

March 19, 2021

## Godrej Industries Limited: [ICRA]AA (Stable) assigned to Rs. 1,500 crore proposed Non-Convertible Debenture programme; ratings reaffirmed for other facilities

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture Programme	-	1,500.00	[ICRA]AA (Stable); assigned
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	1,440.00	1,440.00	[ICRA]A1+; reaffirmed
Commercial Paper Programme <sup>^</sup>	60.00	60.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>5,140.00</b>	<b>6,640.00</b>	

<sup>^</sup>Carved out of the above mentioned long-term, fund-based limits

\*Instrument details are provided in Annexure-1

### Rationale

The rating 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, which provides a stable source of dividend income and lends financial flexibility because of its market value, which is significantly higher than its net debt outstanding. 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 FY2021, GIL reported ~13% YoY decline in its operating income (OI), primarily due to lower dividend income from its investee companies. This further resulted in a net loss of Rs. 66.1 crore in 9M FY2021, against a profit after tax (PAT) of Rs. 29.8 crore in 9M FY2020. Its financial profile remains vulnerable to the cyclicity 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 that GIL's reliance on short-term borrowings for meeting its funding requirements leads to refinancing risks. Nonetheless, following the issue of Rs. 1,500 crore non-convertible debentures in the current fiscal, its debt mix has improved sequentially. Furthermore, GIL has announced fund raising for an amount not exceeding Rs. 1,500 crore through debt instruments over the next one year to fund the expansion and diversification into housing finance and non-banking finance business through acquisition of 51.16% stake (to be further increased to 81.25%) in Pyxis Holdings Private Limited (PHPL) and 95% stake in Godrej Housing Finance Limited (GHFL) from Anamudi Real Estates LLP (AREL). Coupled with the ongoing investment and capital expenditure (capex) plans, this acquisition will result in an increase in GIL's standalone net leverage (net debt/OPBDITA<sup>1</sup>) over the next few years. However, ICRA draws

<sup>1</sup> Operating profit before depreciation, interest, tax and amortisation

comfort from the sizeable market value of GIL's listed investments vis-à-vis its net debt outstanding, which 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 the volatile stock market conditions may reduce GIL's financial flexibility derived from the market value of its listed investments in Group entities. ICRA notes that the acquisition will result in diversification of GIL's business areas into housing finance and non-banking finance and leverage the Group's established presence in the real estate sector via Godrej Properties Limited. However, the company's ability to scale up and generate cash flows from the financial services business, thereby leading to an improvement in the credit metrics, would be a key monitorable.

The Stable outlook reflects ICRA's opinion that GIL will continue to benefit from the significant market value of its listed 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. 41,893 crore as on December 31, 2020. 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 standalone basis, GIL's business is structured into three major business divisions (oleochemicals, finance and investments and estate management), while its investee entities have interests in and leadership positions across diverse business areas (including property development, oil palm plantation, animal feeds and agri-inputs, dairy, personal care and household care). Further, GIL has recently announced expansion and diversification into housing finance and non-banking finance business. This reduces GIL's dependence (directly as well as indirectly, in terms of dividend income and aggregate market value of investments) on a single business segment.

**Embedded value of investment portfolio significantly higher than debt outstanding; divestment of stake in some companies in the past** – The sizeable market value of GIL's listed investments vis-à-vis its net debt outstanding, as reflected in its net debt/market value of listed investments of 7.0% as on December 31, 2020 (10.4% as on March 31, 2020), imparts strong financial flexibility. Furthermore, the company has a track record of monetising these investments to support its cash flows, a trend expected to continue.

**Dividend income supports cash flows against cyclicity in oleochemicals business** – GIL's financial flexibility remains driven by its healthy investment portfolio, through which it derives regular dividend income. This income (~Rs. 63 crore in 9M FY2021 and ~Rs. 245 crore in FY2020) provides cushion to cash flows against cyclicity in the oleochemicals business. However, ICRA notes that GIL's dividend income was muted at ~Rs. 63 crore in 9M FY2021 vis-à-vis ~Rs. 196 crore in 9M FY2020, which may be attributed to the cash conservation policies of the investee companies owing to the uncertainties associated with the pandemic.

