

October 12, 2021

Grasim Industries Limited- Update on Material Event

Summary of rating(s) outstanding

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

*Instrument details are provided in Annexure-1

Rationale

On October 1, 2021, Grasim Industries Limited (Grasim) informed the Bombay Stock Exchange about receipt of a draft assessment order from the Deputy Commissioner of Income Tax (DCIT). Based on draft order, demand for Assessment Year 2018-19 is estimated at Rs. 8,334 crore (including interest and excluding penalty). This order is a corollary to the earlier order, dated March 14, 2019, regarding dividend distribution tax (DDT) demand of ~Rs. 5,872 crore (later reduced to Rs. 3,786 crore by Commissioner of Income Tax (Appeal)). These matter pertains to the composite Scheme of Arrangement between Grasim, Aditya Birla Nuvo Limited (ABNL) and Aditya Birla Financial Services Limited (now known as Aditya Birla Capital Limited, ABCL). DCIT has held that the demerger of the financial service undertaking of the company with effect from July 4, 2017, is not in compliance with the Income Tax Act, 1961. Consequently, he has valued the shares issued by the ABCL at Rs. 24,037 Crore as the sale consideration for transfer of undertaking and has made addition of capital gains of Rs. 22,772 crore to the income of Grasim.

Impact of Material Event

As per the management, the demand is not tenable in law and the company would take necessary action(s) against the order. ICRA takes note of the order issued by DCIT and Grasim's response to the same. It will continue to monitor the developments in this regard.

The ratings continue to reflect the leading presence of Grasim across its manufacturing businesses, its strong liquidity position (free cash balances and liquid investments of ~Rs. 2,250 crore as on June 30, 2021, in addition to undrawn working capital limits), 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 3% as of June 30, 2021.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities, Key financial indicators: [Click here](#)

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.

About the company

Grasim Industries Limited, the flagship company of the Aditya Birla Group, is a ~USD 13-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)

	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	16,272.0	12,601.3	3762.7
PAT (Rs. crore)	1,288.0	905.0	481.6
OPBDIT/OI (%)	14.8%	14.6%	19.7%
PAT/OI (%)	7.9%	7.2%	12.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	-
Total Debt/OPBDIT (times)	2.1	2.3	-
Interest Coverage (times)	10.1	7.8	12.7

Source: Company Annual report/Published results

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

Instru ment	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) As on Sep 30, 2021	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019 [^]
				Oct 12, 2021	Feb 2, 2021	July 23, 2020	Feb 24, 2020 Feb 07, 2020 Apr 24, 2019	Mar 22, 2019 Feb 05, 2019 Oct 29, 2018	
1	NCD	Long-term	2,500.0	2,450.0*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	CP	Short-term	3,000.0	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Rs. 50 crore NCD limits not placed

[^]A PR for delay in periodic surveillance was published on Aug 30, 2018

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debenture Program	Simple
Commercial Paper Program	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 analyzing 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, is available on ICRA's 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
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)
INE047A08166	NCD	Feb 17, 2020	6.65%	Feb 17, 2023	500.0	[ICRA]AAA (Stable)
INE047A08174	NCD	Jun 17, 2020	5.90%	Jun 17, 2023	500.0	[ICRA]AAA (Stable)
-	NCD	Not placed yet	-	-	50.0	[ICRA]AAA (Stable)
-	Commercial Papers	Not placed	-	-	3,000.0	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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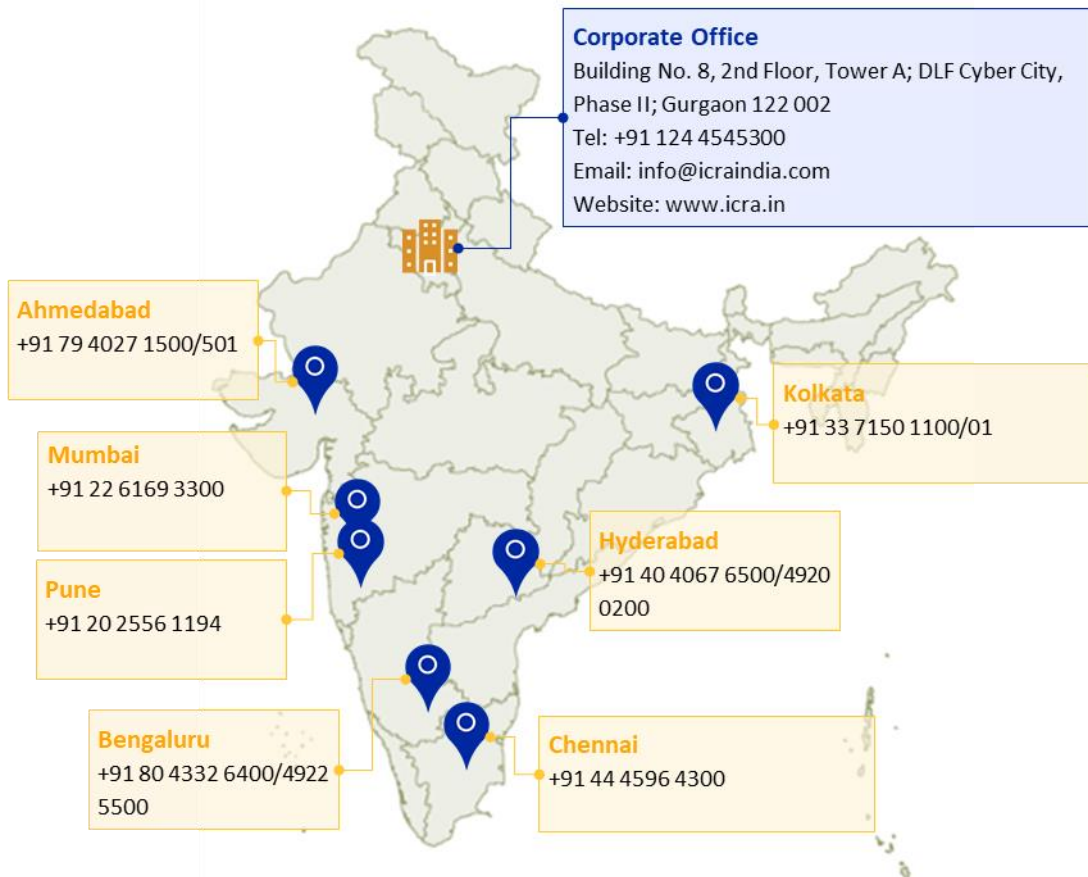
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