

May 30, 2024

Godrej Agrovet Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based / Term Loan	8.25	23.25	[ICRA]AA(Stable); reaffirmed
Short Term – Fund Based Facilities	436.20	287.20	[ICRA]A1+; reaffirmed
Short Term – Non Fund Based Facilities	229.00	333.00	[ICRA]A1+; reaffirmed
Commercial Paper	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Long Term – Fund Based / Cash Credit	60.00	0.00	-
Total	1,733.45	1,643.45	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings continues to take into account the diverse presence of Godrej Agrovet Limited (GAVL) in agri-focused businesses such as animal feed, vegetable oil (palm oil), crop protection (agri inputs), dairy and poultry, which insulates the company from downturns in any particular business sector. Among the various sectors in which it operates, GAVL enjoys a strong position in the domestic organised animal feed segment, which accounts for ~50% of its consolidated revenues. Moreover, GAVL has gained further market share in this segment in the recent quarters. The ratings also factor in the company's comfortable capitalisation metrics, as reflected in a gearing (total debt/net worth) of 0.5 times and TOL/TNW (total outside liabilities/net worth) of 0.9 times as on March 31, 2024. The company also continued to demonstrate a comfortable interest coverage at 6.7 times in FY2024, aided by steady profitability and containment of finance costs. It further draws comfort from GAVL's strong parentage (it is a part of the Godrej Group), which imparts financial flexibility. ICRA also notes that GAVL has been gradually increasing its stake in its subsidiary companies such as Astec LifeSciences Limited (Astec).

GAVL's operational performance in FY2024 largely remained steady. While the company reported a recovery in margins in dairy and poultry & processed food segments on the back of favourable input costs and increasing salience of value-added / branded products in the overall revenue mix, muted demand in the enterprise segment impacted the business performance of Astec in FY2024. Nevertheless, the standalone crop protection business reported a substantial improvement in its business performance at the top line and bottom line as the division benefitted from the increasing share of in-house, in-licensed products and lower sales returns. The animal feed division, the largest in terms of revenue generation, continued to report a steady increase in volume offtake, although the same was offset to an extent by moderation in realisation as input costs softened over the fiscal. The edible oil division, on the other hand, reported a marginal YoY revenue decline on account of a steep correction in crude palm oil and palm kernel oil prices, leading to a moderation in margins as well, although the same continued to remain comfortable.

GAVL's cost structure and profitability remain susceptible to raw material price fluctuations due to its exposure to a price-sensitive consumer segment, which limits its ability to fully pass on any increase in input prices. In this context, GAVL's ability to pass on the input cost fluctuations to end-consumers either through strengthening market position or increasing salience of value-added / differentiated products for protecting its margins, remains a key rating monitorable. The company's presence in diverse agri-businesses provides comfort to the overall business model of GAVL. Nonetheless, the agri-focused business portfolio of GAVL remains vulnerable to factors such as adverse weather conditions and Government regulations. The company also faces intense competition in the agro-chemicals business from the domestic as well as external players, which may influence the profitability in this segment. The ratings also factor in GAVL's capex outlay of Rs. 300-350 crore per annum over the near term, which would be funded through a mix of internal accruals and external borrowings. Though such debt-funded

capex is likely to have some influence over the capital structure in the near-to-medium term, the same is expected to remain fairly comfortable because of the company's robust net worth position and healthy accruals generation.

The Stable outlook reflects ICRA's opinion that GAVL will continue to benefit from its strong business profile, healthy financial risk profile and strong parentage.

Key rating drivers and their description

Credit strengths

Strong position in the domestic organised animal feed industry – GAVL enjoys a strong position in the domestic organised animal feed industry with presence across sub-categories like cattle, broiler, layer and aqua feed. The animal feed segment has remained the largest contributor to revenues with a share of ~50% in the total consolidated revenues in the recent years. The company's research and development (R&D)-driven efforts to achieve cost leadership and cost competitiveness are expected to help it remain a leading player in the segment, going forward, as well. The animal feed segment reported a flat 1% revenue growth in FY2024 (YoY). The segment's ~3% volume growth (YoY) in the said year was offset to an extent by correction in realisation amid softening in the input costs.

Diversified business presence insulates the company from downturns in any individual business segment – GAVL is a well-diversified agri-product player with presence across multiple segments including animal feed, vegetable oil (palm oil), crop protection (agri inputs), dairy and poultry. Over the years, GAVL's focus on diversification of its revenue streams has resulted in a gradual decline in the animal feed segment's share in the consolidated revenues (from 51.7% in FY2019 to 49.5% in FY2024). Most of the key operational divisions reported a YoY revenue growth in FY2024, as well as a YoY improvement in the profitability. The diversified business presence of GAVL insulates the company from downturn in any particular business segment.

