February 02, 2021

Grasim Industries Limited: Rating of [ICRA]AAA (Stable) assigned to proposed non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture (NCD) Programme	-	500.0	[ICRA]AAA (Stable); assigned
NCD Programme	2,000.0	2,000.0	[ICRA]AAA (Stable); outstanding
Commercial Paper (CP) Programme	3,000.0	3,000.0	[ICRA]A1+; outstanding
Total	**5,000.0**	**5,500.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reflect the leading presence of Grasim Industries Limited (Grasim) across its manufacturing businesses, its strong liquidity position and its healthy financial risk profile. Grasim is the flagship company of the Aditya Birla Group (the Group) and enjoys considerable financial flexibility as evinced in comfortable total debt (TD)/market value of investments of 4% as of January 25, 2021.

ICRA notes the susceptibility of Grasim's operating profit margins (OPM) to cyclicality in the demand for viscose staple fibre (VSF) and caustic soda, which had adversely impacted its operating performance in FY2020 and H1 FY2021. The latter was additionally impacted by Covid-19. While some recovery is expected in realisations of VSF in the near term led by demand recovery in the Indian and Chinese markets, the outlook on realisations for the chemicals segment remains challenging against the backdrop of continued excess supply.

The financial profile of the company had moderated in H1 FY2021 amid weakened accruals due to the pandemic. Grasim also resumed its capital expenditure (capex) plans for expanding capacities in the VSF and caustic soda segments as well as normal modernisation and maintenance capex in Q2 FY2021 and has guided for a total capex outlay of Rs. 1,852 crore in FY2021. Furthermore, it also has an expansion and normal modernisation and maintenance capex from FY2022 onwards, which is being reviewed by the management. While the above capex will entail additional debt funding, ICRA expects the overall financial profile of Grasim to remain healthy over the medium term aided by expected improvement in cash flows, especially in the VSF segment as well as its strong liquidity. In November 2020, Grasim announced the divestment of its fertilisers business for a lump-sum cash consideration of Rs. 2,649 crore (subject to adjustment due to change in working capital), expected to be received by H1 FY2022. The investment outlay towards its investee companies also remains limited for FY2021. For the medium term, ICRA continues to draw comfort from the management's stated guidance of prioritising investments towards capex requirements of its standalone business, followed by funding support to consolidating subsidiaries (primarily Ultratech Cement Limited or UCL and Aditya Birla Capital Limited or ABCL) as well as other investee companies, including Vodafone India Limited (VIL). Any greater than envisaged investment outlay will be a key rating sensitivity.

On January 22, 2021, Grasim announced its foray into the decorative paints segment with an initial capital expenditure of Rs. 5,000 crore over three years. While the outlook for the decorative paints segment is robust, ICRA notes the significant entry barriers and the current oligopolistic market structure. Grasim proposes to utilise the established distribution network of its 57.28% subsidiary, UCL's 'Birla White' brand and leverage the strong brand equity of the Group. ICRA would continue to monitor Grasim's capex implementation programme and profitability in this segment. The ability of the company to profitably expand the operations of this new business segment within a reasonable period of time, would be a key rating monitorable.

ICRA also notes the Competition Commission of India's (CCI's) order dated March 16, 2020, imposing a penalty of Rs. 301.6 crore in respect of the VSF turnover of the company as well as the demand of Rs. 3,786.4 crore[1] raised by the Deputy Commissioner of Income Tax (DCIT) on account of dividend distribution tax (DDT, including interest), pursuant to the composite Scheme of Arrangement between Grasim, Aditya Birla Nuvo Limited (ABNL) and Aditya Birla Financial Services Limited (now known as ABCL). The above matters are currently subjudice. ICRA would continue to monitor the developments in this regard.

Key Rating Considerations

Credit Strengths

Leadership position in the VSF and chemicals business – Grasim is the largest producer of VSF and has ~9% share in the global man-made fibre market. Its operations are highly integrated (80% backward integrated), with pulp plant and caustic soda capacity in India, two global dissolving pulp joint ventures, and captive thermal power plants, providing strong control over production costs. Currently, Grasim is also the largest caustic soda manufacturer in the country, with a capacity of 1,147 KTPA as on September 30, 2020.

