

May 19, 2022

Grasim Industries Limited: Ratings assigned to proposed non-convertible debenture programme and bank facilities; reaffirmed for existing limits

Summary of rating(s) action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture (NCD) Programme	-	2,000.0	[ICRA]AAA (Stable); assigned
Long-term/Short-term Non-fund based limits	-	4,000.0	[ICRA]AAA (Stable) /[ICRA]A1+; assigned
NCD Programme	2,500.0	2,500.0	[ICRA]AAA (Stable); reaffirmed
Commercial Paper (CP) Programme	3,000.0	3,000.0	[ICRA]A1+; reaffirmed
Total	5,500.0	11,500.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings reflect Grasim Industries Limited's (Grasim) strong business profile, as evidenced by its large-scale integrated operations, established brand, and diversified presence with leadership position in the domestic viscose staple fibre (VSF), viscose filament yarn (VFY), caustic soda and chlorine derivative chemical industries. The rating also continues to favourably factor in its strong financial profile, reflected in its healthy liquidity and comfortable leverage and debt coverage metrics. In addition, the ratings also take comfort from the considerable financial flexibility enjoyed by the company, arising from being the flagship company of the Aditya Birla Group and from the significant market value of its investments in Ultratech Cements Limited (~57% stake in UCL, rated [ICRA]AAA(Stable)/A1+).

Despite the demand disruption caused by the pandemic in H1 FY2021, the strength of Grasim's business profile reflected in a fast recovery in its capacity utilisations and profitability to pre-pandemic levels in H2 FY2022. In H1 FY2022, while input cost pressures and freight issues in international markets persisted, higher realisation for VSF (given the unabated surge in cotton prices), higher share of specialty products, healthy demand for advanced materials (epoxy) and textiles, coupled with fixed cost savings, helped Grasim post strong performance in Q2-Q3 FY2022. Release of sizeable pending fertiliser subsidies by the Government and higher dividend pay-out from UCL (~Rs. 610 crore in H1 FY2022) also supported the company's cash flows. Consequently, Grasim (at standalone level) was able to significantly reduce its net debt from ~Rs. 3,000 crore in March 2020 to ~Rs. 1,428 crore by Dec-2021. The company neared completion of its Rs. 7,700-crore capex cycle towards expanding capacities in the VSF and caustic soda segments as well as normal modernisation by end of FY2022. The ramp-up of these enhanced capacities, coupled with continued focus on backward integration in the chemical segment (viz. increasing chlorine usage in value added products) is expected to drive its revenues and profitability in the medium term. While the planned capex towards the paint business would entail some debt funding, the overall debt coverage metrics for the company are expected to remain comfortable.

The investment outlay towards its investee companies is also expected to remain limited over the near-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 Aditya Birla Capital Limited (ABCL) and renewable energy business) as well as other investee companies. Any greater-than-envisaged investment outlay will continue to remain a key rating sensitivity.

ICRA notes that Grasim's performance remains exposed to the inherent cyclicity in the VSF and caustic soda businesses which lead to fluctuation in realisations and profitability. Furthermore, the company's return indicators (return on capital employed, RoCE, of <4% in FY2020 and FY2021) remain subdued as large part of the assets are deployed in strategic investments, yielding minimal returns. However, Grasim's proven ability to rationalise cost and multipronged strategies to enhance presence in return accretive segments provide comfort. The company has been focusing on increasing the share of value-added products in both viscose and chemical businesses, has divested its fertiliser business in FY2022 (will improve overall working capital cycle by reducing receivable period) and planned a large-scale foray into the decorative paints segment (initial capital outlay of Rs. ~5,000 crore). While the outlook for the decorative paints segment is robust, Grasim's ability to profitably expand the operations of this new business segment within a reasonable period, remains to be seen.

