

April 26, 2023

## Godrej Consumer Products Limited: CP Rating: [ICRA]A1+ reaffirmed and assigned to enhanced amount

### Summary of rating action

| Instrument*                                                    | Previous Rated Amount<br>(Rs. crore) | Current Rated<br>Amount (Rs. crore) | Rating Action                                         |
|----------------------------------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------------------------|
| Long-term / Short-term, Fund-based / Non-fund Based Facilities | 800.00                               | 800.00                              | [ICRA] AAA (Stable)/ [ICRA] A1+; outstanding          |
| Commercial Paper Programme                                     | 750.00                               | 3,000.00                            | [ICRA]A1+; reaffirmed and assigned to enhanced amount |
| <b>Total</b>                                                   | <b>1,550.00</b>                      | <b>3,800.00</b>                     |                                                       |

\*Instrument details are provided in Annexure-I

### Rationale

The rating action continues to favourably factor in the established position of Godrej Consumer Products Limited (GCPL) in the domestic and international (Asia, Africa and Latin America) fast-moving consumer goods (FMCG) industries and its diversified product portfolio spanning the three core categories of personal care, home care and hair care. ICRA notes that GCPL has generally reported healthy growth across major segments, driven by its diversified product offering and growing brand awareness among its key consuming markets. ICRA expects GCPL to continue to leverage its strong brands and market leadership position across different segments/ geographies to drive sustained growth in revenues and accruals while maintaining a robust capital structure, debt protection metrics and strong liquidity profile. The robust financial risk profile also gives GCPL some flexibility for moderate-sized capital expenditure (capex)/ inorganic acquisitions without materially impacting its credit profile. ICRA believes the company would continue to maintain a strong financial risk profile with low leveraging and strong liquidity going forward as well.

As per the data shared by the company in its annual report and presentations, GCPL's brands such as Goodknight and Hit in home care, Godrej Expert in the hair colouring and Cinthol and Godrej No 1 in the personal care segment enjoy leading positions in the domestic markets. Similarly, in international markets, its brands like Darling in the dry hair care segment across Africa as well as Mitu in the wet wipes and Stella in the air fresheners section in Indonesia, enjoy established market positions in their respective regions. ICRA draws comfort from the fact that GCPL has a consistent track record of introducing new products to cater to shifting consumer preferences and expects that going forward, its revenue growth will be driven by stable demand growth and introduction of new products across geographies. The ratings also consider the financial flexibility enjoyed by GCPL as a part of the Godrej Group.

ICRA notes the intense competition across its product categories, spanning domestic as well as international markets. While GCPL's presence across multiple geographies in Asia, Africa, North America and Latin America helped geographical as well as product portfolio diversification, it has also exposed its revenues and profitability to the enhanced geo-political, regulatory and currency risks prevalent in the regions. Additionally, the company's profitability remains vulnerable to fluctuations in raw material prices. This was visible in the recent past wherein owing to disproportionate rise in raw material prices, given the linkage to crude oil (for detergents and packaging) and palm oil (for personal care), GCPL's operating profit margin (OPM) declined to 18.5% in 9M FY2023 from 20.4% in FY2022 and 22.3% in FY2021. Nonetheless, going forward, ICRA expects the OPM to stabilise because of calibrated price hikes, new investment strategies in its core product portfolio and cost control measures being undertaken by the management.

The Stable outlook reflects ICRA's expectation that GCPL will continue to benefit from its established position in the domestic as well as international FMCG markets, resulting in healthy cash accruals leading to maintenance of strong debt protection metrics and capital structure.

