribution and transmission that has been plagued by delayed execution due to many issues. However, there has been a turnaround in the profitability of this division in the current year due to improved focus on execution of high margin orders (mainly extra high voltage transmission projects) and better project management. ICRA will continue to monitor the sustainability of profitability in the process plant and equipment, precision engineering, aerospace and tooling, and electrical and electronics divisions.

Sizeable receivables pending for more than a year – Approximately 31% of its outstanding debtors as on March 31, 2018 are due for more than a year, primarily from the electrical and electronics division and the project business. As per the company management, receivables for more than a year are collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk. Recovery of these dues will help improve G&B's liquidity position.

Intense competition in the consumer appliances segment and furniture business – The company derives ~30% of its revenue from the consumer appliance business where it faces intense competition from global players such as Samsung, LG, Whirlpool, Voltas and a number of other companies. However, G&B has demonstrated its ability to retain its market share in the past three fiscals, which will be crucial to support its business risk profile, going forward. In the furniture and interiors business, G&B faces competition from both organised and unorganised players.

¹ Market share data as per company

Liquidity position

G&B's cash flow from operations continue to remain positive during FY2018 supported by steady rental stream of over Rs. 200 crore and moderate profitability. The above is offset by high working capital intensity of the consumer durables business, capital expenditure towards expansion of its Dahej (Gujarat), Khalapur (Maharashtra), Shirwal (Maharashtra) and Mohali (Punjab) manufacturing facilities and stretched receivables. Improvement in receivables collection will help improve the liquidity position. Furthermore, the company had cash and bank balances of Rs. 174.8 crore (including Rs. 98.5 crore earmarked for statutory fixed deposit repayment reserve account and Rs. 24.3 crore earmarked for other bank deposits accounts) as on March 31, 2018 and the average fund-based limit utilisation remained at ~50-55% of the available drawing power during the October 2017–September 2018 period, barring certain months, thereby providing liquidity cushion to the company. Overall, the liquidity profile of G&B is expected to remain comfortable supported by healthy cash accruals. Apart from the above, the liquidity is supported by significant market value of listed group investments and real estate holdings.

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 consolidated financials of G&B. The list of entities consolidated as on March 31, 2018 is given in Annexure-2. Furthermore, standalone business and balance sheet principally drive the company's credit risk.

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 (~27.4%) was transferred to other Group investment companies, while retaining 7.34% stake in GCPL and 4.64% in GPL. 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 across 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 (Vikroli), while its manufacturing units are at Shirwal and Shindewadi (near Pune, Maharashtra), Mohali, Uttarakhand (Bhagwanpur and Haridwar), Dahej (Gujarat) and Chennai.

Key financial indicators (audited)

Rs. crore	Standalone		Consolidated
	FY2017	FY2018	FY2018
Operating Income (Rs. crore)	9,878.8	9,853.4	10,023.6
PAT (Rs. crore)	-21.5	232.0	185.8
OPBDIT/ OI	6.5%	7.3%	7.3%
Adjusted RoCE	4.4%	9.9%	5.2%
Total Debt/ TNW(times)	0.3	0.3	0.3
Total Debt/ OPBDIT (times)	3.9	3.4	3.4
Adjusted Interest Coverage (times)	3.7	4.1	4.0

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress - Capital advances); Adjusted ROCE: RoCE calculated after deducting items of other comprehensive income from TNW

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)			Chronology of Rating History for the Past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Commercial Paper Programme	Short-term	600.0	600.0	January 2019 [ICRA]A1+	October 2017 [ICRA]A1+	-	-

*As on December 31, 2018

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	Commercial paper	NA	NA	7-365 days	600.00	[ICRA]A1+

Source: Godrej & Boyce Manufacturing Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Godrej Infotech Limited	52.06%	Full Consolidation
LVD Godrej Infotech NV, Belgium	46.85%	Full Consolidation
Godrej Infotech (Singapore) Pte. Ltd.	52.06%	Full Consolidation
Godrej Infotech Americas Inc	52.06%	Full Consolidation
Godrej (Singapore) Pte Ltd	100.0%	Full Consolidation
JT Dragon Pte. Ltd	100.0%	Full Consolidation
Godrej Vietnam Co. Ltd.	100.0%	Full Consolidation
Veromatic International BV	99.95%	Full Consolidation
Godrej Americas Inc	100%	Full Consolidation
Sheetak Inc	50.95%	Full Consolidation
Godrej Properties Developers LLP	68.0%	Full Consolidation
Godrej Consoveyo Logistics Automation Limited	49.0%	Equity Method
Future Factory LLP	20.0%	Equity Method
Godrej & Boyce Enterprises LLP	50.0%	Equity Method
Urban Electric LLC	23.91%	Equity Method
Godrej & Khimji (Middle East) LLC	49.0%	Equity Method
Godrej UEP Singapore Pte Ltd	50.0%	Equity Method
Parazelsus Orient Ltd	30.0%	Equity Method

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