Comfortable capitalisation and coverage indicators – The company's capitalisation metrics continued to remain comfortable in FY2024, as reflected in a gearing (total debt/net worth) of 0.5 times and TOL/TNW (total outside liabilities/net worth) of 0.9 times as on March 31, 2024. Further, the company continued to demonstrate a comfortable interest coverage of 6.7 times in FY2024 (previous year: 5.3 times). The overall capital structure is expected to remain comfortable going forward as well for being a part of the Godrej Group, supported by comfortable profitability and access to favourable cost of funding.

Strong financial flexibility as part of the Godrej Group – GAVL is a subsidiary of Godrej Industries Limited (GIL), which held a 64.88% stake in GAVL as on March 31, 2024. GIL is one of the flagship companies of the Godrej Group, a large and established business house in the country. Although GAVL has high reliance on the short-term borrowings, comfort is drawn from its parentage, which lends strong financial flexibility. The Godrej Group's parentage provides GAVL with access to capital markets and helps maintain healthy relationships with the banks.

Credit challenges

GAVL's cost structure and profitability remain susceptible to raw material price fluctuations – GAVL's revenues and profitability remain susceptible to commodity price fluctuations, especially in the animal feed and palm oil businesses. Although GAVL is a strong player in the organised animal feed industry, its ability to pass on the increase in commodity prices is limited due to its exposure to a highly price sensitive consumer segment. While the revenue sharing with farmers in the palm oil business is formula driven, GAVL's revenues and operating margin would vary with fluctuations in end product prices, which are influenced by global palm oil prices. In this context, forward-integration initiatives undertaken by GAVL, such as setting up of solvent extraction plant and refinery, provide some comfort as the same are expected to de-link the edible oil business' profitability from the volatility associated with the market to an extent.

Agri-focused business portfolio vulnerable to weather conditions and Government regulations – As the company is present in agri-businesses, its revenues and profit margins are vulnerable to weather conditions as well as Government regulations to

some extent, which may restrict its ability to expand its operations or margins. Nonetheless, its presence across diverse agribusinesses mitigates the risks to some extent.

Continued capex plans over the medium term likely to keep dependence on external borrowings high – GAVL has planned large capex over the next couple of years, mainly towards capacity addition for the animal feed and crop protection businesses. The capex outlay remains sizeable at Rs. 300-350 crore per annum over the next two years and will be partially funded by external borrowings. Accordingly, GAVL's dependence over external debt is expected to continue over the near-to-medium term, which may limit meaningful improvement in its credit metrics. However, once commissioned, commensurate returns from these capex activities should support the credit metrics in the longer term.

Intense competition in the agrochemical business from domestic and external players – GAVL faces intense competition in the agrochemical business (AsteC LifeSciences Limited) from domestic and external players. Such high degree of competition may lead to pricing pressures, or even oversupply situations like the one being faced by the enterprise segment of agrochemicals at present. Nevertheless, the swift recovery in margins demonstrated by the standalone crop protection business in FY2024 provides some comfort in this regard.

Environmental and Social Risks

Environmental considerations: The **crop protection business** remains exposed to the risk of tightening regulation for production, handling and transport of chemical products with regards to safety and environmental impact and remedial measures for pollution and effluent treatment. However, the company's efforts to expand its product and segment portfolio are expected to provide some comfort against regulatory risks pertaining to a specific product or segment. The **dairy business** remains indirectly exposed to physical climate risks, which could result in variations in availability of fodder for cattle and impact their productivity. The **animal feed segment** remains partially exposed to regulations from the Government, such as price capping mechanisms. Moreover, this sector remains indirectly exposed to physical climate risks, which could result in variations in availability of cattle fodder. Extreme weather conditions like harsh summers or floods can also impact raw material availability, and in turn, may lead to higher input costs in this segment. However, the dominant status of GAVL in the domestic animal feed market coupled with its presence across multiple states provides some comfort. The **vegetable oil segment** remains indirectly exposed to physical climate risks, which could result in variations in availability of palm crop (FFB).

Social considerations: GAVL, like most conglomerates, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption-free operations for the entity. In view of this, GAVL undertakes several measures to maintain high health and hygiene standards as well as employee morale at the workplace. Importance is also given to physical and mental health of employees, by providing all-round support, organising expert workshops as well as setting up specific benefit programmes to help families of deceased employees.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by a cash and liquid investment balance of Rs. 78 crore (on a consolidated basis as on March 31, 2024) and sufficient buffer in the form of undrawn working capital lines, which stood at ~Rs. 320 crore as on April 30, 2024. Further, the cash flow generation at the consolidated level is expected to remain comfortable at Rs. 400-500 crore per annum, providing further comfort to the liquidity profile. Against these, the consolidated capital expenditure outlay for FY2025 is at Rs. 300-350 crore, and debt repayment quantum for the fiscal at ~Rs. 65 crore. GAVL also enjoys healthy financial flexibility as a part of the Godrej Group, which lends it easy access to capital markets to raise funds in the case of exigencies.

