

Godrej Industries Limited

January 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loans	875.00	1,200.00	[ICRA]AA (Stable); Reaffirmed
Fund-based-Working Capital Facilities	90.00	90.00	[ICRA]AA (Stable); Reaffirmed
Non-fund based-Working Capital Facilities	50.00	50.00	[ICRA]AA (Stable); Reaffirmed
Long Term Debt/ Non Convertible Debenture Programme	125.00	0.00	[ICRA]AA (Stable); Withdrawn
Public Deposits Programme	-	-	MAA+ (Stable); Withdrawn
Fund based-Short Term Loans	200.00	200.00	[ICRA]A1+; Reaffirmed
Non-fund based-Working Capital Facilities	600.00	600.00	[ICRA]A1+; Reaffirmed
Short Term Debt/Commercial Paper Programme [^]	60.00	60.00	[ICRA]A1+; Reaffirmed
Short Term Debt/Commercial Paper Programme	940.00	940.00	[ICRA]A1+; Reaffirmed
Total	2,940.00	3,140.00	

[^]carved out of above mentioned fund-based working capital facilities

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) for the Rs. 1,200 crore (enhanced from Rs. 875 crore)¹ term loans, the Rs. 90 crore long-term fund-based limits and the Rs. 50 crore long-term non-fund based limits of Godrej Industries Limited ('GIL' or 'the company')². The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,000 crore short-term debt (Commercial Paper) programme, the Rs. 200 crore short-term loans and the Rs. 600 crore short-term non-fund based limits of GIL. ICRA has withdrawn the long-term rating of [ICRA]AA (stable) assigned to the Rs. 125 crore long-term debt/Non Convertible Debenture programme. ICRA has also withdrawn the medium-term rating of MAA+ (pronounced M double A plus) assigned to the company's Public Deposits programme. The withdrawal is at the request of the company, since there is no amount outstanding against the rated instruments.

Rationale

The reaffirmation of ratings continues to take into account GIL's status as the flagship company of the Godrej Group ('the Group') lending strong financial flexibility and its leadership position in the core business of oleo-chemicals. ICRA notes the inherent value of its investment portfolio, which is significantly higher than the book value, and its stable source of dividend income supported by its ability to monetise investments. ICRA also notes the significant cash inflows to the tune of ~Rs. 300 crore from the dilution of GIL's stake in its key subsidiary, Godrej Agrovet Limited (GAVL), after the latter's successful Initial Public Offering (IPO) in October 2017. GIL's standalone business profile remains restricted to its oleo-chemicals business and estate management, other than as an investment holding company. Though the oleo-chemicals business witnessed healthy revenue growth during FY2017 and H1 FY2018 owing to higher volumes, its margins declined

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

due to higher raw material prices. GIL's financial profile remains vulnerable to the performance of this cyclical business, which has remained volatile over the years owing to fluctuating raw material prices. The ratings, however, favourably factor in the recent capacity addition to oleo-chemicals from the new plant at Ambernath (Maharashtra) and Valia (Gujarat).

GIL has a large investment portfolio comprising investments in subsidiaries, Group companies as well as other companies. 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 (such as real estate development, personal and household care, palm oil and high-end grocery retail) and has successfully tied-up joint ventures (JV) and strategic alliances with leading global players for new businesses. While the ratings favourably factor in the diverse business profile of GIL's investee companies, its credit profile remains vulnerable to the performances and funding requirements of some of its investee companies.

The leverage levels have increased over the past couple of years owing to elevated working capital intensity in the standalone business operations, increased investments in subsidiaries and Group companies, and capital expenditure for the Ambernath plant, capacity expansion at Valia and the new office in Godrej One (Vikroli, Mumbai). The coverage indicators, especially interest coverage, have also witnessed moderation in FY2017 owing to such large debt funded capex programmes as compared to relatively modest operating margins. Nonetheless, ICRA notes that these projects have already been completed and hence, further addition to debt levels will moderate from FY2018 onwards. Further, the sizeable market value buffer on its investments (excess of market value over the book value of investments that amounted to ~Rs. 26,957 crore³ as of September 30, 2017) supports the capital structure and lends liquidity support. GIL has a track record of monetising these investments to support its cash flows and ICRA expects this trend to continue.

