

## Rating Rationale

February 07, 2024 | Mumbai

# Godrej Industries Limited

Ratings Reaffirmed

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### Rating Action

<b>Rs.3500 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>
<b>Non Convertible Debentures Aggregating Rs.4750 Crore</b>	<b>CRISIL AA/Stable (Reaffirmed)</b>

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

### Detailed Rationale

CRISIL Ratings has reaffirmed its "CRISIL AA/Stable/CRISIL A1+" ratings on the non-convertible debentures and commercial paper programme of Godrej Industries Ltd (GIL).

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The ratings continue to reflect the strong financial flexibility of GIL as the holding company of the Godrej group. GIL is the second-largest shareholder in the group's flagship company, Godrej Consumer Products Ltd (GCPL; "CRISIL A1+") and the largest shareholder in Godrej Properties Ltd (GPL; "CRISIL A1+") and Godrej Agrovet Ltd (GAL; "CRISIL A1+"). The ratings also factor in the healthy reputation of the Godrej group. These strengths are partially offset by exposure to market risk and large refinancing requirement.

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GIL continues to invest in Godrej Capital Ltd (GCL), the subsidiary engaged in financial services, to fund its growth plans. GIL has infused equity of around Rs 2,110 crore till September 2023, which included the infusion of around Rs 620 crore during the first half of fiscal 2024. The infusion has resulted in increased leverage in the standalone book of GIL. However, comfort is derived from the significant market value of quoted investments relative to overall debt planned and the healthy refinancing ability of the group. Furthermore, the management has articulated to maintain a net debt cover (ratio of total market value of investments to net debt) of well above 4 times at any point of time. CRISIL Ratings understands that the management of GIL would not be averse to monetise its investments, if required, to support its cash flow and to maintain the debt cover threshold.

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For fiscal 2023, standalone operating profit before depreciation, interest and tax (OPBDIT) was Rs 741 crore, aided by better operating performance in the chemicals business.

### Analytical Approach

CRISIL Ratings has followed the holding company approach and considered the standalone business and financial risk profiles of GIL. Furthermore, CRISIL Ratings has applied its capital allocation framework to factor in the capital required by financial services entities to maintain their credit profiles.

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To arrive at the net debt for calculation of debt cover, CRISIL Ratings has netted-off the debt that can be sustained by operating profits (excluding income/expenses related to investments) of GIL to maintain a similar credit profile.

### Key Rating Drivers & Detailed Description

#### Strengths:

- Strong financial flexibility:** The financial flexibility arises from the 23.74% stake in GCPL, 47.34% stake in GPL and 64.88% stake in GAL, which translate into a market value of around Rs 68,000 crore (as on February 2, 2024). The market value was significant against the CRISIL Ratings-adjusted net debt of around Rs 6,200 crore as on September 30, 2023. The exposure may increase over the medium term, driven by the company's plans to fund growth in the financial services business.

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- Healthy reputation of the promoters:** GIL is held by the Godrej group, which has an established track record and a strong reputation among lenders and investors in capital markets. The promoters' shareholding in GIL is unencumbered.

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#### Weakness:

- Susceptibility to market risks:** GIL remains susceptible to prevailing market sentiments and share prices of GCPL, GPL and GAL. Any increase in systemic risk, leading to a sharp decline in share prices of these companies, will be a key rating sensitivity factor. Furthermore, GIL largely depends on refinancing and dividend income to service its debt. Though the interest coverage ratio is weak, debt obligation, including interest, is adequately phased, enabling the company to manage cash flow and ensure adequate liquidity.

### Liquidity: Strong

Liquidity was supported by cash and equivalent of around Rs 402 crore as on September 30, 2023. With raising of NCDs, the borrowing mix of GIL is shifting towards sizeable term debt obligation from short-term borrowing, reducing refinancing risk. GIL has a strong reputation in the lending community, thus enhancing financial flexibility. Moreover, CRISIL Ratings understands that the management would not be averse to monetise its investments, if required, to support liquidity.

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### Environment, social and governance (ESG) profile

CRISIL Ratings believes the ESG profile of GIL supports its already strong credit risk profile.

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Chemical manufacturers can have a significant impact on the environment because of the high greenhouse gas (GHG) emissions, water consumption and high hazardous waste generation in core operations. The sector has a

social impact because of its large workforce and impact on health and wellbeing of workers and the local community given its nature of operations.

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GIL has undertaken various initiatives and efforts to mitigate its environmental and social impact and strengthen its ESG profile.