Rating sensitivities

Positive factors – A considerable increase in the company’s scale of operations, while maintaining profitability, leading to an improvement in its credit profile will be a positive rating trigger. Sustained net-debt/OPBDITA of below 1.0 time would also be a positive trigger.

Negative factors – Large debt-funded capex or inorganic expansion, leading to weakening credit metrics, would pose a downward pressure on GAVL’s rating. Sustained net-debt/OPBDITA of above 2.5 times will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for the Entities in the Agrochemicals Industry Rating Methodology for the Entities in the Edible Oil Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GAVL. The details are given in Annexure-2.

About the company

Godrej Agrovet Limited is a part of the Godrej Group, which has diverse business interests spanning fast moving consumer goods, consumer products, oleo chemicals, animal feed, real estate development, crop protection, and oil palm plantation through various Group companies. Godrej Industries Limited (rated [ICRA]AA(Stable)/[ICRA]A1+) holds 64.88% stake in Godrej Agrovet Limited (as on March 31, 2024). GAVL’s product segments primarily cater to the rural sector and agricultural community. On a standalone basis, the company has three major business segments—animal feed, vegetable oil (palm oil) and crop protection (agri inputs). The company is one of the largest organised animal feed manufacturers in India. It offers cattle, layer, broiler, shrimp and fish feed in its product portfolio in the animal feed segment. In the vegetable oil division, the company has a sizeable quantity of palm tree plantations across nine states and has six manufacturing facilities across four states for manufacturing for producing crude palm oil, palm kernel oil and palm kernel cake. As part of the crop protection business, it is also a niche player in select agri-inputs such as insecticides, fungicides, soil conditioners and herbicides, with a pan India network of ~7,000 distributors.

On a consolidated basis, through its subsidiaries, GAVL has interests in businesses like agrochemicals (Astec LifeSciences Limited, rated [ICRA]AA- (Stable) / [ICRA]A1+), dairy (Creamline Dairy Products Limited), processed poultry and vegetarian food products (Godrej Tyson Foods Limited), as well as in-vitro production of high-quality (milk yielding) cows (Godrej Cattle Genetics Private Limited (formerly known as Godrej Maxximilk Private Limited)). In addition, GAVL has interests in animal feed through its 50% joint venture in Bangladesh, ACI Godrej Agrovet Private Ltd., Bangladesh.

Key financial indicators

GAVL (consolidated)	FY2023	FY2024
Operating Income (Rs. crore)	9,379.0	9,573.4
PAT (Rs. crore)	263.4	307.4
OPBDIT/OI (%)	5.6%	7.5%
PAT/OI (%)	2.8%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.9
Total Debt/OPBDIT (times)	2.7	2.0
Interest Coverage (times)	5.3	6.7

