May 15, 2024

Grasim Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	6,000.0	6,000.0	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	500.0	0.0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Long-term/short-term non fund-based facilities (letter of credit)	4,000.0	4,000.0	[ICRA]AAA (Stable) /[ICRA]A1+; reaffirmed
Commercial paper	3,000.0	3,000.0	[ICRA]A1+; reaffirmed
Total	**13,500.0**	**13,000.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation reflects Grasim Industries Limited's (Grasim) strong business profile, evident from its established brand, large-scale integrated operations, and a diversified presence with leadership position in the domestic viscose staple fibre (VSF), viscose filament yarn (VFY) and caustic soda industries. The ratings continue to favourably factor in its healthy liquidity and comfortable leverage and debt coverage metrices. In addition, the ratings take comfort from the considerable financial flexibility enjoyed by Grasim, arising from the significant market value of its investments in Ultratech Cements Limited (~57% stake in UCL, rated [ICRA]AAA(Stable)/A1+).

The operational performance of the company remained strong in FY2023 with a YoY revenues growth of 28%, amid healthy demand in the VSF and caustic soda segments. In 9MFY2024, however, the company witnessed some moderation in its revenues and operating margins (YoY decline of ~5% in revenues) owing to subdued demand across international markets, cheaper imports in VSF segment and associated fall in realisations in viscose and caustic soda segments. Even though its standalone operating performance moderated, the dividend income received from UCL continued to support the company's cash flows.

Grasim's (standalone) net debt rose over the past two years on account of increased capex allocation towards the paint division (~Rs 10,000 crore to be incurred over FY2023-FY2025; ~Rs. 6,000 crore incurred till December 2023); ICRA notes that three plants (nearly half of the total capacity being setup) have been commercialised in April 2024, and the capex for the remaining three plants remains on track. Apart from paints business, the company's other new venture, B2B e-commerce for building material, generated revenues of ~Rs 1,000 crore in its first year of operations in FY2024. In the existing businesses, the company is nearing completion of its Rs. 7,700-crore capex programme towards capacity enhancement and improving backward integration in the chemical segment (viz. increasing chlorine usage in value-added products) and the capex towards the viscose segment is already complete. All these investments are expected to drive Grasim's revenues and profitability over the medium term, though the remaining planned debt-funded capex towards the paint business is likely to constrain company's overall debt coverage metrices in the near term.

To keep the leverage in check, in October 2023, the board of Grasim approved raising up to Rs 4,000 crore to fund its ongoing capex, repay its existing borrowings and general corporate purpose. The company has received part proceeds of Rs 1,000 crore in Q4 FY2024, out of this total Rights issue size of ~Rs 4,000 crore. It has timeline till March 2026 to draw the remaining funds, with the drawdowns dependent on the profitability of the core segments and cash requirements. This timely fund raise provides comfort regarding the management's plans to keep the leverage at manageable levels.

ICRA notes that the company participated in preferential allotment of Rs 1,000 crore in Aditya Birla Capital Limited (ABCL) in Q1-FY2024 to help its subsidiary meet its growth and funding requirements. The investment outlay towards its investee companies is likely to remain low and largely limited to renewables business in the near term. ICRA continues to draw comfort from the management's guidance of prioritising investments towards capex requirements of its standalone business, followed by funding support to majority-owned subsidiaries (primarily ABCL and renewable energy business). However, any greater-than-envisaged investment outlay will continue to be a key rating sensitivity.

ICRA notes that Grasim's performance remains exposed to the inherent cyclicality in the VSF and caustic soda businesses. Further, the company's return indicators (return on capital employed, RoCE, of 5.8% in FY2023 and 7.1% in FY2022) remain subdued, as large part of the assets is deployed in strategic investments, yielding minimal returns. However, Grasim's ability to rationalise cost and its multipronged strategies to enhance presence in return-accretive segments, provide comfort. The company's focus on increasing the share of value-added products in its core businesses, and large-scale foray into the decorative paints segment are proactive steps in this regard. While the demand outlook for the paints segment is robust, Grasim's ability to profitably expand its operations in this segment remains to be seen.

The Stable outlook reflects ICRA's expectations that Grasim will continue to maintain a healthy credit profile, aided by its significant financial flexibility and expectations of healthy cash flows, despite a transient increase in leverage due to the ongoing capex plans towards the paints business.

ICRA has withdrawn its rating on NCDs worth Rs 500 crore (INE047A08141). The withdrawal is based on confirmation of redemption of this instrument on the stock exchange and at the company's request, in line with ICRA's withdrawal policy.

Key rating drivers and their description

Credit strengths

Leadership position in VSF and chemicals industries; significant presence in other manufacturing businesses – Grasim is the largest producer of VSF in the country (842-KTPA[1] capacity) and among the leading players in the global man-made fibre (MMF) market. Its operations are highly integrated (~80% backward integrated), with pulp (raw material) and captive caustic soda capacity in India, two global dissolving pulp joint ventures and captive thermal power plants, providing strong control over production. Grasim is also the largest caustic soda manufacturer in the country, with a capacity of 1,359 KTPA[1] as on December 31, 2023 (with plans to increase it to 1,530 KTPA by FY2025). Besides VSF and chemicals, Grasim enjoys a leading market position in VFY, linen yarn/fabric and insulator production in the country.