Favourable market position in other manufacturing businesses – Besides VSF and chemicals, Grasim enjoys a leading market position in viscose filament yarn (VFY), linen yarn / fabric and insulator production in the country. Its subsidiary, UCL, is the leader in the domestic cement industry

Being part of the Aditya Birla Group offers considerable financial flexibility, which is further strengthened by significant market value of investments – Grasim is the flagship company of the Group with significant presence in diverse businesses and enjoys strong financial flexibility. Grasim also holds the Group's strategic investments in cement (UCL) and financial services businesses (grouped under ABCL; 54.24% subsidiary as on September 30, 2020), among others. The total debt (as on December 31, 2020)/ market value of investments (as on January 25, 2021) for Grasim stood at 4%, which further bolsters its financial flexibility.

Strong liquidity position and healthy financial profile – Healthy accruals over the past several years have resulted in a healthy financial profile for Grasim, despite investments in subsidiaries / related parties and ongoing capex. While Grasim was a cash surplus company till FY2019 (with total debt of Rs. 3,310.8 crore and free cash and liquid investments of Rs. 3,759.6 crore as on March 31, 2019, resulting in a net cash surplus of Rs. 448.8 crore), moderation in accruals in FY2020, additional investments of ~Rs. 3,760.5 crore in investee companies and ongoing capex, resulted in increased net debt (excluding lease liabilities) to Rs. 2,965 crore as on March 31, 2020. The financial profile of the company moderated further in H1 FY2021 amid weakened accruals due to the pandemic, though the net debt moderated to Rs. 2,329 crore as on September 30, 2020. Grasim has guided for a total capex outlay of Rs. 1,852 crore in FY2021 towards expanding capacities in the VSF and caustic soda segments as well as towards normal modernisation and maintenance capex. Grasim announced its foray into the decorative paints segment with an initial capital expenditure of Rs. 5,000 crore over three years . While this will entail additional debt funding, ICRA expects the overall financial profile to remain healthy over the medium term aided by expected improvement in revenues and profit margins, especially in the VSF segment, Grasim's strong competitive position in both the segments, its strong liquidity position (underpinned by its unencumbered cash and bank balances and liquid investments of Rs. 2,717.4 crore as on September 30, 2020 and unutilised fund-based limits of Rs. 523.8 crore as on December 31, 2020) as well as strict control on its working capital intensity of operations. Grasim has also announced the divestment of its fertilisers business in November 2020 for a lump-sum cash consideration of Rs. 2,649 crore (subject to adjustment due to change in working capital), which is to be received by H1 FY2022.

Credit challenges

Exposure to cyclicality associated with the VSF and chemicals businesses – The demand for VSF and chemicals businesses is cyclical and vulnerable to economic slowdown. The profitability in these segments also remains exposed to inter-fibre

[1] *Reduced from Rs. 5,872.3 crore vide DCIT order dated October 2020*

dynamics, input costs and industry capacity additions. This was visible in FY2020 and H1 FY2021, when owing to sizeable capacity expansions by global and domestic players, realisations and, thus, profitability for these segments witnessed a moderation, which was accentuated by the pandemic in H1 FY2021. While some recovery is expected in realisations of VSF in the near term led by demand recovery in the Indian and Chinese markets, the outlook on realisations for caustic soda remains challenging against the backdrop of excess supply due to new domestic (caustic soda) capacities commissioned during the last two years.

Lower returns from few of investment portfolio – Few of the investment portfolio of the company (ABCL, VIL) is currently valued lower than its book value[2]. Nonetheless, the company enjoys sizeable market value buffer with respect to its holding in UCL.

Liquidity position: Strong

The liquidity position of Grasim is strong, underpinned by its healthy cash flows, unencumbered cash and bank balance and liquid investments of Rs. 2,717.4 crore as on September 30, 2020 and unutilised fund-based limits of Rs. 523.8 crore[3] as on December 31, 2020. Grasim's credit profile is further supported by its strong financial flexibility. An important source of this flexibility is its 57.28% stake in UCL. The cash flows of the company are expected to improve over the medium term, aided by expected demand recovery in VSF segment. Grasim has also announced the divestment of its fertilisers business for a lump-sum cash consideration of Rs. 2,649 crore (subject to adjustment due to change in working capital), which is to be received by H1 FY2022. Grasim has a planned capex outlay of Rs. 1,852 crore in FY2021 for expanding capacities in the VSF and caustic soda segments as well as towards normal modernisation and maintenance capex. Furthermore, it also has an expansion and normal modernisation and maintenance capex for its VSF, VFY, chemicals and other businesses from FY2022 onwards, which is being reviewed by the management. In addition, it has an initial capex of Rs. 5,000 crore for the paints segment over three years. Grasim has long-term debt repayments of Rs. 278 crore over FY2021 to FY2022. Grasim has also provided a board-approved inter-corporate deposit (ICD) line to ABCL, which can be utilised by the latter in the event of a liquidity crunch.