ICRA has previously taken note that an estimated demand of Rs. 8,334 crore (including interest and excluding penalty) is possible based on a draft order from the Deputy Commissioner of Income Tax (DCIT) received in October 2021, pertaining to assessment year 2018-19. The said order is a corollary to the earlier order regarding dividend distribution tax (including interest) of Rs. 3,786 crore by the Commissioner of Income Tax (Appeal), which is sub judice. Both these demands pertain 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). As per the management, the demands are not tenable in law and the company has taken/would take necessary action(s) against the orders. ICRA would continue to monitor the developments in this regard and take appropriate rating action if required.

The Stable outlook reflects ICRA's expectation that Grasim will continue to maintain a robust credit profile, aided by its strong business profile and expectations of healthy cash flows. The entity is expected to continue to maintain a significant financial flexibility, being a key holding company for the Aditya Birla Group for various investments, while prudently managing its various expansion and diversification initiatives within its stated leverage targets.

Key rating drivers and their description

Credit strengths

Leadership position in the VSF and chemicals industries; significant presence in other manufacturing businesses – Grasim is the largest producer of VSF in the country (701 MTPA capacity) and among the top 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. Currently, Grasim is also the largest caustic soda manufacturer in the country, with a capacity of 1,264 KTPA as on December 31, 2021. 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, UTCL, is the leader in the domestic cement industry.

Strong financial risk profile – Steady cash accruals over the past several years resulted in a healthy financial profile for Grasim, despite sizeable capex and investments in subsidiaries/JVs. In 9M FY2022, despite the pandemic-induced disruptions to performance and ongoing capex programme, favourable working capital cycle developments (receipt of subsidy in fertiliser business) and better business performance led to an improvement in Grasim's net leverage position (Net debt/ OPBDITA reduced to 0.33x in Dec 2021 from 0.6x in Mar-21 and 1.1x in Mar-20). The interest coverage also improved and continued to remain comfortable at 14.8x in 9m FY2022 vis-à-vis 7.8x in FY2021 and 10.1x in FY2020. In FY2022, the company neared the completion of its Rs. 7,700-crore capex cycle for its VSF and chemical businesses; however, it has lined up a sizeable capex towards its decorative paints segment (Rs. 5,000 crore over three years). While this will entail additional debt funding and increase leverage, the overall financial profile of Grasim is expected to remain healthy, aided by expected improvement in demand, ramp-up of enhanced capacities (especially in the VSF segment), leadership position in both the segments and its strong liquidity position and comfortable working capital cycle (following the sale of the fertiliser business, which entailed a long receivable period).

Significant financial flexibility arising from market value of investment portfolio – Grasim is the flagship company of the Aditya Birla Group with significant presence in diverse businesses and enjoys strong financial flexibility on a standalone basis. Additionally, it holds the Group's strategic investments in cement (UTCL, 57.27% as on March 31, 2022) and financial services businesses (grouped under ABCL; 54.18% subsidiary as on March 31, 2022). The total debt (as on March 31, 2022)/ market value of investments (as on May 9, 2022) for Grasim stood at ~3%, which further supports its financial flexibility. While incremental investments in subsidiary and JVs have remained limited over the past two years (FY2021 and FY2022) and are expected to be marginal (Rs. 200-300 crore p.a.) in the medium term, any higher-than-envisaged investment outlay remains monitorable.