## Credit challenges

**Moderate coverage indicators; high short-term borrowings expose the company to refinancing risks; however, sizeable market value of listed investments lends financial flexibility** – GIL's coverage indicators remain moderate because of its sizeable debt (net debt of ~Rs. 2,920 crore as on December 31, 2020), which has been primarily deployed towards capex requirements, increased investments in key subsidiaries and incremental working capital requirements. In 9M FY2021, following the impact of the pandemic on the company's standalone business operations and lower dividend income from investee companies, GIL's coverage metrics moderated, as reflected in interest coverage of 0.7 time (against 1.3 times in FY2020) and net debt/OPBDITA of 25.9 times as on December 31, 2020 (against 8.3 times as on March 31, 2020). ICRA also notes GIL's high reliance on short-term borrowings for meeting its funding requirements, which expose it to refinancing risks. Nonetheless, following the issue of Rs. 1,500 crore non-convertible debentures in the current fiscal, through two tranches of Rs. 750 crore each in July 2020 and October 2020, the company's debt mix has improved sequentially. Coupled with the ongoing investment and capex plans, the acquisition of GHFL will result in an increase in GIL's standalone net leverage (net debt/OPBDITA) over the next few years. However, ICRA draws comfort from the sizeable market value of GIL's listed investments vis-à-vis its net debt outstanding, which lends high financial flexibility.

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

**Cyclical 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 85-95% to its standalone revenues. In 9M FY2021, GIL's oleochemicals business registered a YoY decline of ~4% in revenues due to the adverse impact of the pandemic during Q1 FY2021 (~38% YoY decline in revenues) and consequently its PBIT margin also witnessed moderation to 6.9% over 8.4% in 9M FY2020. 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 cyclical and moderate profitability of its oleochemicals business have resulted in an increased reliance on 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

GIL has scheduled long-term debt repayments of ~Rs. 16 crore due in Q4 FY2021, ~Rs. 101 crore in FY2022 and ~Rs. 154 crore in FY2023. As on December 31, 2020, GIL had free cash and liquid investments of ~Rs. 1,065 crore and a cushion of ~Rs. 1,320 crore in the form of undrawn short-term fund-based bank lines, which is adequate for meeting GIL's debt repayment obligations and capex and investment requirements in the near to medium term. Further, the company has announced an investment of ~Rs. 1,000-1,500 crore in GHFL over FY2022 to FY2023, which is likely to be entirely funded through debt instruments. However, the company has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue. 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 factors** - 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 factors** - Downward pressure on the rating could arise if there is any significant weakening in the credit profile of GIL's major investee companies, leading to a significant decline in the market value of GIL's investments, which limits its

financial flexibility. Furthermore, any further deterioration in GIL's ALM position, or sustained weakening of GIL's standalone business and financial profile, which stretches its cash flows may also lead to a downward pressure on the company's ratings.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Holding Companies</a>
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 66.37% equity in the company as on December 31, 2020. GIL is one of the Group's holding companies, which is involved in the oleochemicals business on a standalone basis. It has significant interests in real estate, agriculture and consumer goods (through its subsidiaries, associate companies and JV companies).

As on December 31, 2020, GIL's investment portfolio stood at ~Rs. 2,639 crore (market value of listed investments remaining at ~Rs. 41,893 crore), with key investments in Godrej Consumer Products Limited (23.8% stake), Godrej Agrovet Limited (59.5% stake) and Godrej Properties Limited (a 49.4% stake). The company's manufacturing facilities are located in Ambarnath (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 FY2021, GIL, on a standalone basis, reported a net loss of Rs. 66.1 crore on an OI of Rs. 1,308.0 crore, against a profit after tax of Rs. 30.8 crore on a OI of Rs. 1,502.5 crore in 9M FY2020.

