Godrej Consumer Products Limited

February 09, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term, Fund-based-Working Capital Facilities	30.00	30.00	[ICRA]AA+ (Stable)/[ICRA]A1+; Reaffirmed
Long-term/Short-term, Non-fund based-Working Capital Facilities	170.00	170.00	[ICRA]AA+ (Stable)/[ICRA]A1+; Reaffirmed
Long-term/Short-term, Fund-based/Non-fund based-Working Capital Facilities	900.00	1,800.00	[ICRA]AA+ (Stable)/[ICRA]A1+; Reaffirmed
Commercial Paper Programme	750.00	750.00	[ICRA]A1+; Reaffirmed
Total	**1,850.00**	**2,750.00**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 30 crore[1] fund-based bank limits, the Rs. 170 crore non-fund based bank limits, and the Rs. 1,800 crore (enhanced from Rs. 900 crore) fund-based/non-fund based bank limits of Godrej Consumer Products Limited ('GCPL' or 'the company')[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ for the Rs. 750 crore short-term debt/Commercial Paper programme of GCPL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings factors in the well diversified presence of the company in the fast moving consumer goods (FMCG) industry—across three core categories (personal care, home care and hair care) and three focus geographies (Asia, Africa and Latin America). ICRA notes the leading market presence of the company across most of these segments and global markets, its healthy financial profile characterised by healthy profitability, strong cash accruals, moderate gearing and comfortable debt coverage indicators. The rating also considers the financial flexibility enjoyed by GCPL as part of the Godrej Group of companies.

The ratings are, however, constrained by the competition in a few of the markets that may constrain further expansion in margins, and enhanced geo-political, regulatory and currency risks due to GCPL's presence across multiple geographies. It is to be noted that despite all the above mentioned challenges, GCPL has sustained relatively high margins in FY2017 as well as in the current fiscal in its global as well as domestic operations. On the domestic front, GCPL has been facing competition in the personal care and hair care segments; however, product repositioning/brand extensions have helped maintain its competitive position in the personal care segment in FY2017 and the current fiscal. Further, innovation led new product/format launches in the hair care and personal/home care categories are expected to drive growth during FY2018.

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[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.*

Despite the large inorganic investments over the past five years, the consolidated financial profile of the company remains healthy. The same is characterised by strong cash accruals, moderate capital structure—moderated post the debt funded acquisition of Strength of Nature in Q1 FY2017—comfortable debt coverage indicators and adequate liquidity as evidenced by sizeable cash and bank balances, moderately utilised working capital facilities and fairly spread out debt repayment obligations. Even if the company continues to grow through inorganic acquisitions, ICRA expects it to maintain a healthy financial risk profile. ICRA will continue to evaluate the impact of such investments on a case to case basis.

Outlook: Stable

ICRA believes GCPL 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, coupled with considerably lower leverage levels (consolidated basis), strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected or if any major capital expenditure, leveraged acquisitions or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Leadership position in the household insecticides category - GCPL continues to remain the market leader in the household insecticide category with more than 50% market share. Innovation and strong brands like 'Good Knight' and 'Hit' have resulted in higher than industry average growth rate and steady traction in its market share in this category.

Second largest domestic toilet soaps player - GCPL continues to be the second largest toilet soaps player in the highly penetrated domestic soaps market. The company markets its soaps under the two popular brands, 'Godrej No. 1' and 'Cinthol'. With a value for money (VFM) proposition and recent product repositioning/brand extensions, the segment is poised for considerable growth in opportunities in the near to medium term.

Leadership position in the domestic hair colour segment - GCPL continues to be the market leader in the segment and has strong product offerings across product formats (powder and crème), targeting various price points. The segment also comprises the premium hair salon business, BBlunt, which offers a range of premium hair care and styling products.

Strong last mile distribution network and continued focus on innovation – GCPL's strong network of over 1700 distributors and its continuous focus on innovation are the key drivers of GCPL's competitive position in the FMCG industry.

