November 11, 2022

Godrej Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	3,000.00	3,000.00	[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	1,940.00	1,940.00	[ICRA]A1+ reaffirmed
Commercial Paper Programme^	60.00	60.00	[ICRA]A1+ reaffirmed
Total	**7,140.00**	**7,140.00**	

**Instrument details are provided in Annexure-I*

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

Rationale

The ratings draw comfort from Godrej Industries Limited's (GIL) position as the holding company of the Godrej Group (Group) of companies and GIL's healthy investment portfolio in Group companies. GIL's primary listed investee entities include Godrej Consumer Products Limited (GCPL, [ICRA]AAA (Stable)/[ICRA]A1+), Godrej Properties Limited (GPL, [ICRA]AA+ (Stable)/[ICRA]A1+), and Godrej Agrovet Limited (GAVL, [ICRA]AA (Stable)/[ICRA]A1+), which have healthy credit profile and relatively low debt levels. The company's healthy unencumbered listed investment portfolio also provides a stable source of dividend income and lends strong financial flexibility because of its market value, which is significantly higher than the debt outstanding. The company's market value of unencumbered listed investments is significant at ~Rs. 43,000 crore as on October 31, 2022 and its net debt to market value of investments has remained at sub 15% historically. Further, these investee companies are present in diverse segments. The ratings also draw comfort from GIL's leadership position in the domestic oleochemicals industry, wherein revenues grew by ~83% in FY2022 to Rs. 3,056 crore with profit margins before interest and tax (PBIT) margin improving to 10.9% from 7.1% in FY2021. Further, it generated revenues of ~Rs. 1,000 crore in Q1 FY2023 with PBIT margin growing to 17.7%. (Rs. 621 crore revenue and PBIT margin of 8.4% in Q1 FY2022).

The company's leverage and coverage indicators remain moderate. While there are no major investment requirements in its listed investee entities, GIL may continue to increase its stake in GAVL and GPL for strategic purposes. In February 2022, GIL's Board had approved further investment of up to Rs. 2,000 crore in GPL and Rs. 500 crore in GAVL by way of subscription/purchase of securities. Of this, the company has invested Rs. 233 crore in GAVL and Rs. 19 crore in GPL as on October 31, 2022. This apart, GIL has invested Rs. 1,494 crore in Godrej Capital Limited (GCL) till date to support its scale up, and is expected to continue supporting GCL in its growth plans going forward. While any additional investments undertaken by GIL would increase its debt from current levels, its strong financial flexibility arising from the significant market value of listed investments over its debt provides comfort. ICRA notes that while the company's investments in GCL will result in diversification of GIL's business areas into housing finance and non-banking finance, the NBFC business is currently at a nascent stage of operations and its ability to generate and scale up cash flows remains to be seen. While GIL's reliance on short-term borrowings for meeting its funding requirements exposes it to refinancing risks, the company has been able to refinance its commercial paper at lower rates than its peers in the rating category indicating its strong financial flexibility and investor comfort. Additionally, following the issue of Rs. 3,000 crore non-convertible debentures in H2 FY2021 and H1 FY2022, its debt mix has improved sequentially and this is expected to improve further going forward.

Key rating drivers and their description

Credit strengths

Position as the holding company of the Godrej Group – GIL is the flagship company of the Godrej Group and has a sizeable investment portfolio, comprising investments in subsidiaries and other Group companies. 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.

Relatively healthy credit profile of the large investee companies in its portfolio; diverse portfolio mitigates sector-specific risks to a large extent – Three listed investee companies: GCPL (rated [ICRA]AAA (Stable)/[ICRA]A1+), GPL (rated [ICRA]AA+(Stable)/[ICRA]A1+), and GAVL (rated [ICRA]AA(Stable)/[ICRA]A1+) have strong financial profiles with relatively low debt levels. Further, risk of vulnerability of the investment buffer (market value of unencumbered investments minus book value of investments) to industry-related systemic risks is limited, because of the diverse portfolio. While there are no major investment requirements in its listed investee entities, GIL may continue to increase its stake in GAVL and GPL for strategic purposes. In February 2022, GIL's Board had approved further investment of up to Rs. 2,000 crore in GPL and Rs. 500 crore in GAVL by way of subscription/purchase of securities. Of this, the company has invested Rs. 233 crore in GAVL and Rs. 19 crore in GPL as on October 31, 2022. This apart, GIL has invested Rs. 1,494 crore in Godrej Capital Limited (GCL) till date to support its scale up, and is expected to continue supporting GCL in its growth plans going forward. In terms of dividends, GCPL and GAVL account for 100% of the dividend income earned by GIL. GPL has historically not paid dividends. In FY2022 and H1 FY2023, GAVL has paid out dividends of ~Rs. 213 crore while there have been no pay outs from GCPL.