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**Key ESG highlights:**

- Until fiscal 2023, GIL had reduced its specific energy consumption by 17%, water consumption by 46% and overall carbon footprint by 66% from the fiscal 2011 levels.
- The company has consistently focused on use of renewable energy and around 68% of the energy consumed came from renewable sources in fiscal 2023.
- The company has taken initiatives and implemented policies to promote gender diversity, employee safety, community engagement and safe procurement. Its sustainable supply chain policy focuses on responsible conduct with all stakeholders, employee health and safety, local community development, business integrity and ethics, and human rights.
- The governance structure is characterised by 50% of the board comprising independent directors, presence of an investor grievance redressal cell and extensive disclosures.

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The importance of ESG is growing among investors and lenders. GIL's commitment to ESG principles will play a key role in enhancing stakeholder confidence, given the high share of market borrowings in overall debt and access to both domestic and foreign capital markets.

**Outlook: Stable**

CRISIL Ratings believes GIL will maintain a healthy cover over the medium term supported by the high value of investments in key operating entities of the Godrej group. Also, the company will continue to enjoy strong financial flexibility as the key holding company of the group.

**Rating Sensitivity factors**

**Upward factor**

- Improvement in the performance of investment companies, resulting in rating upgrade by one or more notches.

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**Downward factors**

- Subdued performance of investment companies, resulting in rating downgrade by one or more notches.
- Increase in debt or fall in the market value of investments, weakening the net debt cover to below 4 times on a sustained basis.

**About the Company**

GIL, one of India's leading manufacturers of oleochemicals, makes more than a hundred chemicals for use in over two dozen industries. It also manufactures edible oils, *vanaspati* and bakery fats. The company was called Godrej Soaps until March 31, 2001. Thereafter, the consumer products division was demerged into GCPL, and Godrej Soaps became GIL.

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The company, a leading producer of fatty acids, fatty alcohols and surfactants, has plants at Valia in Gujarat, and at Ambarnath in Maharashtra. Products are exported to 60 countries across the world.

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GIL is also the holding company of GCPL, GAL, GPL and GCL.

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For the first half of fiscal 2024, net loss was Rs 34 crore on total income of Rs 1,644 crore, compared with net profit of Rs 180 crore on total income of Rs 2,475 crore in the corresponding period of the previous fiscal.

**Key Financial Indicators\***

As on/for the period ended March 31	À Unit	2023	2022
<b>Operating income</b>	<b>Rs crore</b>	<b>4,413</b>	<b>3,275</b>
<b>Profit After Tax (PAT)</b>	<b>Rs crore</b>	<b>233</b>	<b>-44</b>
<b>PAT Margin</b>	<b>%</b>	<b>5.1</b>	<b>-1.3</b>
<b>Adjusted debt/adjusted networth</b>	<b>Times</b>	<b>4.03</b>	<b>4.18</b>
<b>Adjusted interest coverage</b>	<b>Times</b>	<b>1.67</b>	<b>1.23</b>

\*As per analytical adjustments made by CRISIL Ratings

**Any other information:** Not Applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -À Details of Instrument'À in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -À including those that are yet to be placed -À based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	3,500	Simple	CRISIL A1+
INE233A08105	Non-convertible debentures	28-Oct-2020	6.68%	26-Apr-2024	750	Simple	CRISIL AA/Stable
	Non-						

INE233A08097	convertible debentures	14-May-2021	7.17%	14-May-2025	750	Simple	CRISIL AA/Stable
INE233A08055	Non-convertible debentures	28-Sept-2021	7.58%	28-Sept-2028	750	Simple	CRISIL AA/Stable
INE233A08071	Non-convertible debentures	20-Mar-2023	8.30%	12-June-2026	250	Simple	CRISIL AA/Stable
INE233A08063	Non-convertible debentures	20-Mar-2023	8.35%	12-Dec-2025	300	Simple	CRISIL AA/Stable
INE233A08089	Non-convertible debentures	27-Sept-2023	8.29%	26-Feb-2027	400	Simple	CRISIL AA/Stable
NA	Non-convertible debentures#	NA	NA	NA	1,550	Simple	CRISIL AA/Stable

#Yet to be placed

#### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Commercial Paper	ST	3500.0	CRISIL A1+	21-11-23	--	21-11-23	CRISIL A1+	04-10-22	CRISIL A1+	05-10-21	CRISIL A1+	CRISIL A1+
				03-01-23	--	03-01-23	CRISIL A1+		--	16-03-21	CRISIL A1+	--
Non Convertible Debentures	LT	4750.0	CRISIL AA/Stable	21-11-23	--	21-11-23	CRISIL AA/Stable	04-10-22	CRISIL AA/Stable	05-10-21	CRISIL AA/Stable	CRISIL AA/Stable
				03-01-23	--	03-01-23	CRISIL AA/Stable		--	16-03-21	CRISIL AA/Stable	--

All amounts are in Rs.Cr.

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#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">Criteria for rating holding companies (including debt backed by pledge of shares)</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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