## Key rating drivers and their description

### Credit strengths

**Established position in the domestic and international FMCG markets, supported by strong brands** – As per the data shared by the company in its annual reports and presentations, GCPL's brands enjoy a market leading position in the domestic household insecticides (HI) market (Goodknight and Hit) and hair colours (Godrej Expert) market and is the second largest player in the domestic air freshener (Aer) and soaps (Godrej No 1, Cinthol) market. Furthermore, it enjoys market leading positions in various categories such as HI (Hit), air fresheners (Stella) and wet wipes (Mitu) categories in Indonesia and ethnic hair care and hair extensions/ dry hair care (Darling) sections in Sub-Saharan Africa. Supported by its portfolio of strong brands, constant innovations and brand repositioning, GCPL maintains a competitive position in these key product categories and geographies, lending considerable competitive benefits to GCPL in the form of pricing power and economies of scale, among others.

**Diversified product categories and geographies** – GCPL's inorganic expansion over the past decade in Asia, Africa, the US and Latin America has enabled it to enjoy a diversified revenue profile, with its international operations driving ~45% of its consolidated revenues in FY2022 and 9M FY2023. Such expansion has helped GCPL in extracting synergies in terms of product cross pollination and a stronger distribution network, besides diversifying its product portfolio and geographical reach. Furthermore, at the consolidated level, GCPL derived 41% of its FY2022 revenues from the home care segment, 33% from the hair care segment and 26% from the personal care segment, illustrating a diversified segmental presence. The diversified product profile and geographical presence helped GCPL limit the vulnerability of its scale and margins to any adverse developments in any particular segment or geography.

**Healthy financial profile** – On a standalone basis, GCPL had nil debt as on September 30, 2022 (excluding lease liability). At the consolidated level, it had a total debt of Rs. 1,164.5 crore (including lease liability of Rs. 102.9 crore) as on September 30, 2022. With healthy cash accruals of Rs. 1200-1300 crore annually, and nil dividend pay-out over the recent past, and stable working capital cycle, the company was at a net cash surplus of Rs. 1,009.8 as on September 30, 2022 too. Total debt/OPBDITA stood at 0.05x in H1 FY2023, which improved over the recent past from 0.8x in FY2021 and 1.7x in FY2020, despite the moderation in profitability, supported by the reduction in debt levels. The interest coverage of 11.4x in FY2022 and 9.0x in 9M FY2023 also remains quite healthy. GCPL is one of the flagship companies of the Godrej Group, a large and established business house in the country. This imparts significant financial flexibility to the company helping it maintain good access to capital markets and enjoy strong relationships with banks.

### Credit challenges

**Intense competition in the FMCG industry; profitability exposed to fluctuations in input prices** – While GCPL enjoys market leading positions in the domestic HI, soaps, and hair colours categories, as well as in the ethnic hair colour and hair extensions segments in Sub-Saharan Africa, it faces intense competition from existing players as well as new entrants. Nonetheless, GCPL's strong brand equity in these segments, its innovative product offerings and marketing efforts are expected to help it successfully counter the competitive pressures. GCPL's revenues and OPM remain susceptible to seasonality risk, especially in the HI segment; as well as to raw material price fluctuation risks in the home and personal care segments where raw materials are crude oil and palm oil derivatives, respectively. The impact of raw material price increase was visible in FY2022 and 9M FY2023, when the OPM declined to 20.4% and 18.5% respectively from 22.3% in FY2021. Going forward, the ability of the company to pass on such rise in raw material prices as per the product offering and market share, will remain a key monitorable.

**Several acquisitions undertaken in rapid succession in the past indicate risk appetite of the management** – GCPL's inorganic growth through acquisitions in rapid succession indicates the risk appetite of the management, thereby subjecting the consolidated entity to enhanced political, regulatory and currency risks. Nonetheless, geographic and category diversification,

thus achieved mitigates these risks to some extent. ICRA will continue to evaluate the impact of further inorganic expansions, if any, on a case-to-case basis.

**Exposed to fluctuations in foreign exchange** – GCPL is inherently exposed to currency movement risk with its overseas operations, imports and exports. Any adverse movement in currency rates could, therefore, impact its profitability. However, it has a formal hedging policy to safeguard its forex exposure, which mitigates the risk to an extent.

