February 25, 2020

Godrej Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	1,500.00	1,500.00	[ICRA]AA (Stable); Reaffirmed
Long-term, Fund-based Facilities	90.00	90.00	[ICRA]AA (Stable); Reaffirmed
Long-term Loans	1,200.00	1,200.00	[ICRA]AA (Stable); Reaffirmed
Long-term, Non-fund Based Facilities	50.00	50.00	[ICRA]AA (Stable); Reaffirmed
Short-term Loans	200.00	200.00	[ICRA]A1+; Reaffirmed
Short-term, Non-fund Based Facilities	600.00	600.00	[ICRA]A1+; Reaffirmed
Commercial Paper Programme^	60.00	60.00	[ICRA]A1+; Reaffirmed
Commercial Paper Programme	940.00	940.00	[ICRA]A1+; Reaffirmed
Total	**4,640.00**	**4,640.00**	

^carved out of the above mentioned long-term, fund-based limits
**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the status of Godrej Industries Limited (GIL) as the flagship company of the Godrej Group and its leadership position in its core business of oleochemicals in the domestic market. GIL has a healthy portfolio of investments in the Group companies, through which it derives a stable source of dividend income and also lends financial flexibility because of its market value, which is significantly higher than its book value. Besides being an investment holding company, GIL’s standalone business profile remains restricted to its oleochemicals and estate management businesses.

Over the years, GIL has gradually evolved as a holding company for the Group's new business initiatives and has demonstrated its capability to incubate businesses. While the ratings favourably factor in the diverse business profile of GIL's investee companies, its credit profile remains vulnerable to their performances and funding requirements.

In 9M FY2020, GIL's standalone operating income (OI) witnessed a moderate YoY decline of ~9%, primarily due to relatively lower dividend income from its investee companies of Rs. 196 crore vis-à-vis Rs. 293 crore in 9M FY2019. GIL's financial profile remains vulnerable to the cyclicality in its oleochemicals business, which has remained volatile over the years owing to fluctuating raw material prices.

The company's leverage and coverage indicators remain moderate. ICRA notes GIL's reliance on short-term borrowings for meeting its funding requirements, which expose it to refinancing risks. Nonetheless, the sizeable market value buffer (excess of market value over the book value) on its investments amounting to ~Rs. 32,025 crore (as on December 31, 2019) lends high financial flexibility. GIL has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue. ICRA notes that volatile stock market conditions may reduce GIL’s financial flexibility arising from the market value of its listed investments in Group entities.

The Stable outlook reflects ICRA’s opinion that GIL will continue to benefit from the significant market value buffer on its investments, which lends strong financial flexibility.

Key rating drivers and their description

Credit strengths

Flagship company of Godrej Group imparts financial flexibility - GIL is the flagship company of the Godrej Group and has a sizeable investment portfolio, comprising investments in subsidiaries and other Group companies. This imparts strong financial flexibility to the company with market value of its quoted investments aggregating to ~Rs. 34,495 crore as on December 31, 2019. Over the years, GIL has evolved as a holding company for the Group's new business initiatives. It has demonstrated its capability to incubate businesses and successfully tied-up joint ventures (JVs) and strategic alliances with leading global players for new businesses.

Leadership position in the domestic oleochemicals industry - The company is one of the market leaders in the domestic oleochemicals industry with presence in various sub-segments (like fatty acids, fatty alcohols, glycerine and surfactants). GIL also caters to export markets through this segment.

Diverse business segments reduce dependence on single business - On a consolidated basis, GIL is a conglomerate with interests and leadership positions across diverse areas. Its standalone business is structured into three major business divisions (oleochemicals, estate management, and finance and investments). However, on a consolidated basis, its interests are spread across diverse business areas (including property development, oil palm plantation, animal feeds and agri-inputs, dairy, personal care and household care), through its subsidiaries, associate companies and JVs. This reduces its dependence on a single business segment.

Embedded value of investment portfolio significantly higher than book value; regular divestment of part stake in companies - The company has a sizeable market value buffer on its investments (excess of market value over the book value of investments amounted to ~Rs. 32,025 crore as on December 31, 2019). This supports GIL's capital structure and imparts strong financial flexibility. The company has a track record of monetising these investments to support its cash flows, a trend expected to continue.