Successful integration of recent overseas acquisitions leading to diversified product portfolio and geographic presence - GCPL's inorganic acquisitions of Sara Lee's share in the erstwhile Godrej Sara Lee Limited in India, 'Megasari Group' in Indonesia, stakes in 'Darling Group' operations in South Africa, Mozambique, Nigeria, and Kenya, 'Rapidol' and 'Frika' in South Africa, 'Tura' in Nigeria, 'Issue Group', 'Argencos' and 'Cosmetica Nacional' in Latin America, and 'Keyline Brands' and 'Soft and Gentle' in Europe— have all helped it in extracting synergies in terms of supply chain efficiencies, product cross pollination and stronger distribution network, besides diversifying its product portfolio and geographical reach.

Comfortable financial profile – GCPL's financial profile is characterised by healthy profitability, strong cash accruals, moderate gearing and comfortable debt coverage indicators.

Strong financial flexibility as part of the Godrej Group - GCPL is one of the marquee companies of the Godrej Group, a large and established business house in the country. This imparts significant financial flexibility to GCPL, as it helps it to maintain good access to the capital markets and enjoy strong relationships with the banks.

Credit challenges

Intense competition in the domestic businesses, especially in the soaps and hair colour categories - Soaps is a highly penetrated category in India with rural penetration at ~90%. The brand loyalty in a soap brand also tends to be minimal due to a plethora of options. Further, the domestic hair colour market is also characterised by stiff competition with reputed players in the organised industry. Nonetheless, GCPL's strong brand equity in these segments, coupled with innovative product offerings, are expected to help it successfully counter the competitive pressures, going forward.

Vulnerability to international palm oil prices, the key raw material for the soaps business - GCPL's soaps business is exposed to adverse fluctuation in international palm oil prices (key raw material). Nonetheless, increasing contribution from household insecticides and hair colours segments mitigates the risk to some extent.

Several acquisitions undertaken in rapid succession indicates increased risk appetite of the management – GCPL's inorganic growth through acquisitions in rapid succession indicates increased risk appetite of the management, thereby, subjecting the consolidated entity to enhanced political, regulatory and currency risks. Nonetheless, geographic and category diversification thus achieved mitigates these risks to some extent.

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

Links to applicable criteria:

Rating Methodology for Fast Moving Consumer Goods Industry

About the company:

Formed out of a de-merger of the consumer products division of the erstwhile Godrej Soaps Limited in April 2001, Godrej Consumer Products Limited (GCPL) is part of the Godrej Group of companies. Though GCPL was formed in its current form in 2001, it has been operating for almost 100 years, as Godrej Soaps, in the personal care segment. Currently, GCPL's standalone business includes household insecticides, toilet soaps, hair colorants, toiletries and liquid detergents. The company is a market leader in household insecticide, hair colour and liquid detergent categories, and the second largest player in the soaps category in the domestic market. GCPL has manufacturing plants in Assam, Goa, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Meghalaya, Pondicherry, Sikkim and Tamil Nadu. GCPL's capacity expansions over the years have been undertaken in areas where it can avail of fiscal benefits extended by the government, thereby improving its profitability. Over the past five years, GCPL has undertaken several overseas acquisitions to build its presence in key emerging markets outside India, with focus on Asia, Africa and Latin America. These acquisitions give GCPL access to well-established international brands and the subsidiaries' distribution and marketing networks. The performance of the overseas subsidiaries continues to remain stable.

In 9M FY2018, on a standalone basis, the company reported a net profit of Rs. 704.7 crore on an operating income of Rs. 3,891.0 crore, as compared to a net profit of Rs. 597.0 crore on an operating income of Rs. 3,493.2 crore in 9M FY2017. In 9M FY2018, on a consolidated basis, the company reported a net profit of Rs. 1,017.0 crore on an operating income of Rs. 7,314.2 crore, as compared to a net profit of Rs. 920.4 crore on an operating income of Rs. 6,878.1 crore in 9M FY2017.