## Environmental and Social Risks

**Environmental considerations:** FMCG companies remain exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste. Accordingly, companies could face operational disruptions if regulatory norms are not complied with. In line with GCPL's vision for FY2025, which is to lead in sustainability action, there has been significant reduction in energy and water consumption in its Indian operations in recent years.

**Social considerations:** On the social dimension, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being in the manufacturing business, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem is essential for disruption-free operations. Accordingly, the company tries to provide a thriving workplace to the employees and invest in their learning and development.

## Liquidity position: Strong

GCPL's liquidity position is strong, supported by cash and bank balances and liquid investments of Rs. 2,174 crore as on September 30, 2022 and fund-based bank lines of nearly Rs. 110 crore, which have been sparingly utilised. With its business expected to chart a stable growth trajectory in the medium term, along with moderate capex plans, GCPL's free cash flows are estimated to remain robust, relative to its repayment obligations, on the back of stable margins and working capital intensity. Its liquidity position, therefore, is expected to remain strong. However, unusually large dividend outflows and/or significant debt-funded acquisitions may impact GCPL's liquidity position, and will, thus, remain key monitorables.

## Rating sensitivities

**Positive factors** – Not applicable.

**Negative factors** – Downward pressure on the rating could emerge if GCPL's profitability and cash accruals weaken on a sustained basis because of any elevated competitive pressures or adverse demand conditions. The rating could also be downgraded if any large capex or inorganic expansion, or any considerable decline in profitability results in significant weakening in the credit metrics with Net debt/ OPBDITA weakening to above 0.75 time on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments                                                                                                                                                   |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Fast Moving Consumer Goods Industry</a>                          |
| Parent/Group Support            | Not applicable                                                                                                                                             |
| Consolidation/Standalone        | The rating is based on the company's consolidated financial profile. The company's subsidiaries and step-down subsidiaries are all enlisted in Annexure-2. |

## About the company

Formed out of a de-merger of the consumer products division of the erstwhile Godrej Soaps Limited in April 2001, GCPL is a part of the Godrej Group of companies. Though GCPL was formed in its current form in 2001, it has been operating for over

100 years, as Godrej Soaps, in the personal care segment. Currently, GCPL's standalone business includes HI, toilet soaps, hair colourants, air fresheners, toiletries, and liquid detergents. Over the past decade, GCPL has undertaken several overseas acquisitions to build its presence in key emerging markets outside India, with the focus on Asia, Africa, the US and Latin America in the product categories of personal wash, hair care and home care. These acquisitions give GCPL access to well-established international brands and its subsidiaries' distribution and marketing networks.

#### Key financial indicators (Audited)

| GCPL– Consolidated                                   | FY2021   | FY2022   | 9M FY2023 |
|------------------------------------------------------|----------|----------|-----------|
| Operating income                                     | 11,028.6 | 12,276.5 | 10,115.8  |
| PAT                                                  | 1,720.8  | 1,783.1  | 1,250.3   |
| OPBDIT/OI                                            | 22.3%    | 20.4%    | 18.5%     |
| PAT/OI                                               | 15.6%    | 14.5%    | 12.4%     |
| Total outside liabilities/Tangible net worth (times) | 0.4      | 0.3      | NA        |
| Total debt/OPBDIT (times)                            | 0.8      | 0.7      | NA        |
| Interest coverage (times)                            | 12.7     | 11.4     | 9.0       |