Sizeable dividend income supports cash flows against cyclicality in oleochemicals business - GIL's financial flexibility remains driven by its healthy investment portfolio, through which it derives regular dividend income. This income is sizeable (~Rs. 341 crore in FY2019 and ~Rs. 196 crore in 9M FY2020) and provides cushion to cash flows against cyclicality in the oleochemicals business.

Credit challenges

Moderate coverage indicators; high short-term borrowings expose the company to refinancing risks; however, sizeable market value buffer on investments lend financial flexibility - GIL's coverage indicators remain moderate on account of its sizeable debt (net debt of ~Rs. 2,678 crore as on March 31, 2019 and ~Rs. 2,440 crore as on December 31, 2019), which has been primarily deployed towards capital expenditure requirements, increased investments in key subsidiaries and incremental working capital requirements. Supported by healthy dividend income in FY2019, GIL’s coverage indicators had witnessed YoY improvement as reflected in interest coverage of 1.7 times in FY2019 vis-à-vis 1.1 times in FY2018 and net debt/OPBDITA of 6.5 times in FY2019 vis-à-vis 11.0 times in FY2018. However, on account of relatively lower dividend income in 9M FY2020, the coverage indicators moderated slightly as reflected in interest coverage of 1.3 times and net debt/OPBDITA of 7.8 times in 9M FY2020. Furthermore, ICRA notes GIL's high reliance on short-term borrowings for meeting its funding requirements, which expose it to refinancing risks. Nonetheless, the market value of the quoted investments stood at ~Rs. 34,495 crore (as on December 31, 2019), providing GIL a cushion of ~Rs. 32,025 crore on the book value of its investments.

Volatile stock market conditions may reduce GIL's financial flexibility arising from the market value of its listed investments

Cyclicality in oleochemicals business results in lumpy cash flows; susceptible to raw material price movements - GIL's standalone business profile remains dominated by its oleochemicals business, which contributes around 80% to its standalone revenues. While GIL's oleochemicals business witnessed a modest YoY revenue growth of ~2% in FY2019 and a YoY decline of ~4% in H1 FY2020, its profitability (PBIT margin) witnessed improvement to 7.8% in FY2019 (FY2018: 5.5%) and 8.4% in 9M FY2020, driven by improvement in product mix. Overall, GIL's financial profile remains vulnerable to the performance of this cyclical business, which has remained volatile over the years owing to the fluctuations in raw material prices and product mix.

Dividend income dependent upon investee companies - GIL's financial flexibility remains driven by its healthy investment portfolio, through which it derives regular dividend income. However, considering the company's leveraged position, the cyclicality and moderate profitability of its oleochemicals business has resulted in an increased reliance on the dividend income. Consequently, GIL's liquidity remains susceptible to the performance / cash conservation / dividend policy of its key investee companies and any adverse impact of these factors on its dividend income may pressure GIL's liquidity.

Liquidity position: Adequate

As on December 31, 2019, GIL had a total debt of ~Rs. 2,660 crore, with ~Rs. 650 crore in the form of long-term loans (current portion ~Rs. 70 crore) and the balance ~Rs. 2,010 crore in the form of short-term debt. ICRA notes GIL's high reliance on short-term borrowings for meeting its funding requirements, which expose it to refinancing risks. Nonetheless, the sizeable market value buffer (excess of market value over the book value) on its investments amounting to ~Rs. 32,025 crore (as on December 31, 2019) lends strong financial flexibility to GIL. The company has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue. Nonetheless, such financial flexibility arising out of the market value of GIL's listed investments also remains susceptible to volatile stock market conditions. GIL's dividend income from investee companies, primarily Godrej Consumer Products Limited (GCPL) and Godrej Agrovet Limited (GAVL) (Rs. 341.5 crore in FY2019 and Rs. 196 crore in 9M FY2020), also support its cash flows. In addition, as the Godrej Group's flagship company, GIL enjoys healthy access to capital markets and strong relationships with the banks. These factors, cumulatively, are expected to support the company's liquidity position.

Rating sensitivities

Positive triggers – Significant improvement in the credit profile of the major investee companies and considerable improvement in GIL's asset-liability mismatch (ALM) position, leading to an improvement in its credit profile, would be a positive trigger. Furthermore, a sizeable reduction in debt levels, leading to improved leverage metrics on a sustained basis, would also be a positive trigger.