Key financial indicators (audited; consolidated)

	FY2016	FY2017
Operating Income (Rs. crore)	8,423.9	9,267.9
PAT (Rs. crore)	830.6	1,308.0
OPBDIT/ OI (%)	19.7%	20.7%
RoCE (%)	18.0%	22.4%
Total Debt/ TNW (times)	0.7	0.8
Total Debt/ OPBDIT (times)	1.7	2.1
Interest coverage (times)	15.0	11.3
NWC/ OI (%)	4.5%	3.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2017 (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015	Date & Rating in FY2015 September 2014
1	Cash Credit/WCDL	Long Term/ Short Term	30.00	NA	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**
2	Letter of Credit/ Bank Guarantee	Long Term/ Short Term	170.00	NA	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**
3	Fund-based/Non-fund based-Working Capital Facilities	Long Term/ Short Term	1,800.00	NA	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**
4	Commercial Paper	Short Term	750.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

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	Cash Credit/WCDL	NA	NA	NA	30.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	170.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Fund-based/Non-fund based-Working Capital Facilities	NA	NA	NA	1,800.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	750.00	[ICRA]A1+

Source: Godrej Consumer Products Limited

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About ICRA Limited:

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For more information, visit www.icra.in

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Rating Rationale

October 31, 2018 | Mumbai

Godrej Consumer Products Limited

Rating Reaffirmed

Rating Action

Rs.750 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has reaffirmed its rating on the commercial paper programme of Godrej Consumer Products Limited (GCPL) at 'CRISIL A1+'.

The rating continues to reflect strong business risk profile of GCPL with diversified revenue profile across geographies (India, Indonesia, Africa, and Latin America) and product segments (home care, personal care and hair care). GCPL has strong brands with leadership position across various segments in the various countries where it has operations. The company has been able to maintain or increase its market share in most of the segments by launching new products either through innovation or cross pollinating products from different geographies in its portfolio. Over the years, GCPL has successfully integrated and scaled up the acquired brands in overseas markets. The rating also factors healthy financial risk profile due to high cash accruals, prudent cash policy and strong debt protection metrics.

These strengths are partially offset by debt funded acquisitive nature of expansion growth, along with the macroeconomic, geopolitical and currency risks faced by the overseas operations as well as the susceptibility of operating margins to changes in raw material prices such as crude and palm oil prices.

Analytical Approach
For arriving at the rating, CRISIL has combined the business and financial risk profiles of GCPL and all its subsidiaries given the common line of business.

Key Rating Drivers & Detailed Description
Strengths
*** Diversified Revenue Profile**
GCPL's business risk profile derives benefit from the diversity of revenue across geographies and product segments. In fiscal 2018, the company generated 54% of the topline from India and 46% from abroad. Africa and Indonesia are the major international geographies which contribute to 22% and 14% of total revenues respectively. Revenue is also distributed across product segments with household insecticides (home care), personal care and hair care contributing 30%, 17% and 31% respectively. The growth in revenue from international operations has been driven primarily through acquisitions. The company has demonstrated track record of acquiring strong local brands and generating synergies by combining operations of the acquired entities to drive scale and profitability. The proportion of revenue from international operations has increased from 23% in fiscal 2010 to 46% in fiscal 2018. The operating profitability of international operations has grown from 12% in fiscal 2010 to more than 17% in fiscal 2018.

*** Strong brands with market leadership across segments and geographies**
GCPL has a portfolio of strong brands in India and international markets. GCPL holds market leadership position in household insecticide and hair colour segments in India and is the second largest player in the soaps category. The company is a market leader in all the segments in Indonesia where it operates in - household insecticide, air refreshers and wet tissues. In Africa, GCPL is the market leader in dry hair extensions (hair braids) and ethnic hair colour segments and with the acquisition of Strength of Nature in fiscal 2017, the company is expected to grow its market share in the wet hair care segment as well. The dominant leadership position across various segments provides the company pricing power in those segments which helps the company to maintain its profitability.

Further, GCPL also has strong focus on innovation which has led to new launches contributing a healthy share to the overall growth. The company has successfully cross pollinated products across markets, for example, Aer refreshner in India was taken from Indonesian portfolio where it is sold under the Stella brand. GCPL has made new launches in insecticides segment in India and hair colour segment in Indonesia, as well as launched new products from SON portfolio in Africa. The new launches either through innovation or cross-pollination is expected to be the primary growth drivers over the medium term. The ability of the company to successfully launch and scale up revenues from new products across geographies would be a key rating sensitivity factor.

