Godrej Consumer Products Limited

March 29, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term, Fund-based Facilities	30.00	30.00	[ICRA]AA+ (Stable) / [ICRA]A1+; Reaffirmed
Long-term / Short-term, Non-fund Based Facilities	170.00	170.00	[ICRA]AA+ (Stable) / [ICRA]A1+; Reaffirmed
Long-term / Short-term, Fund-based / Non-fund Based Facilities	1,800.00	1,800.00	[ICRA]AA+ (Stable) / [ICRA]A1+; Reaffirmed
Commercial Paper Programme	750.00	750.00	[ICRA]A1+; Reaffirmed
Total	**2,750.00**	**2,750.00**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings factors in the well-diversified presence of Godrej Consumer Products Limited (GCPL) in the fast moving consumer goods (FMCG) industry—across three core categories (personal care, home care and hair care) and three focus geographies (Asia, Africa and Latin America). GCPL has a leading market position across most of these segments in the domestic as well as international markets. Furthermore, its financial profile is strong, as characterised by strong capitalisation and healthy coverage indicators. The ratings also consider the financial flexibility enjoyed by GCPL as a part of the Godrej Group.

GCPL, however, faces intense competition across the product categories where it operates, in the domestic as well as international markets. While GCPL's presence across multiple geographies in Asia, Africa and Latin America has aided 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 there. However, despite these challenges, GCPL has been able to sustain moderate revenue growth (~6% in FY2018, ~7% in 9M FY2019) and healthy operating profit margins (OPM) on a consolidated basis at ~22% in FY2018 and ~20% in 9M FY2019, with a dip in 9M FY2019 being largely attributed to higher marketing spends for ramping up its wet hair care business in Africa and the currency headwinds in its Argentina business. Furthermore, coupled with constant innovation and product portfolio refresh, its effective marketing initiatives have helped GCPL to maintain its competitive position across the products categories, and these efforts are expected to drive future organic growth.

Despite the significant debt-funded acquisitions over the past decade, the consolidated financial profile of the company remains strong. The same is characterised by strong cash accruals and capital structure, healthy coverage indicators and adequate liquidity as evinced by its sizeable cash and liquid investments of ~Rs. 1,574 crore as on December 31, 2018, moderately utilised working capital facilities (average of 33% in September 2017 to September 2018 period) and spread out debt repayment obligations. Despite a higher dividend payout in the current fiscal (~Rs. 1,472 crore), ICRA expects GCPL to maintain a healthy liquidity position on the back of strong cash flows from operations. ICRA also notes GCPL's pending earnout payments in relation to the past acquisitions of Strength of Nature LLC (USA) and stakes in the Darling Group, and towards the put options in relation to the past acquisitions of stakes in Canon Chemicals Limited (Kenya) and the Darling Group, for which it has already made provisions in its financials. ICRA will continue to evaluate the impact of further inorganic expansions, if any undertaken, on a case-to-case basis.

Outlook: Stable

The Stable outlook reflects ICRA's expectations that GCPL will continue to benefit from its established position in the domestic as well as international FMCG markets, in addition to being a part of the Godrej Group, a large and established business house in the country. The outlook may be revised to Positive if substantial growth in revenues and profitability, coupled with considerably lower leverage levels (on a consolidated basis), strengthens the financial risk profile of the company. The outlook may be revised to Negative if GCPL's cash accruals are lower than expected or if any major capital expenditure, leveraged acquisition(s) or stretch in the working capital cycle weakens its liquidity.

Key rating drivers

Credit strengths

Established position in the domestic and international FMCG markets, supported by brands with strong recall value – GCPL enjoys a market leading position in the domestic household insecticides (HI) and hair colours market and is the second largest player in the domestic soaps market. Furthermore, it also enjoys market leading positions in various categories such as HI, air fresheners and wet wipes in Indonesia and ethnic hair colours and hair extensions (dry hair care) in Sub Saharan Africa. This is supported by its portfolio of strong brands. Coupled with constant innovations and brand repositioning, this has resulted in steady traction in its market share in these key categories and geographies. Such leading market positions lend considerable competitive benefits to GCPL in the form of pricing power and economies of scale, among others.