Relatively low debt levels compared to market value of unencumbered investments - The company's net debt to market value of unencumbered listed investments has been historically lower than 15% and was 14.8% as on October 31, 2022, resulting in strong financial flexibility. Despite anticipated increase in debt levels to finance further investments, the ratio is expected to remain low going forward. GIL has monetised part of its investments to support its cash flows in the past, on need basis, and this is expected to continue going forward as well.

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. Revenues from this segment grew by ~83% in FY2022 to Rs. 3,056 crore with PBIT margins improving to 10.9% from 7.1% in FY2021. Further, it generated revenues of ~Rs. 1,000 crore in Q1 FY2023 with PBIT margins growing to 17.7%. (as against Rs. 621 crore revenue and PBIT margin of 8.4% in Q1 FY2022).

Credit challenges

Moderate coverage indicators; relatively high short-term borrowings - GIL's coverage indicators remain moderate because of its sizeable debt (net debt of ~Rs. 6,400 crore as on August 31, 2022), which has been primarily deployed towards capex requirements, increased investments in key subsidiaries and incremental working capital requirements. The company's interest coverage ratio was 1.1 times for FY2022 (0.6 times in FY2021) and its net debt/OPBDITA was 13.4 times for FY2022 (22.0 times in FY2021). ICRA also notes GIL's high reliance on short-term borrowings for meeting its funding requirements, which expose it to refinancing risks, although the company's ability to refinance at low interest rates mitigates this to an extent. Additionally, the company's debt mix has improved sequentially following the issue of Rs. 3,000 crore non-convertible debentures in H2 FY2021 and H1 FY2022, through four tranches of Rs. 750 crore each, and this is expected to improve further going forward. The ongoing investment and capex plans will result in an increase in GIL's standalone debt levels in the medium term. However, ICRA draws comfort from the sizeable market value of GIL's unencumbered listed investments vis-à-vis its debt outstanding, which lends strong financial flexibility.

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. GIL's oleochemicals business registered strong growth in revenues and profits in FY2022 and Q1 FY2023. However, its financial profile remains vulnerable to the performance of this cyclical business, although the stable source of dividend income and monetisation of investments have supported cashflows in the past and are expected to continue going forward as well.

Environmental and Social Risks

Environmental considerations - Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for production, handling, disposal and transportation of chemical products. Additionally, some products can face restrictions/substitution over time because of their hazardous nature and availability of more environment-friendly products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. However, GIL has a demonstrated track record of running its operations safely, and ICRA expects the same to continue going forward as well. GIL's investee companies also remain exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste and indirect exposure to physical climate risks. The companies have been actively taking measures to improve their environmental impact by reducing energy, water and plastic consumption, and increasing green initiatives among others.

Social considerations – GIL and its investee entities are exposed to the risk of shift in consumer preferences over time to more environment-friendly products. Further, operating responsibly is an imperative and instances of non-compliance with the environmental, health and safety norms could have an adverse impact, constraining GIL's ability to operate or expand capacity. However, GIL has not had any material safety lapses in its manufacturing facilities in the last several years and this is likely to continue going forward as well. GIL is also vulnerable to data security and data privacy risks and has reasonable reliance on human capital. Overall, there is moderate exposure to social risk.