### Key financial indicators (audited)

GIL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	2144.4	1968.7
PAT (Rs. crore)	-101.4	30.8
OPBDIT/OI (%)	19.3%	15.5%
PAT/OI (%)	-4.7%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.1
Total Debt/OPBDIT (times)	7.7	9.5
Interest Coverage (times)	1.7	1.3

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

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

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 19, 2021	Mar 4, 2021 Dec 3, 2020	Feb 25, 2020 Nov 20, 2019	Jan 17, 2019	Jan 8, 2018
1	Proposed Non-Convertible Debenture Programme	Long-term	1,500.00	-	[ICRA]AA (Stable)	-	-	-	-
2	Non-Convertible Debenture Programme	Long-term	1,500.00	1,500.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
3	Non-Convertible Debenture Programme	Long-term	-	NA	-	-	-	-	Withdrawn
4	Fund-based Facilities	Long-term	90.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Term Loans	Long-term	1,200.00	578.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Non-fund Based Facilities	Long-term	50.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7	Public Deposits	Medium-term	-	NA	-	-	-	-	Withdrawn
8	Short-term Loans	Short-term	200.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Non-fund Based Facilities	Short-term	600.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
10	Commercial Paper Programme <sup>^</sup>	Short-term	60.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
11	Commercial Paper Programme	Short-term	1,440.00	1,030.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore; \*as on December 31, 2020; ^ carved out of the above mentioned long-term, fund-based limits

### 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](http://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	Proposed Non-Convertible Debenture	NA	NA	NA	1,500.00	[ICRA]AA (Stable)
INE233A08022	Non-Convertible Debenture	Jul-2020	6.24%	Jul-2023	750.00	[ICRA]AA (Stable)
INE233A08030	Non-Convertible Debenture	Oct-2020	6.43%	Apr-2024	750.00	[ICRA]AA (Stable)
NA	Fund-based Facilities	NA	NA	NA	90.00	[ICRA]AA (Stable)
NA	Term Loan 1	Mar-2019	1 year MCLR	Mar-2025	500.00	[ICRA]AA (Stable)
NA	Proposed Term Loans	NA	NA	NA	700.00	[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	Not placed	NA	NA	435.00	[ICRA]A1+
INE233A14QX0	Commercial Paper Programme	Dec-20	NA	May-21	60.00	[ICRA]A1+
INE233A14QY8	Commercial Paper Programme	Dec-20	NA	Jun-21	50.00	[ICRA]A1+
INE233A14QZ5	Commercial Paper Programme	Jan-21	NA	Apr-21	60.00	[ICRA]A1+
INE233A14RA6	Commercial Paper Programme	Jan-21	NA	Apr-21	70.00	[ICRA]A1+
INE233A14RB4	Commercial Paper Programme	Jan-21	NA	Apr-21	75.00	[ICRA]A1+
INE233A14RC2	Commercial Paper Programme	Jan-21	NA	Apr-21	75.00	[ICRA]A1+
INE233A14RD0	Commercial Paper Programme	Jan-21	NA	Apr-21	75.00	[ICRA]A1+
INE233A14RE8	Commercial Paper Programme	Feb-21	NA	May-21	65.00	[ICRA]A1+
INE233A14RF5	Commercial Paper Programme	Feb-21	NA	May-21	75.00	[ICRA]A1+
INE233A14RG3	Commercial Paper Programme	Feb-21	NA	May-21	75.00	[ICRA]A1+
INE233A14RH1	Commercial Paper Programme	Feb-21	NA	May-21	65.00	[ICRA]A1+
INE233A14RI9	Commercial Paper Programme	Feb-21	NA	May-21	65.00	[ICRA]A1+
INE233A14RJ7	Commercial Paper Programme	Feb-21	NA	Aug-21	60.00	[ICRA]A1+
INE233A14RK5	Commercial Paper Programme	Mar-21	NA	Jun-21	60.00	[ICRA]A1+
INE233A14RL3	Commercial Paper Programme	Mar-21	NA	Jun-21	60.00	[ICRA]A1+
INE233A14RM1	Commercial Paper Programme	Mar-21	NA	Jun-21	75.00	[ICRA]A1+