Successful integration of recent overseas acquisitions leading to diversified product portfolio and geographic presence – 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' in Nigeria, 'Issue Group', 'Argencos' and 'Cosmetica Nacional' in Latin America, have all helped it in extracting synergies in terms of supply chain efficiencies, product cross pollination and stronger distribution network, besides diversifying its product portfolio and geographical reach.

Healthy financial profile – GCPL's financial profile remains healthy as indicated by a gearing (gross debt/ net worth) of 0.6 time as on March 31, 2018 and December 31, 2018. Furthermore, coupled with moderate revenue growth of ~6% in FY2018, an improvement in OPM resulted in an improvement in GCPL's TD/OPBDITA metric to 1.7 times as on March 31, 2018, vis-à-vis 2.1 times as on March 31, 2017. Although in 9M FY2019, the interest coverage and TD/OPBDITA metrics witnessed some moderation to 9.2 times (FY2018: 12.2 times) and 1.8 times (FY2018: 1.7 times) on account of a dip in OPM and some increase in debt and interest cost due to currency headwinds, they continued to remain healthy. In the absence of any major expansion plans, GCPL's healthy cash accruals and scheduled debt repayments is expected to result in an improvement in its financial profile, going forward.

Strong financial flexibility as part of the Godrej Group - GCPL is one of the marquee companies of the Godrej Group, a large and established business house in the country. This imparts significant financial flexibility to GCPL, as it helps it to maintain good access to the capital markets and enjoy strong relationships with the banks.

Credit challenges

Intense competition in the FMCG industry - While GCPL enjoys market leading positions in the domestic HI, soaps and hair colours categories and also in the ethic hair colour and hair extensions segments in Sub Saharan Africa, it faces intense competition from the existing players as well as new entrants. Nonetheless, GCPL's strong brand equity in these segments and its innovative product offerings are expected to help it successfully counter the competitive pressures, going forward.

Susceptibility of HI revenues to seasonality risks; profitability exposed to fluctuations in input prices – GCPL's revenues in the HI segment (domestic as well as international) remain susceptible to a high degree of seasonality. Furthermore, besides the sales mix, the company's OPM is exposed to the fluctuations in the raw material prices. Accordingly, any adverse movement in input prices on account of fluctuations in the international commodity prices or foreign currencies in case of imports, could have an impact on the OPM, the extent of which would depend on its ability to effectively pass on such increase to its customers in a timely manner.

Several acquisitions undertaken in rapid succession in the past indicate increased risk appetite of the management – GCPL's inorganic growth through acquisitions in rapid succession indicates increased 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.

Liquidity position:

The company has a healthy liquidity position with sizeable cash and liquid investments of ~Rs. 1,574 crore, against total a debt of ~Rs. 3,682 crore on a consolidated basis, as on December 31, 2018. While GCPL has considerable debt repayment obligations over the medium term, healthy profitability coupled with efficient working capital management is expected to result in healthy cash accruals to support these repayment obligations. Furthermore, currently, the company does not envisage any major capital expenditure (capex) requirement / expansion plans and is expected to incur regular maintenance capex in the range of Rs. 300-500 crore per annum. Nonetheless, significant dividend outflows and / or significant debt-funded acquisitions may pressurise GCPL's liquidity position and, thus, are key monitorables.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fast Moving Consumer Goods Industry
Parent / Group Support	Not applicable
Consolidation / Standalone	The rating is based on the company's consolidated financial profile. As on December 31, 2018, GCPL had nine subsidiaries, 59 step-down subsidiaries and an associate, who are listed out 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 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 colorants, toiletries and liquid detergents. GCPL's capacity expansions over the years have been undertaken in such regions where it can avail of fiscal benefits extended by the government, thereby improving its net profitability. Over the past decade, 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.

For the nine months ended December 31, 2018, on a provisional basis, GCPL reported a PAT of ~Rs. 1,406 crore on an operating income (OI) of ~Rs. 7,857 crore, as compared to a PAT of ~Rs. 1,016 crore on an OI of ~Rs. 7,314 crore for the nine months ended December 31, 2017.