Rating sensitivities

Positive factors – Not applicable

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

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Holding companies Corporate Credit Rating Methodology Rating methodology for Entities in the Chemicals industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company. Besides Grasim's standalone business, ICRA considers the expected dividend inflows and the potential funding requirement of the investee companies, which Grasim may have to support. ICRA also considers the credit quality of the investee companies and financial flexibility arising from the market value of Grasim's quoted equity investments in Group entities.

[2] *Fair Value Changes in financial investments gets routed through other comprehensive income*
[3] *Under consortium*

About the company

Grasim Industries Limited, the flagship company of the Aditya Birla Group, is a ~$10-billion conglomerate comprising businesses in VSF, chemicals, fertilisers, textiles and insulators on a standalone basis, and also includes cement and financial services at the consolidated level. It began as a textiles manufacturer in India in 1947. It is a leading global player in VSF, with a global market share of ~9% in terms of installed capacity, and the largest cement (through UCL; grey cement capacity of 114.8 million metric tonne per annum) and chlor-alkali producer in India.

The merger of ABNL with Grasim, through a composite scheme of amalgamation, was made effective on July 01, 2017. It was followed by demerger of the financial services business into a separate listed entity, ABCL. Post the scheme becoming effective, Grasim has emerged as a diversified conglomerate with presence in growth sectors such as financial services (life insurance, asset management, non-banking financial company, private equity, broking, wealth management, housing finance and general insurance advisory) and a leadership position in various manufacturing businesses such as VSF, cement, chemicals, linen, agri-business, rayon and insulators.

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	20,724.0	18,799.5
PAT (Rs. crore)	515.3	1,270.0
OPBDIT/OI (%)	20.8%	13.7%
PAT/OI (%)	2.5%	6.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.8	2.0
Interest Coverage (times)	21.7	8.5

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 (FY2021)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Earlier Rating	Date & Rating in FY2020			Date & Rating in FY2019			Date & Rating in FY2018
					Feb-2-2021	Jul-23-2020	Feb-24-2020	Feb-07-2020	Apr-24-2019	Mar-22-2019	Feb-05-2019	Oct-29-2018	Jul-28-2017
1	NCD	Long-term	500.0	-	[ICRA]AAA (Stable)	-	-	-	-	-	-	-	-
2	NCD	Long-term	1,700.0	1,450.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	NCD	Long-term	300.0	0.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-	-
4	CP	Short-term	3,000.0	1,250.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*****_As on December 31, 2020_

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
INE069A08046	NCD	May 10, 2013	9.00%	May 10, 2023	200.00	[ICRA]AAA (Stable)
INE047A08141	NCD	April 2, 2019	7.85%	April 15, 2024	500.00	[ICRA]AAA (Stable)
INE047A08158	NCD	June 4, 2019	7.60%	June 04, 2024	750.00	[ICRA]AAA (Stable)
-	NCD	Not placed yet	-	-	250.00	[ICRA]AAA (Stable)
-	Proposed NCD	-	-	-	300.00	[ICRA]AAA (Stable)
-	Proposed NCD	-	-	-	500.00	[ICRA]AAA (Stable)
INE047A14636	CP	March 11, 2020	5.75%	March 10, 2021	50.00	[ICRA]A1+
INE047A14636	CP	March 11, 2020	5.75%	March 10, 2021	250.00	[ICRA]A1+
INE047A14651	CP	April 27, 2020	5.65%	March 26, 2021	100.00	[ICRA]A1+
INE047A14651	CP	April 27, 2020	5.65%	March 26, 2021	100.00	[ICRA]A1+
INE047A14685	CP	July 13, 2020	4.00%	June 17, 2021	250.00	[ICRA]A1+
INE047A14727	CP	December 22, 2020	3.17%	March 23, 2021	200.00	[ICRA]A1+
INE047A14735	CP	January 20, 2021	3.51%	April 20, 2021	300.00	[ICRA]A1+
-	CP	Not placed yet			1750.0	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999