Healthy financial risk profile – Steady cash accruals over the past several years have aided Grasim in maintaining a healthy financial profile, despite sizeable capex and investments in subsidiaries/JVs. The ongoing capex programme and pressure on margins has led to some moderation in the interest coverage ratio (stood at 8.7 times in 9M FY24 against 15.8 times in FY2022) and the net leverage position (Net Debt/ OPBDITA at ~ 1.5 times as of December 2023). ICRA notes that the capex outlay towards capacity expansion for its chemical business as well as setting up its paints segment would lead to some moderation in the leverage and coverage indicators. However, the overall financial profile of Grasim is expected to remain healthy and improve over the medium term, aided by the expected increase in demand for the key end-user segment - VSF, enhanced capacities, generation of healthy revenues in new verticals and its strong liquidity position.

Significant financial flexibility arising from market value of investment portfolio – Grasim is the flagship company of the Aditya Birla Group with diversified revenue profile and enjoys strong financial flexibility on a standalone basis. Additionally, it holds the Group's strategic investments in cement (57.27% stake in UTCL as on March 31, 2024) and financial services businesses (grouped under ABCL; 52.68%). The total debt/market value of investments (as on February 29, 2024) for Grasim stood at less than ~0.05x, which allows the company to enjoy significant financial flexibility. While incremental investments in subsidiaries and JVs are expected to be largely limited to the planned investments in the renewables business over the near term, any higher-than-envisaged investment outlay remains monitorable.

[1] KTPA: Kilo tonne per annum

Credit challenges

Exposure to cyclicality associated with VSF and chemicals businesses – The demand for VSF and chemicals is cyclical and vulnerable to any economic slowdowns. The profitability in these segments also remains exposed to inter-fibre price dynamics, input costs, industry capacity additions and foreign exchange movements. Nevertheless, the company's highly integrated operations and strong market position are expected help it to effectively manage any cyclical downturns in the industry.

Ongoing capex programme towards new business segments to moderate credit metrics – Out of the capital outlay of ~Rs. 10,000 crore into decorative paints, to be deployed over FY2023-FY2025, ~Rs 6,000 crore has been incurred till 9M FY2024. Additionally, in June 2022, the company had announced undertaking ~Rs. 2,000 crore of capex towards B2B e-commerce platforms (including working capital blockage) over a period of 5 years. These capex initiatives are planned to be met through a mix of debt, accruals and proceeds from rights issue. In this regard, the company's ability to commercialise the remaining paints facilities in a timely manner and achieve a healthy ramp-up in revenues, remain monitorable. Nonetheless, the Group's track record of successfully incubating new businesses provides comfort.

Liquidity position: Strong

The liquidity profile of Grasim is expected to remain strong, backed by healthy cash accruals in addition to unencumbered cash and bank balance and liquid investments of ~Rs. 3,452 crore as of December 2023. The undrawn amount of ~Rs. 3,000 crore under the rights issue also supports the company's liquidity. The company has undrawn term loans of ~Rs. 5,530 crore as of February 29, 2024; against the same, Grasim is expected to incur a capex of Rs. 4,800-5,000 crore in FY2025, towards setting-up remaining plants in paints business, in addition to the capex for existing businesses. The company's repayments stand at ~Rs. 1,270 crore in FY2025 substantially towards NCDs (~Rs 1,250 crore) and remaining towards term loans. Any incremental investment requirements in subsidiaries/JVs are expected to be low over the next 12-15 months. The company's credit profile also remains supported by significant financial flexibility arising from the market value of its investments in UCL (viz., over Rs. 1.6 lakh crore).

Environment and Social Risks

Environmental considerations – Grasim, being a commodity and specialty chemicals manufacturer, is exposed to regulations pertaining to water and soil emissions, which can have a potential bearing on the cost structure or may lead to higher capital outlay (for effluent treatment). The company's exposure to hazardous substances and waste materials, along with greenhouse gas emissions (from thermal power generation) and the generation, storage, treatment and disposal of hazardous substances and waste add to its environmental risk. ICRA believes that Grasim has expertise in complying with the norms and has incorporated procedures to address the said risks in their operational planning and business models. Further, it has been focusing on increasing renewable power usages at its various plants to reduce carbon emission. The VSF business has set a target to achieve net zero carbon emissions across all its operations by 2040.

Social considerations – The exposure of entities, which are involved in chemicals sectors, remains high to onsite health/safety related risks. Grasim has an established track record of being responsible and continues to mitigate these issues by adhering to the stipulated health and safety regulations/protocols. Nonetheless, operational incidents leading to injuries etc. continue to be reputational risk factor. Grasim, like most chemical manufacturers, has high dependence on human capital and knowledge. Thus, retaining human capital and maintaining healthy relationships with employees remain essential for the entity's disruption-free operations.