Credit challenges

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

Risks associated with new business entry; significant capex commitments to moderate leverage and debt coverage indicators over near to medium term – The company is nearing completion of its Rs. 7,700-crore expansion capex (in both VSF and chemicals), which commenced in FY2019. Additionally, in FY2021, Grasim decided to foray into decorative paints with an initial capital outlay of ~Rs. 5,000 crore, to be deployed over a period of three years. These capex initiatives are planned to be met through a mix of debt and internal accruals. While the company's debt levels increase, the business will take time to ramp-up and start contributing to profitability. This will impact the net leverage and debt coverage metrics of the company over the near to medium term. 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 flows from operations in addition to unencumbered cash and bank balance and liquid investments of nearly Rs. 4, 400 crore¹. Its credit profile is further supported by significant financial flexibility from the market value of its investments in UCL (viz., over Rs. 1.05 lakh crore). Against the same, Grasim is expected to incur a capex of ~Rs. 5,000 over the next 15 months for expanding capacities (in the Chemical business), setting capacities for its paint business, and normal modernisation and maintenance capex; the same is expected to be partly debt-funded. In addition, it has NCD and term loan repayments of ~Rs. 1,100 in FY2023. While incremental investment requirements in subsidiaries/ JVs are expected to be marginal (Rs. 200-300 crore p.a.) over the next 12-15 months, Grasim has provided a board-approved inter-corporate deposit (ICD) line to ABCL, which may be utilised by the latter in the event of a liquidity crunch. Given its strong credit profile, ICRA does not anticipate Grasim to face any major financing constraints or refinancing risk.

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. Significant decline in the market value of its investments, that adversely impacts Grasim's financial flexibility, could also be a negative factor.

¹ Excluded Rs. 777 crore MFs, which are lien marked for appeal made to the income tax department, as disclosed in Annual Report FY2021.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating approach - Consolidation Rating methodology for Entities in the Chemicals industry
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, the flagship company of the Aditya Birla Group, is a ~\$12-billion business conglomerate. On a standalone basis, its core businesses include chemical and textile manufacturing, apart from insulators. It is a leading global player in viscose staple fibre (with an installed production capacity of ~800 KTPA) and the largest chlor-alkali producer in India (installed production capacity of 1,264 KTPA). In January 2021, Grasim announced its foray into the decorative paints business, with an initial capital expenditure of Rs. 5,000 crore to be spent over the next 2.5-3 years.

On a consolidated basis, Grasim also has a strong presence in cement, financial services, fashion retail, telecommunications, and renewable power generation industries. Its 57.27% subsidiary, UTCL, is the largest cement producer in India. In financial services, Grasim has presence through its 54.18% subsidiary, ABCL, which is among the top five financial companies in India.

Key financial indicators (audited)

	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	16,272.0	12,601.3	14,480.5
PAT (Rs. crore)	1,288.0	905.0	1,983.3
OPBDIT/OI (%)	14.8%	14.6%	17.0%
PAT/OI (%)	7.9%	7.2%	13.7%
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	14.8

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

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) As on Mar 31, 2021	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 19, 2022	Jan 31, 2022 Oct 12, 2021	Feb 2, 2021 Jul 23, 2020	Feb 24, 2020 Feb 07, 2020 Apr 24, 2019
1	NCD	Long-term	2,500.0	2,450.0*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	CP	Short-term	3,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	NCD (proposed)	Long-term	2,000.0	-	[ICRA]AAA (Stable)	-	-	-
4	Letter of Credit	Long-term/ Short-term	4,000.0	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-

*Rs. 50 crore NCD limits not placed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debenture Program	Simple
Commercial Paper Program	Very Simple
Non-Convertible Debenture Program (proposed/ not placed)	Not Applicable*
Letter of Credit	Very Simple

* subject to change once the terms are finalized.

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, is available on ICRA's website: www.icra.in

Annexure I: 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)
INE047A08182	NCD	April 5, 2021	6.99%	April 4, 2031	1,000.0	[ICRA]AAA (Stable)
-	NCD	Not placed yet	-	-	50.0	[ICRA]AAA (Stable)
-	Proposed NCD	-	-	-	2,000.0	[ICRA]AAA (Stable)
INE047A14792	Commercial Papers	Apr 13, 2022	-	Jun 28, 2022	500.0	[ICRA]A1+
-	Commercial Papers	Not placed	-	-	2,500.0	[ICRA]A1+
-	Letter of Credit	Multiple	-	-	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	54.18%	Full Consolidation
Aditya Birla Renewables Limited	100.00%	Full Consolidation
Aditya Birla Solar Limited	100.00%	Full Consolidation

Source: Company Annual Report FY2021; BSE filings of listed entity

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