Source: Company; ^Carved out of the above mentioned long-term, fund-based limits

**Annexure-2: List of entities considered for consolidated analysis: Not applicable**

## ANALYST CONTACTS

### **Shamsher Dewan**

+91 124 4545 328

[samsherd@icraindia.com](mailto:samsherd@icraindia.com)

### **Kinjal Shah**

+91 22 6114 3442

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

### **Anurag Bhootra**

+91 79 4027 1526

[anurag.bhootra@icraindia.com](mailto:anurag.bhootra@icraindia.com)

## RELATIONSHIP CONTACT

### **L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### **Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

## 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](http://www.icra.in)

## ICRA Limited



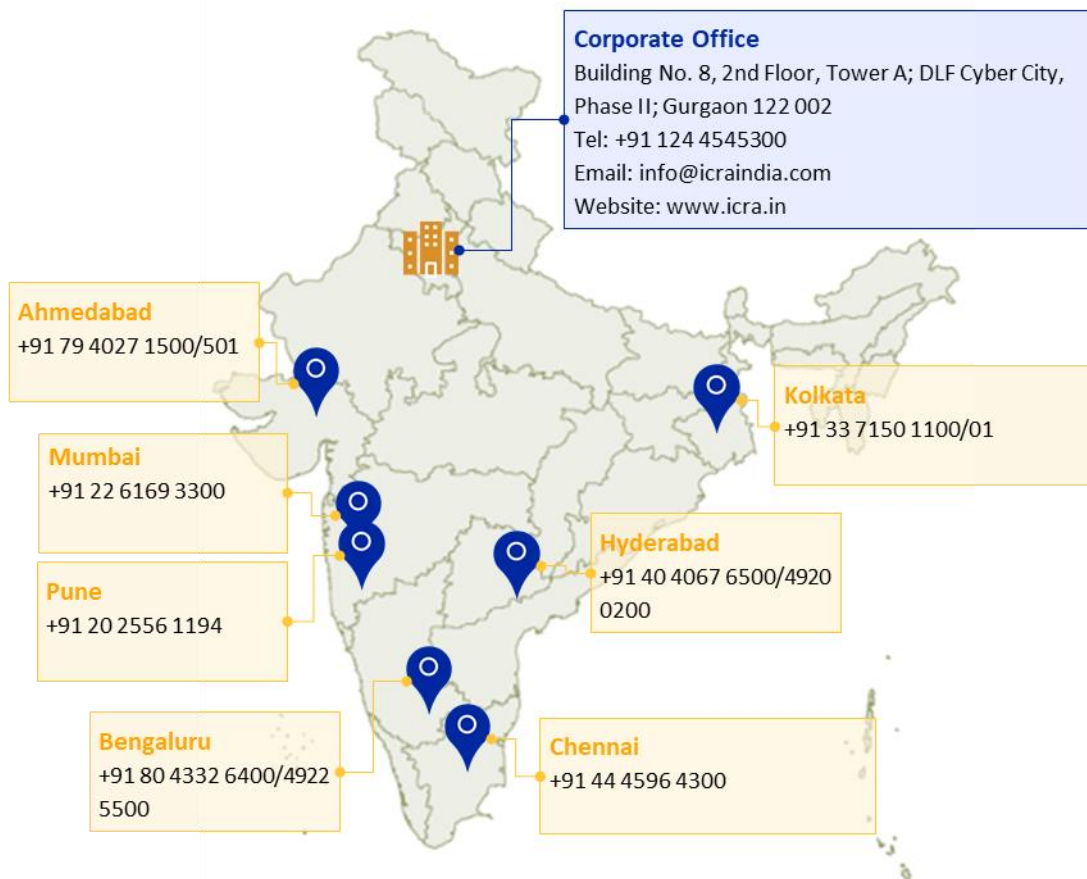
### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



### Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.