Negative triggers – Downward pressure on the rating could arise if there is any significant deterioration in the credit profile of GIL's major investee companies. Furthermore, any further sustained weakening in GIL's ALM position would also be a negative. Downward pressure on the rating could also emerge if GIL's standalone business witnesses sustained deterioration, thus stretching its cash flows, or any major debt-funded capital expenditure, inorganic expansion or increase in investments, leads to weakening of its credit metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent / Group Support	Not applicable
Consolidation / Standalone	Standalone. Besides GIL's standalone business, ICRA considers the expected dividend inflows and incremental investments in investee companies. ICRA also considers the credit quality of the investee companies and financial flexibility arising from the market value of GIL's quoted equity investments in Group entities.

About the company

A conglomerate with interests and leadership positions across diverse areas, GIL is a part of the Godrej Group. The Godrej Group held a 61.4% equity in the company as on December 31, 2019. GIL is one of the Group's holding companies, which is involved in the oleochemicals business on a standalone basis and has significant interests in real estate, agriculture and consumer goods (through its subsidiaries, associate companies and JV companies).

As on December 31, 2019, GIL's investment portfolio stood at ~Rs. 2,512 crore (market value of listed investments of ~Rs. 34,495 crore), with key investments in GCPL (a 23.8% stake), GAVL (a 58.3% stake) and Godrej Properties Limited (a 48.8% stake). The company's manufacturing facilities are at Ambernath (Thane, Maharashtra), Dombivali (Thane, Maharashtra), Wadala (Mumbai) and Valia (Gujarat). GIL also generates income from its premises in Vikhroli, Mumbai, which are given out to various corporates on a leave-and-license basis.

During 9M FY2020, GIL, on a standalone basis, reported a profit after tax (PAT) of Rs. 30.8 crore on an operating income (OI) of Rs. 1,502.5 crore, as against a PAT of Rs. 152.2 crore on a OI of Rs. 1,650.8 crore during 9M FY2019.

Key financial indicators (audited, standalone)

	FY2018	FY2019
Operating Income (Rs. crore)	1,958.3	2,144.0
PAT (Rs. crore)	241.6	-90.7
OPBDIT/OI (%)	12.2%	19.3%
RoCE (%)	10.5%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	2.3
Total Debt/OPBDIT (times)	11.3	7.7
Interest Coverage (times)	1.1	1.7
DSCR	0.3	0.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on December 31, 2019	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					25-Feb--2020	20-Nov-2019	17-Jan-2019	08-Jan-2018	07-Feb-2017
1	Non Convertible Debenture Programme	Long-term	1,500.00	0.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
2	Term Loans	Long-term	1,200.00	650.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Fund-based Facilities	Long-term	90.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non-fund Based Facilities	Long-term	50.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-convertible Debenture Programme	Long-term	-	NA	NA	NA	NA	Withdrawn	[ICRA]AA (Stable)
6	Public Deposits	Medium-term	-	NA	NA	NA	NA	Withdrawn	MAA+ (Stable)
7	Short-term Loans	Short-term	200.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Non-fund Based Facilities	Short-term	600.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Commercial Paper Programme^	Short-term	60.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
10	Commercial Paper Programme	Short-term	940.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^carved out of the above mentioned long-term, fund-based limits; Amount in Rs. crore

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
Yet to be placed	Non Convertible Debenture Programme	NA	NA	NA	1,500.00	[ICRA]AA (Stable)
NA	Term Loan 1	Mar-2015	SBI Base rate + 35 bps	Mar-2020	8.00	[ICRA]AA (Stable)
NA	Term Loan 2	Mar-2015	SBI Base rate + 35 bps	Mar-2020	8.00	[ICRA]AA (Stable)
NA	Term Loan 3	Mar-2019	1 year MCLR	Apr-2025	500.00	[ICRA]AA (Stable)
NA	Proposed Term Loans	NA	NA	NA	684.00	[ICRA]AA (Stable)
NA	Fund-based Facilities	NA	NA	NA	90.00	[ICRA]AA (Stable)
NA	Non-fund Based Facilities	NA	NA	NA	50.00	[ICRA]AA (Stable)
NA	Short-term Loans	NA	NA	NA	200.00	[ICRA]A1+
NA	Non-fund Based Facilities	NA	NA	NA	600.00	[ICRA]A1+
NA	Commercial Paper Programme^	NA	NA	7-365 days	60.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	940.00	[ICRA]A1+

^carved out of the above mentioned long-term, fund-based limits

Source: Godrej Industries Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Rushit Doshi
+91 22 6114 3422
rushit.doshi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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