Outlook: Stable

ICRA believes GIL will continue to benefit from being 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 revenue and profitability, better working capital management and significant cash flows from divestments strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, spike in investments or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Being the flagship company of the Godrej Group imparts financial flexibility - GIL is the flagship company of the Godrej Group and has a large investment portfolio comprising investments in subsidiaries, Group companies as well as other companies. 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 (such as real estate development, personal and household care, palm oil and high-end grocery retail) and has successfully tied-up JVs and strategic alliances with leading global players for new businesses. This has imparted considerable financial flexibility to the company with market value of its quoted investments totalling to a significant ~Rs. 29,429 crore as of September 30, 2017.

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

³ Wherever applicable, market value of GIL's investments as on September 30, 2017 includes market value of investment in GAVL as on October 16, 2017 (IPO listing date for GAVL).

Presence across diverse business segments reduces dependence on a single business segment - On a consolidated basis, GIL is a conglomerate with interests and leadership positions in diverse areas. Its standalone business is structured into three major business divisions—oleo-chemicals, estate management, and finance and investments. It also has substantial interests in several industries including property development, oil palm plantation, animal feeds and agro-products, poultry, personal care and household care, and high-end grocery retailing, among others, through its subsidiaries, associate companies and JVs, thus reducing its dependence on a single business segment.

Embedded value of its investment portfolio is significantly higher than book value; regular divestment of part stake in companies offers cushion to cash flows and helps maintain capital structure - The company has a sizeable market value buffer on its investments (excess of market value over the book value of investments amounted to ~Rs. 26,957 crore as of September 30, 2017). This supports GIL's capital structure and imparts liquidity support. The company has a track record of monetising these investments (as reflected by recent divestment in GAVL) to support its cash flows, a trend that is expected to continue.

Sizeable interest income and dividend income also provides cushion to cash flows against cyclicity in chemicals business - GIL's financial flexibility continues to be driven by its healthy investment portfolio through which it derives regular dividend and interest income. This income is sizeable (Rs. 53.6 crore in FY2017; Rs. 166.4 crore in H1 FY2018) and provides cushion to cash flows against cyclicity in the oleo-chemicals business.

Capacity addition to oleo-chemicals with the commissioning of new plant at Ambernath from Q4 FY2014, coupled with further capacity augmentation programme at Valia plant - With the commissioning of the new plant at Ambernath and further capacity augmentation at the Valia plant, GIL's overall production capacity has increased by about 25-30% in the last couple of years. Its new manufacturing facilities in Valia and Ambernath are also expected to bring in operational efficiencies due to the latest plant and machinery, backed by GIL's continuing efforts in the areas of renewable energy, water conservation and waste management, among others.

Ability to tie-up JVs with leading global players at group level - Over the years, GIL has successfully tied-up JVs and strategic alliances with leading global players for its businesses like poultry, agri inputs/chemicals, consumer products, etc. This has led to adoption of best business practices, leading to significant scale-up in these businesses.

Credit challenges

Cyclicity in oleo-chemicals business results in lumpiness in cash flows; heavy dependence upon raw material price movement - GIL's standalone business profile remains dominated by its oleo-chemicals business, which contributes almost 80% to the standalone revenue. Though the oleo-chemicals business witnessed healthy revenue growth during FY2017 (17.2%) and H1 FY2018 (20.5%) owing to higher volumes, its margins declined due to higher raw material prices (PBIT margin of oleo-chemical business was 7.4% in FY2016, 5.4% in FY2017 and 3.9% in H1 FY2018). GIL's financial profile remains vulnerable to the performance of this cyclical business, which has remained volatile over the years owing to fluctuating raw material prices.

Profitability suppressed as certain investee companies currently yielding low return - The company's profitability has remained suppressed over the last few years as reflected by a ROCE of 7-9% during this period, primarily due to lower returns (in the form of dividends) from some of its investee companies (Godrej Properties Limited).

