

December 03, 2020

Godrej Industries Limited: [ICRA]A1+ assigned for enhanced CP programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	940.00	1,440.00	[ICRA]A1+; assigned/ outstanding
Commercial Paper Programme^	60.00	60.00	[ICRA]A1+; outstanding
Non Convertible Debenture Programme	1,500.00	1,500.00	[ICRA]AA (Stable); outstanding
Long-term, Fund-based Facilities	90.00	90.00	[ICRA]AA (Stable); outstanding
Long-term Loans	1,200.00	1,200.00	[ICRA]AA (Stable); outstanding
Long-term, Non-fund Based Facilities	50.00	50.00	[ICRA]AA (Stable); outstanding
Short-term Loans	200.00	200.00	[ICRA]A1+; outstanding
Short-term, Non-fund Based Facilities	600.00	600.00	[ICRA]A1+; outstanding
Total	4,640.00	5,140.00	

[^]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, 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 FY2020, GIL's standalone operating income (OI) witnessed a moderate YoY decline of ~8%, due to ~4% YoY decline in its oleochemicals business and relatively lower dividend income from its investee companies of ~Rs. 245 crore vis-à-vis Rs. 342 crore in FY2019. Furthermore, in H1 FY2021, GIL reported ~21% YoY decline in its standalone OI, primarily due to the adverse impact of the Covid-19 pandemic on its oleochemicals business in Q1 FY2021 (~38% YoY revenue decline), and lower dividend income from its investee companies of ~Rs. 63 crore in H1 FY2021 vis-à-vis ~Rs. 147 crore in H1 FY2020. GIL's 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 GIL's 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. Furthermore, 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 8.0% as on September 30, 2020 (10.4% as on March 31, 2020), also 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 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. 34,096 crore as on September 30, 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). 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; regular divestment of part stake in companies - 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 8.0% as on September 30, 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. 245 crore in FY2020 and ~Rs. 63 crore in H1 FY2021) 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 H1 FY2021 vis-à-vis ~Rs. 147 crore in H1 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 on account of its sizeable debt (net debt of ~Rs. 2,532 crore as on March 31, 2020 and ~Rs. 2,724 crore as on September 30, 2020), which has been primarily deployed towards capital expenditure requirements, increased investments in key subsidiaries and incremental working capital requirements. On account of relatively lower dividend income in FY2020, GIL's coverage indicators moderated on a YoY basis, as reflected in interest coverage of 1.3 times (1.7 times in FY2019)

and net debt/OPBDITA of 8.3 times as on March 31, 2020 (6.4 times as on March 31, 2019). Furthermore, in H1 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 further, as reflected in interest coverage of 0.8 time in H1 FY2021 and net debt/OPBDITA of 16.0 times as on September 30, 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. Furthermore, the company enjoys high financial flexibility, as reflected in its net debt/market value of listed investments at 8.0% as on September 30, 2020 and a cushion of ~Rs. 1,160 crore in the form of undrawn short-term, fund-based bank lines.

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 85-95% to its standalone revenues. While GIL's oleochemicals business witnessed a modest YoY revenue decline of ~4% in FY2020, its PBIT margin witnessed an improvement to 8.7% (FY2019: 7.8%), driven by improvement in product mix. Furthermore, in H1 FY2021, GIL's oleochemicals business registered a YoY revenue decline of ~14% due to the adverse impact of the pandemic during Q1 FY2021 (~38% YoY revenue decline) and consequently its PBIT margin also witnessed moderation to 5.9% over 8.3% in H1 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 cyclicality 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. ICRA notes that GIL's dividend income was muted at ~Rs. 63 crore in H1 FY2021 over ~Rs. 147 crore in H1 FY2020, which may be attributed to the cash conservation policies of the investee companies owing to the uncertainties associated with the pandemic.

Liquidity position: Adequate

As on September 30, 2020, GIL had a total debt of ~Rs. 3,443 crore (including ~Rs. 51 crore recognised towards lease liabilities as per IND AS 116), with ~Rs. 1,395 crore in the form of long-term loans and the balance ~Rs. 2,048 crore in the form of short-term debt. The company has scheduled long-term debt repayments of ~Rs. 31 crore due in H2 FY2021, ~Rs. 101 crore in FY2022 and ~Rs. 154 crore in FY2023. As on September 30, 2020, GIL had free cash and liquid investments of ~Rs. 720 crore and a cushion of ~Rs. 1,160 crore in the form of undrawn short-term fund-based bank lines, which is adequate for meeting GIL's debt repayment obligations and capex requirements in near to medium term. ICRA 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. Furthermore, the company enjoys high financial flexibility, as reflected in its net debt/market value of listed investments at 8.0% as on September 30, 2020. 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 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 64.9% equity in the company as on September 30, 2020. 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 September 30, 2020, GIL's investment portfolio stood at ~Rs. 2,620 crore (market value of listed investments of ~Rs. 34,096 crore), with key investments in Godrej Consumer Products Limited (a 23.8% stake), Godrej Agrovet Limited (a 59.3% stake) and Godrej Properties Limited (a 49.4% 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 H1 FY2021, GIL, on a standalone basis, reported a net loss of Rs. 31.2 crore on an OI of Rs. 804.3 crore, against a profit after tax of Rs. 21.4 crore on a OI of Rs. 1,021.0 crore during H1 FY2020.

Key financial indicators (audited, standalone)

	FY2019	FY2020
Operating Income (Rs. crore)	2,144.0	1,968.7
PAT (Rs. crore)	-101.4	305.4
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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020		FY2019	FY2018	
					3-Dec-2020	25-Feb-2020	20-Nov-2019	17-Jan-2019	08-Jan-2018	
1	Non Convertible Debenture Programme	Long-term	1,500.00	1,500.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	
2	Term Loans	Long-term	1,200.00	593.75	[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	NA	Withdrawn	
6	Public Deposits	Medium-term	-	NA	NA	NA	NA	NA	Withdrawn	
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	1,440.00	920.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore; *as on September 30, 2020; Note ^: 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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE233A08022	Non-Convertible Debenture Programme 1	16-Jul-2020	6.24%	14-Jul-2023	750.00	[ICRA]AA (Stable)
INE233A08030	Non-Convertible Debenture Programme 2	28-Oct-2020	6.43%	26-Apr-2024	750.00	[ICRA]AA (Stable)
NA	Term Loan 1	27-Mar-2019	1 year MCLR	31-Mar-2025	500.00	[ICRA]AA (Stable)
NA	Proposed Term Loans	NA	NA	NA	700.00	[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	1,440.00	[ICRA]A1+

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

Source: Godrej Industries Limited

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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.

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