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

NA: Not Available

#### Status of non-cooperation with previous CRA: Not Applicable

#### Any other information: None

#### Rating history for past three years

| Instrument                               | Type                 | Current Rating (FY2024) |                                       | Chronology of Rating History for the past 3 years |                               |                               |                                |
|------------------------------------------|----------------------|-------------------------|---------------------------------------|---------------------------------------------------|-------------------------------|-------------------------------|--------------------------------|
|                                          |                      | Amount Rated            | Amount Outstanding as of Mar 31, 2023 | Date & Rating on                                  | Date & Rating in FY2023       | Date & Rating in FY2022       | Date & Rating in FY2021        |
|                                          |                      | (Rs. crore)             | (Rs. crore)                           | 26-Apr-23                                         | 29-Jun-22                     | 28-Jun-21                     | 30-Apr-20                      |
| 1 Fund-based Facilities                  | Long-term/Short-term | -                       | --                                    | -                                                 | -                             | -                             | [ICRA]AA+ (Stable) / [ICRA]A1+ |
| 2 Non-fund Based Facilities              | Long-term/Short-term | -                       | --                                    | -                                                 | -                             | -                             | [ICRA]AA+ (Stable) / [ICRA]A1+ |
| 3 Fund-based / Non-fund Based Facilities | Long-term/Short-term | 800.00                  | --                                    | [ICRA]AAA (Stable)/ [ICRA]A1+                     | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AA+ (Stable) / [ICRA]A1+ |
| 4 Commercial Paper Programme             | Short-term           | 3,000.00                | --                                    | [ICRA]A1+                                         | [ICRA]A1+                     | [ICRA]A1+                     | [ICRA]A1+                      |

#### Complexity level of the rated instruments

| Instrument                             | Complexity Indicator |
|----------------------------------------|----------------------|
| Fund-based / Non-fund Based Facilities | Simple               |
| 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, is available on ICRA's website: [Click Here](#)

## Annexure I: Instrument details

| ISIN No      | Instrument Name                                                | Date of Issuance | Coupon Rate | Maturity           | Amount Rated (RS Crore) | Current Rating and Outlook     |
|--------------|----------------------------------------------------------------|------------------|-------------|--------------------|-------------------------|--------------------------------|
| NA           | Long-term / Short-term, Fund-based / Non-fund Based Facilities | NA               | NA          | NA                 | 800.0                   | [ICRA]AAA (Stable)/ [ICRA] A1+ |
| INE102D14849 | Commercial Paper                                               | April 25, 2023   | 7.23%       | September 25, 2023 | 750.0                   | [ICRA]A1+                      |
| NA*          | Commercial Paper                                               | NA               | NA          | NA                 | 2,250.0                 | [ICRA]A1+                      |