Rating sensitivities

Positive factors – NA

Negative factors – The ratings may be downgraded, if there is any significant and sustained weakening in the company's profitability and/or significantly more-than-expected increase in debt-funded capex or investment outlay, leading to weakening of its credit metrics. A significant decline in the market value of its investments, adversely impacting Grasim's financial flexibility, could also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals Policy On Withdrawal of Credit Rating
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone assessment of Grasim while factoring in the ordinary and extraordinary support that Grasim is expected to extend to its select material subsidiaries, which are enlisted in Annexure-II. ICRA has not factored in any support to UTCL, Vodafone Idea Limited and Hindalco Industries Ltd., as they operate in different businesses that have no significant operational linkages, and Grasim is not expected to provide unconstrained financial support to them. ICRA, however, continues to factor in the dividend inflows and financial flexibility arising from significant market value of its quoted investments in Group entities.

About the company

Incorporated in 1947, Grasim Industries Limited (Grasim), the flagship company of the Aditya Birla Group, is a ~US$ 19.3 billion conglomerate. On a standalone basis, its core businesses include viscose, chemical, paints, textile manufacturing and insulators. It is a leading global player in VSF (with an installed capacity of ~842 KTPA as of Dec 31, 2023) and is the largest chlor-alkali producer in India (1,359 KTPA). The viscose and chemicals segments together contributed ~90% to its standalone revenues in FY2023. In January 2021, Grasim announced its foray into the decorative paints business, with planned capital expenditure of Rs 10,000 crore to be spent over FY2023-FY2025. In July 2022, Grasim announced foray into B2B e-commerce platform for building materials segment, with investment outlay of Rs. 2,000 crore over the next 5-years.

On a consolidated basis, Grasim also has a strong presence in cement, financial services, fashion retail, telecommunications, and solar power generation industries. Its 57.27% subsidiary - Ultratech Cements - is the largest cement producer in India. In financial services, Grasim has presence through its 52.68% subsidiary Aditya Birla Capital Limited.

Key financial indicators (audited)

	FY2022	FY2023	9MFY2024*
Operating income	21,479	27,468	20,076
PAT	3,051	2,124	1,386
OPBDIT/OI	18.2%	14.2%	13.9%
PAT/OI	14.2%	7.7%	6.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	-
Total debt/OPBDIT (times)	1.1	1.4	-
Interest coverage (times)	15.8	10.6	-

*Source: Company, ICRA Research; * Limited results; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (Rs. crore)	Amount outstanding as of Apr 30, 2024, (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 15, 2024	May 17, 2023	May 19, 2022	Jan 31, 2022 Oct 12, 2021
1	Non-convertible debentures	Long-term	6,000.0	6,000.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial paper	Short-term	3,000.0	1,250.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-fund-based facilities	Long-term and short-term	4,000.0	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Commercial paper	Very Simple
Long-term/ Short -term – Non Fund-based facilities	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE047A08141	Non-convertible debentures	April 02, 2019	7.85%	Apr 15, 2024	500.0	[ICRA]AAA (Stable); Withdrawn
INE047A08158	Non-convertible debentures	June 04, 2019	7.6%	Jun 04, 2024	750.0	[ICRA]AAA (Stable)
INE047A08182	Non-convertible debentures	April 05, 2021	6.99%	Apr 04, 2031	1,000.0	[ICRA]AAA (Stable)
INE047A08190	Non-convertible debentures	June 10, 2022	7.5%	Jun 10, 2027	1,000.0	[ICRA]AAA (Stable)
INE047A08208	Non-convertible debentures	December 1, 2022	7.63%	Dec 1, 2027	1,000.0	[ICRA]AAA (Stable)
INE047A08216	Non-convertible debentures	August 1, 2023	7.35%	July 31, 2026	1,000.0	[ICRA]AAA (Stable)
INE047A08224	Non-convertible debentures	March 22, 2024	7.25%	March 22, 2034	1,250.0	[ICRA]AAA (Stable)
INE047A14917	Commercial paper	February 28, 2024	7.80%	May 29, 2024	100.0	[ICRA]A1+
INE047A14925	Commercial paper	March 07, 2024	7.72%	June 6, 2024	650.0	[ICRA]A1+
INE047A14933	Commercial paper	April 15, 2024	7.50%	October 11, 2024	500.0	[ICRA]A1+
NA	Commercial paper	Yet to be placed			1,750.0	[ICRA]A1+
NA	Letter of Credit	-	-	-	4,000.0	[ICRA]AAA (Stable)/ [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

Company Name	Grasim Ownership	Consolidation Approach
Aditya Birla Capital Limited (ABCL)	52.68%	Full Consolidation
Aditya Birla Renewables Limited (ABReL)	100.00%	Full Consolidation
Aditya Birla Solar Limited (ABSL)	100.00%	Full Consolidation

Source: annual report
Note: ABSL was subsequently merged with ABReL in July 2023

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

K Srikumar
+91 44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwari@icraindia.com

Astha Bansal
+91 124 4545 342
astha.bansal@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

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.

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

Branches