*** Healthy financial risk profile with high cash accruals, prudent cash policy and strong debt protection metrics**
GCPL has healthy financial risk profile as reflected in the interest cover of 12.04 times, net debt to EBITDA of 0.75 time as on March 31, 2018. The company is also expected to generate healthy cash accruals of over Rs.1000 crore and maintain cash of at least Rs.1000 crore on the balance sheet against repayments of about Rs1,500 crore over next 2 fiscals. The healthy cash accruals would be driven by steady revenue growth and stable operating margins over the medium term. As a policy the company maintains high cash and bank balances of at least equal to 1 year repayment which further strengthens GCPL's financial risk profile. As on March 31, 2018 GCPL had cash and cash equivalents of Rs 1921 crore. The company had a gross debt to EBITDA of 1.7 time as on March 31, 2018 which is expected to remain below 2.25 times over the medium term.

Weaknesses
*** Debt funded acquisitive nature of expansion**
Over the past few years, the company has grown through acquisition, especially in the international markets. Most of these acquisitions have been debt funded with the debt guaranteed by the Indian entity. Some of the major acquisitions have been Godrej Sara Lee Limited in India, Megasari Group in Indonesia and Darling group in Africa. Recently in fiscal 2017 the company acquired Strength of Nature (SON) for a consideration of about Rs.2100 crore. The company has a clear philosophy of acquiring brands in home care, personal care and hair care segments and only in the geographies where it is present right now. The ability of the company to create value from any large debt funded acquisition in a timely manner will continue to be a key rating sensitivity factor.

*** Macroeconomic, geopolitical and currency risks in overseas geographies**
Outside India, GCPL has presence in Asia, Africa, Latin America and UK. The economies in these continents might face macroeconomic growth challenges as seen in Indonesia, Argentina and UK which can limit the growth in overseas operations. Also there is a risk of geopolitical events ' change in government, unrest etc. to affect the operations. GCPL has mitigated this risk in Africa to some extent by its presence across countries in South, West and East Africa. Currency fluctuations can harm the profitability of the overseas operations which have been volatile over the last few years.

Considering the geographical diversity of GCPL with operations across Africa, Latin America and Indonesia, the overall growth and profitability is expected to remain strong over the medium term. Nonetheless, CRISIL would continue to monitor developments in these geographies for any adverse impact on the operations of GCPL.

*** Susceptibility to raw material prices**
Palm oil and crude derivatives (chemicals) are the major raw materials for GCPL. Over the last few years, decline in raw material prices has helped improve the operating profitability of GCPL. The company has also focused on premiumising the portfolio by moving from mass to mass premium products which fetch higher price improving the profitability of the company. For example, launch of creme in hair colour segment in India which is priced higher than the powder is driving sales and premiumising the portfolio. Thus although increase in raw material prices would impact the profitability of GCPL, the same is expected to be limited over the medium term.

About the Company
GCPL is part of the Godrej Group of companies and was formed in its current form in 2001 when the personal care segment of Godrej Soaps Ltd was demerged to form a separate entity. Currently, GCPL's standalone business includes household insecticides, soaps, hair colorants, air refresheners and liquid detergents. GCPL has manufacturing plants in Assam, Goa, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Meghalaya, Pondicherry, Sikkim and Tamil Nadu. Over the past ten years, GCPL has undertaken several overseas acquisitions to build its presence in key emerging markets outside India, with focus on Asia, Africa and Latin America.

Key Financial Indicators^

Particulars	Unit	2018	2017
Revenue	Rs. Cr.	9,843	9,268*
Profit After Tax (PAT)	Rs. Cr.	1634	1,308
PAT Margins	%	16.60	14.11
Adjusted Debt/Adjusted Networth	Times	0.56	0.75
Interest coverage	Times	12.04	12.31

**Excludes excise duty and includes other operating income.*
^As per reported financials; CRISIL adjusted numbers might differ

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. 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 cr.)	Rating assigned with outlook
NA	Commercial Paper	NA	NA	NA	750	CRISIL A1+

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	750.00	CRISIL A1+			12-10-17	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Links to related criteria
[CRISILs Approach to Financial Ratios]()
[Rating criteria for manufaturing and service sector companies]()
[Rating Criteria for Consumer Durable Industry]()
[CRISILs Criteria for rating short term debt]()

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