Source: Company; \*yet to be placed

## Annexure II: List of entities considered for consolidated analysis

| Company Name                                         | Ownership <sup>A</sup> | Consolidation approach |
|------------------------------------------------------|------------------------|------------------------|
| Godrej Household Products (Lanka) Pvt. Ltd.          | 100%                   | Full Consolidation     |
| Godrej South Africa Proprietary Ltd                  | 100%                   | Full Consolidation     |
| Godrej Consumer Products Bangladesh Ltd*             | 100%                   | Full Consolidation     |
| Godrej Household Products (Bangladesh) Pvt. Ltd.     | 100%                   | Full Consolidation     |
| Beleza Mozambique LDA                                | 100%                   | Full Consolidation     |
| Consell SA*                                          | 100%                   | Full Consolidation     |
| Cosmetica National                                   | 100%                   | Full Consolidation     |
| Charm Industries Limited                             | 100%                   | Full Consolidation     |
| Canon Chemicals Limited                              | 100%                   | Full Consolidation     |
| Darling Trading Company Mauritius Ltd                | 95%                    | Full Consolidation     |
| Deciral SA                                           | 100%                   | Full Consolidation     |
| DGH Phase Two Mauritius                              | 90%                    | Full Consolidation     |
| DGH Tanzania Limited                                 | 100%                   | Full Consolidation     |
| Frika Weave (PTY) LTD                                | 100%                   | Full Consolidation     |
| Godrej Africa Holdings Limited                       | 100%                   | Full Consolidation     |
| Godrej Consumer Holdings (Netherlands) B.V.          | 100%                   | Full Consolidation     |
| Godrej Consumer Investments (Chile) Spa              | 100%                   | Full Consolidation     |
| Godrej Consumer Products (Netherlands) B.V.          | 100%                   | Full Consolidation     |
| Godrej Consumer Products Dutch Coöperatief U.A.      | 100%                   | Full Consolidation     |
| Godrej Consumer Products Holding (Mauritius) Limited | 100%                   | Full Consolidation     |
| Godrej Consumer Products International (FZCO)        | 95%                    | Full Consolidation     |
| Godrej East Africa Holdings Ltd                      | 100%                   | Full Consolidation     |
| Godrej Global Mid East FZE                           | 100%                   | Full Consolidation     |
| Godrej Holdings (Chile) Limitada                     | 100%                   | Full Consolidation     |
| Godrej Indonesia IP Holdings Ltd                     | 100%                   | Full Consolidation     |
| PT. Godrej distribution Indonesia                    | 100%                   | Full Consolidation     |
| Godrej Mauritius Africa Holdings Limited             | 100%                   | Full Consolidation     |
| Godrej Mid East Holdings Limited                     | 100%                   | Full Consolidation     |
| Godrej Netherlands B.V.                              | 100%                   | Full Consolidation     |
| Godrej Nigeria Limited                               | 100%                   | Full Consolidation     |
| Godrej Peru SAC                                      | 100%                   | Full Consolidation     |
| Godrej SON Holdings INC                              | 100%                   | Full Consolidation     |
| Godrej Tanzania Holdings Ltd                         | 100%                   | Full Consolidation     |
| Godrej (UK) Ltd                                      | 100%                   | Full Consolidation     |
| Godrej West Africa Holdings Ltd.                     | 95%                    | Full Consolidation     |
| Hair Credentials Zambia Limited                      | 100%                   | Full Consolidation     |
| Hair Trading (offshore) S. A. L                      | 51%                    | Full Consolidation     |
| Indovest Capital*                                    | 100%                   | Full Consolidation     |
| Issue Group Brazil Limited*                          | 100%                   | Full Consolidation     |
| Kinky Group (Pty) Limited                            | 100%                   | Full Consolidation     |
| Laboratoria Cuenca S.A                               | 100%                   | Full Consolidation     |
| Lorna Nigeria Ltd.                                   | 100%                   | Full Consolidation     |
| Old Pro International Inc                            | 100%                   | Full Consolidation     |
| Panamar Producciones S.A.*                           | 100%                   | Full Consolidation     |

| Company Name                                            | Ownership <sup>^</sup> | Consolidation approach |
|---------------------------------------------------------|------------------------|------------------------|
| PT Ekamas Sarijaya                                      | 100%                   | Full Consolidation     |
| PT Indomas Susemi Jaya                                  | 100%                   | Full Consolidation     |
| PT Megasari Makmur                                      | 100%                   | Full Consolidation     |
| PT Sarico Indah                                         | 100%                   | Full Consolidation     |
| Sigma Hair Industries Limited                           | 100%                   | Full Consolidation     |
| Style Industries Uganda Limited                         | 51%                    | Full Consolidation     |
| Strength of Nature LLC                                  | 100%                   | Full Consolidation     |
| Style Industries Limited                                | 90%                    | Full Consolidation     |
| Subinite (Pty) Ltd.                                     | 95%                    | Full Consolidation     |
| Weave Ghana Ltd                                         | 100%                   | Full Consolidation     |
| Weave IP Holdings Mauritius Pvt. Ltd.                   | 95%                    | Full Consolidation     |
| Weave Mozambique Limitada                               | 95%                    | Full Consolidation     |
| Weave Senegal Ltd*                                      | 100%                   | Full Consolidation     |
| Weave Trading Mauritius Pvt. Ltd.                       | 51%                    | Full Consolidation     |
| Godrej CP Malaysia SDN. BHD                             | 100%                   | Full Consolidation     |
| Bhabhani Blunt Hairdressing Private Limited (Associate) | 28%                    | Equity Method          |

Source: As on December 31, 2022; \*under voluntary liquidation

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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.

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### Branches



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