Liquidity position: Adequate

The company's standalone liquidity position remains adequate with sizeable market value buffer on its listed unencumbered investments lending strong financial flexibility. GIL has cash and liquid investments balance of Rs. 282 crore and undrawn working capital lines of ~Rs. 625 crore as on August 31, 2022. Further, being the Godrej Group's flagship company, GIL can access capital markets at short notice and enjoys strong relationships with banks. The company also has a track record of monetising investments to support its cash flows, whenever required, and ICRA expects this trend to continue going forward as well. These factors are cumulatively expected to support the company's liquidity position over the medium term. As against these, the company has moderate capex plans in H2FY2023 and debt repayment obligations of ~Rs. 77 crore on existing long-term loans for the same period. While there are no major investment requirements in its listed investee entities, GIL may continue to increase its stake in GAVL and GPL for strategic purposes. In February 2022, GIL's Board had approved further investment of up to Rs. 2,000 crore in GPL and Rs. 500 crore in GAVL by way of subscription/purchase of securities. Of this, the company has invested Rs. 233 crore in GAVL and Rs. 19 crore in GPL as on October 31, 2022. This apart, GIL has invested Rs. 1,494 crore in Godrej Capital Limited (GCL) till date to support its scale up, and is expected to continue supporting GCL in its growth plans going forward.

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, leading to market value of its unencumbered equity shares in the listed companies going to below 4 times its outstanding debt on a sustained basis limiting its financial flexibility. Furthermore, any further deterioration in GIL's ALM position, or material 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	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

GIL is the holding company of the Godrej Group, which has interests in real estate, agriculture and consumer goods (through its subsidiaries, associate companies and JV companies). On standalone basis, apart from being the holding company for the group, the company is engaged in the oleochemicals business, where it is the domestic market leader. As on September 30, 2022, GIL's unencumbered listed investment portfolio (book value) stood at Rs. 4,189.2 crore (market value of unencumbered listed investments remaining at ~Rs. 44,000 crore), with key investments in Godrej Consumer Products Limited (23.8% stake), Godrej Agrovet Limited (64.9% stake) and Godrej Properties Limited (47.3% stake). The company's manufacturing facilities are located in Ambernath (Thane, Maharashtra), Dombivli (Thane, Maharashtra), Wadala (Mumbai) and Valia (Gujarat). GIL also generates rental income from its Vikhroli premises in Mumbai. The promoters hold 67.17% equity in the company (as on September 30, 2022) while the remaining is held by public.

Key financial indicators (audited)

GIL Standalone	FY2021	FY2022
Operating income	1855.5	3339.6
PAT	-107.5	-44.2
OPBDIT/OI	7.4%	11.8%
PAT/OI	-5.8%	-1.3%
Total outside liabilities/Tangible net worth (times)	3.4	4.9
Total debt/OPBDIT (times)	32.5	15.7
Interest coverage (times)	0.6	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