Stretched coverage indicators owing to debt funded capital expenditure and GIL's policy to leverage its strong net-worth; however, sizeable market value buffer on investments provides requisite liquidity support - In the last couple of years, GIL's standalone debt levels have increased markedly (H1 FY2018 - Rs. 2,951.3 crore, FY2017 - Rs. 2,861.5 crore, FY2016 - Rs. 2,658.3 crore). They were primarily to meet funding requirements for its capex programmes (capacity expansion at Ambernath and Valia), increased investments in key subsidiaries and for incremental working capital requirements. Coupled with muted operating performance, this has led to increasing gearing levels (H1 FY2018 – 1.8x,

FY2017 – 1.8x, FY2016 – 1.5x) as well as stretched coverage indicators (TD/OPBDITA: FY2017 – 28.0x, H1 FY2018 – 7.8x and OPBDITA/Interest Expense – FY2017 - 0.5x; H1 FY2018 – 7.8x) during the same period. Nonetheless, the market capitalisation of total listed investments as on September 30, 2017 stood at Rs. 29,429 crore (Rs. 18,247 crore as on March 2017) providing GIL a cushion of Rs. 26,957 crore on its investments as on September 30, 2017 (Rs. 16,154 crore as on March 31, 2017). The adjusted standalone gearing, after taking into account the cushion to the net-worth, stood at 0.16x as on March 2017 and 0.10x as on September 2017 (0.18x as on March 2016).

Dividend income, a steady source of cash flows, dependent upon the growth plans of group companies - GIL's financial flexibility continues to be driven by its healthy investment portfolio through which it derives regular dividend and interest income. However, this witnessed significant fluctuations over the last couple of years due to the cash conservation policy / subdued performances of its key subsidiaries.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

A conglomerate with interests and leadership positions in diverse areas, Godrej Industries Limited (GIL) is part of the US\$ 4.1 billion Godrej Group. The Group (through Vora Soaps Limited and promoters) holds 74.74% equity in the company. At present, GIL's standalone business is structured into three major business divisions—oleo-chemicals, estate management, and finance and investments. It has substantial interests in several industries including property development, oil palm plantation, animal feeds and agro-products, poultry, personal care and household care and high-end grocery retailing, among others, through its subsidiaries, associate companies and JVs.

As on September 30, 2017, GIL's investment portfolio stood at Rs. 2,817 crore (market value of Rs. 29,429 crore; includes market value of GAVL as on IPO listing date, i.e, October 16, 2017), with key investments being Godrej Consumer Products Limited (GCPL; 23.8% stake), Godrej Agrovet Limited (GAVL; 63.7%; 58.0% post IPO), Godrej Properties Limited (GPL; 56.7%) and Godrej International Limited (100%). The company's manufacturing facilities (oleo-chemicals division) are at Ambarnath (Mumbai) and Valia (Gujarat). GIL also generates income from its premises in Vikhroli, Mumbai, that are given out to various corporates on a leave and license basis.

In FY2017, on a standalone basis, the company reported a net loss of Rs. 145.2 crore on an operating income of Rs. 1,528.66 crore, as compared to a net profit of Rs. 34.2 crore on an operating income of Rs. 1,310.4 crore in the previous year.

Key financial indicators (audited; standalone)

	FY2016	FY2017
Operating Income (Rs. crore)	1,310.4	1,528.7
PAT (Rs. crore)	34.2	-145.2
OPBDIT/ OI (%)	8.7%	6.7%
RoCE (%)	5.8%	1.4%
Total Debt/ TNW (times)	1.5	1.8
Total Debt/ OPBDIT (times)	23.3	28.0
Interest coverage (times)	0.6	0.5
NWC/ OI (%)	29.2%	9.2%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2017 (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					January 2017	January 2016	December 2014
1 Term Loans	Long Term	1,200.00	256.29	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Cash Credit/WCDL	Long Term	90.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 Letter of Credit & Bank Guarantee	Long Term	50.00	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4 NCD	Long Term	125.00	0.00	Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5 Public Deposits	Medium Term	-	0.00	Withdrawn	MAA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)
6 Short Term Loans	Short Term	200.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7 Letter of Credit & Bank Guarantee	Short Term	600.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8 Commercial Paper [^]	Short Term	60.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9 Commercial Paper	Short Term	940.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

[^]carved out of above mentioned long-term, cash credit 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
NA	Term Loans	Dec-2012	NA	Apr-2022	1,200	[ICRA]AA (Stable)
NA	Cash Credit/WCDL	NA	NA	NA	90.00	[ICRA]AA (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	50.00	[ICRA]AA (Stable)
NA	Short Term Loans	NA	NA	NA	200.00	[ICRA]A1+
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	600.00	[ICRA]A1+
NA	Commercial Paper [^]	NA	NA	7-365 days	60.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	940.00	[ICRA]A1+

[^]carved out of above mentioned long-term, cash credit 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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