Key financial indicators (audited; consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	9,267.9	9,843.3
PAT (Rs. crore)*	1,307.2	1,633.1
OPBDITA/OI (%)	20.7%	21.5%
RoCE (%)	22.2%	23.1%
Total Debt/TNW (times)	0.8	0.6
Total Debt/OPBDIT (times)	2.1	1.7
Interest Coverage (times)	12.5	12.2

**before share of profit from equity accounted investees (net of income tax)*

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 March 2019	Date & Rating in FY2018 February 2018	Date & Rating in FY2017 January2017	Date & Rating in FY2016 December 2015
1	Fund-based Facilities	Long-term / Short-term	30.00	NA	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
2	Non-fund Based Facilities	Long-term / Short-term	170.00	NA	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
3	Fund-based / Non- fund Based Facilities	Long-term / Short-term	1,800.00	NA	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
4	Commercial Paper Programme	Short-term	750.00	NA	[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	Cash Credit / Working Capital Demand Loan	NA	NA	NA	30.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	170.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Fund-based /Non- fund Based Facilities	NA	NA	NA	1,800.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	750.00	[ICRA]A1+

Source: Godrej Consumer Products Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	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 Consumer Products Holding (Mauritius) Limited	100%	Full Consolidation
Godrej East Africa Holdings Ltd	100%	Full Consolidation
Godrej Mauritius Africa Holdings Limited	100%	Full Consolidation
Godrej Netherlands B.V.	100%	Full Consolidation
Godrej SON Holdings INC	100%	Full Consolidation
Godrej Tanzania Holdings Ltd	100%	Full Consolidation
Godrej Household Products (Bangladesh) Pvt. Ltd.	100%	Full Consolidation
Argencos SA	100%	Full Consolidation
Beleza Mozambique LDA	100%	Full Consolidation
Consell SA	100%	Full Consolidation
Cosmetica Nacional	100%	Full Consolidation
Charm Industries Limited	100%	Full Consolidation
Canon Chemicals Limited	100%	Full Consolidation
Darling Trading Company Mauritius Ltd	100%	Full Consolidation
Deciral SA	100%	Full Consolidation
DGH Phase Two Mauritius	100%	Full Consolidation
DGH Tanzania Limited	100%	Full Consolidation
DGH Uganda	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 (UK) Limited	100%	Full Consolidation
Godrej Consumer Products Dutch Coöperatief U.	100%	Full Consolidation
Godrej Consumer Products International (FZCO)	100%	Full Consolidation
Godrej Global Mid East FZE	100%	Full Consolidation
Godrej Hair Care Nigeria Limited	100%	Full Consolidation
Godrej Hair Weave Nigeria Limited	100%	Full Consolidation
Godrej Holdings (Chile) Limitada	100%	Full Consolidation
Godrej Household Insecticide Nigeria Limited	100%	Full Consolidation

Company Name	Ownership	Consolidation approach
Godrej IIP Holdings Ltd	100%	Full Consolidation
Godrej International Trading Company (Sharjah)	100%	Full Consolidation
Godrej MID East Holdings Limited	100%	Full Consolidation
Godrej Nigeria Limited	100%	Full Consolidation
Godrej Peru SAC	100%	Full Consolidation
Godrej (UK) Ltd	100%	Full Consolidation
Godrej West Africa Holdings Ltd.	100%	Full Consolidation
Hair Credentials Zambia Limited	100%	Full Consolidation
Hair Trading (offshore) S. A. L	100%	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
PT Ekamas Sarijaya	100%	Full Consolidation
PT Indomas Susemi Jaya	100%	Full Consolidation
PT Intrasari Raya	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	100%	Full Consolidation
Strength of Nature LLC	100%	Full Consolidation
Strength of Nature South Africa Proprietary Limited	100%	Full Consolidation
Style Industries Limited	100%	Full Consolidation
Subinite (Pty) Ltd.	100%	Full Consolidation
Weave Ghana Ltd	100%	Full Consolidation
Weave IP Holdings Mauritius Pvt. Ltd.	100%	Full Consolidation
Weave Mozambique Limitada	100%	Full Consolidation
Weave Senegal Ltd	100%	Full Consolidation
Weave Trading Mauritius Pvt. Ltd.	100%	Full Consolidation
Godrej Easy IP Holdings (FZC) (Joint Venture)	50%	Full Consolidation
Godrej Consumers Products Malaysia Ltd	100%	Full Consolidation
Bhabhani Blunt Hairdressing Private Limited	30%	Equity Method

Source: Company data

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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.

For more information, visit www.icra.in

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