♦	Instrument	Current rating (FY2023) Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Chronology of rating history for the past 3 years: Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
					Nov 11, 2022	Feb 22, 2022	Nov 22, 2021	Mar 19, 2021	Mar 04, 2021 Dec 03, 2020	Feb 25, 2020 Nov 20, 2019
1	Proposed Non-Convertible Debenture Programme	Long-term	-	-	-	-	-	[ICRA]AA (Stable)	-	-
2	Non-Convertible Debenture Programme	Long-term	3,000.00	3,000.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Fund-based Facilities	Long-term	90.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Term Loans	Long-term	1,200.00	384.60	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-fund Based Facilities	Long-term	50.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Short-term Loans	Short-term	200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Non-fund Based Facilities	Short-term	600.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Commercial Paper Programme^	Short-term	60.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Commercial Paper Programme	Short-term	1,940.00	1,850.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debentures	Very Simple
Fund-based Term Loan	Simple
Fund Based Working Capital Limits	Simple
Non-Fund Based Working Capital Limits	Very Simple
Fund-based Short-Term Loans	Very Simple
Non-Fund Working Capital Limits	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE233A08022	NCD	16-Jul-20	6.24%	14-Jul-23	750.0	[ICRA]AA(Stable)
INE233A08030	NCD	28-Oct-20	6.43%	26-Apr-24	750.0	[ICRA]AA(Stable)
INE233A08048	NCD	14-May-21	6.92%	14-May-25	750.0	[ICRA]AA(Stable)
INE233A08055	NCD	28-Sep-21	7.58%	28-Sep-28	750.0	[ICRA]AA(Stable)
NA	Term Loan	28-Mar-2019	1Y-MCLR	31-Mar-25	384.6	[ICRA]AA(Stable)
NA	Proposed term loan	-	-	-	815.4	[ICRA]AA(Stable)
NA	Fund Based – Working Capital	-	-	-	90.0	[ICRA]AA(Stable)
NA	Non-Fund Based – Long Term	-	-	-	50.0	[ICRA]AA(Stable)
NA	Proposed Short Term Loan	-	-	-	200.0	[ICRA]A1+
NA	Non – Fund Based Short Term	-	-	-	600.0	[ICRA]A1+
INE233A14VS0	Commercial Paper -	3-Aug-22	5.86%	2-Nov-22	75.0	[ICRA]A1+
INE233A14VT8		8-Aug-22	5.86%	7-Nov-22	75.0	[ICRA]A1+
INE233A14VU6		10-Aug-22	5.86%	9-Nov-22	75.0	[ICRA]A1+
INE233A14VV4		11-Aug-22	5.73%	4-Nov-22	65.0	[ICRA]A1+
INE233A14VW2		12-Aug-22	5.81%	11-Nov-22	50.0	[ICRA]A1+
INE233A14VW2		12-Aug-22	5.81%	11-Nov-22	25.0	[ICRA]A1+
INE233A14VX0		18-Aug-22	5.82%	14-Nov-22	75.0	[ICRA]A1+
INE233A14VY8		23-Aug-22	5.89%	22-Nov-22	50.0	[ICRA]A1+
INE233A14VY8		23-Aug-22	5.89%	22-Nov-22	25.0	[ICRA]A1+
INE233A14VZ5		26-Aug-22	5.89%	25-Nov-22	75.0	[ICRA]A1+
INE233A14WA6		30-Aug-22	5.89%	29-Nov-22	75.0	[ICRA]A1+
INE233A14WB4		2-Sep-22	5.97%	30-Nov-22	75.0	[ICRA]A1+
INE233A14WC2		5-Sep-22	5.97%	2-Dec-22	75.0	[ICRA]A1+
INE233A14WD0		6-Sep-22	6.03%	5-Dec-22	75.0	[ICRA]A1+
INE233A14WE8		9-Sep-22	6.03%	8-Dec-22	75.0	[ICRA]A1+
INE233A14WF5		13-Sep-22	5.96%	13-Dec-22	75.0	[ICRA]A1+
INE233A14WG3		16-Sep-22	5.96%	16-Dec-22	50.0	[ICRA]A1+
INE233A14WG3		16-Sep-22	5.96%	16-Dec-22	25.0	[ICRA]A1+
INE233A14WH1		26-Sep-22	6.23%	26-Dec-22	75.0	[ICRA]A1+
INE233A14WI9		6-Oct-22	6.73%	5-Jan-23	60.0	[ICRA]A1+
INE233A14WI9		6-Oct-22	6.73%	5-Jan-23	15.0	[ICRA]A1+
INE233A14WJ7		10-Oct-22	6.73%	9-Jan-23	75.0	[ICRA]A1+
INE233A14WK5		12-Oct-22	6.73%	11-Jan-23	75.0	[ICRA]A1+
INE233A14WL3		17-Oct-22	6.64%	16-Jan-23	75.0	[ICRA]A1+
INE233A14WM1		18-Oct-22	6.64%	17-Jan-23	75.0	[ICRA]A1+
INE233A14WN9		19-Oct-22	6.64%	18-Jan-23	75.0	[ICRA]A1+
INE233A14WP4		20-Oct-22	6.91%	19-Jan-23	75.0	[ICRA]A1+
INE233A14WO7		21-Oct-22	6.91%	20-Jan-23	75.0	[ICRA]A1+
INE233A14WQ2		27-Oct-22	6.91%	25-Jan-23	60.0	[ICRA]A1+
Yet to be placed		-	-	-	150.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Vinutaa S

+91 44 4596 4305

Vinutaa.s@icraindia.com

Srihari Venugopalan

+91 99107 47794

Srihari.venugopalan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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