Source: GAVL, ICRA Research; 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 (FY2025)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as of March 31, 2024	Date & Rating on		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			(Rs. crore)	(Rs. crore)	30-May-24	10-May-24	25-May-23	31-May-22	31-May-21
1	Fund-based Facilities	Short-term	287.20	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Term Loan	Long-term	23.25	3.09	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
3	Non-fund Based Facilities	Short-term	333.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short-term	1,000.00	510.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fund-based Facilities	Long-term	0.00	NA	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term, Fund-based Facilities	Simple
Term Loan	Simple
Short Term, Fund-based Facilities	Simple
Short Term, Non-fund Based Facilities	Very Simple
Commercial Paper Programme	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Short Term – Fund Based Facilities	NA	NA	NA	287.20	[ICRA]A1+
NA	Long Term – Fund Based / Term Loan - 1	FY2020	NA	FY2025	3.25	[ICRA]AA(Stable)
NA	Long Term – Fund Based / Term Loan – 2	FY2024	NA	FY2029	20.00	[ICRA]AA(Stable)
NA	Short Term – Non Fund Based Facilities	NA	NA	NA	333.00	[ICRA]A1+
INE850D14QH8	Commercial Paper	21-Feb-24	NA	7-365 days	50.00	[ICRA]A1+
INE850D14QI6	Commercial Paper	22-Feb-24	NA		50.00	[ICRA]A1+
INE850D14QK2	Commercial Paper	26-Feb-24	NA		50.00	[ICRA]A1+
INE850D14QK2	Commercial Paper	1-Mar-24	NA		50.00	[ICRA]A1+
INE850D14QM8	Commercial Paper	1-Mar-24	NA		50.00	[ICRA]A1+
INE850D14QR7	Commercial Paper	5-Apr-24	NA		25.00	[ICRA]A1+
INE850D14QR7	Commercial Paper	12-Apr-24	NA		25.00	[ICRA]A1+
INE850D14QT3	Commercial Paper	15-Apr-24	NA		50.00	[ICRA]A1+
INE850D14QS5	Commercial Paper	16-Apr-24	NA		50.00	[ICRA]A1+
INE850D14QU1	Commercial Paper	18-Apr-24	NA		50.00	[ICRA]A1+
INE850D14QT3	Commercial Paper	18-Apr-24	NA		25.00	[ICRA]A1+
INE850D14QV9	Commercial Paper	22-Apr-24	NA		25.00	[ICRA]A1+
INE850D14QV9	Commercial Paper	22-Apr-24	NA		25.00	[ICRA]A1+
INE850D14QW7	Commercial Paper	2-May-24	NA		50.00	[ICRA]A1+
Unplaced	Commercial Paper Programme	NA	NA	7-365 days	425.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	GAVL Ownership	Consolidation Approach
Godrej Agrovvet Limited	100.00%	Full consolidation
Astec LifeSciences Limited	64.77%	Full consolidation
Behram Chemicals Private Limited	65.63%	Full consolidation
Comercializadora Agricola Agroastrachem Cia Ltda	100.00%	Full consolidation
Creamline Dairy Products Limited	51.91%	Full consolidation
Godrej Tyson Foods Limited	51.00%	Full consolidation
Godrej Cattle Genetics Private Limited	100.00%	Full consolidation
Godvet Agrochem Limited	100.00%	Full Consolidation
ACI Godrej Agrovvet Private Limited	50.00%	Equity Method
Omnivore India Capital Trust	9.62%	Equity Method

Source: GAVL

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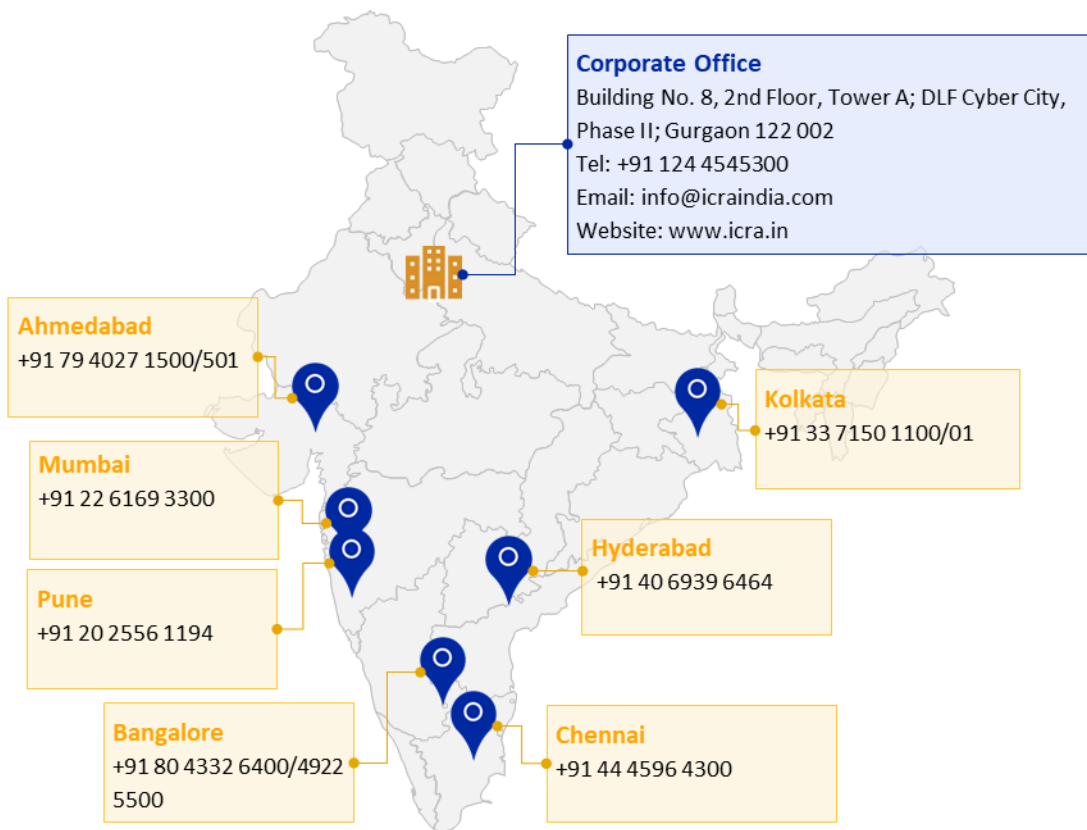
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