

May 17, 2023

Grasim Industries Limited: Ratings reaffirmed; assigned to proposed non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (proposed)	-	2,000.0	[ICRA]AAA (Stable); assigned
Non-convertible debentures	4,500.0	4500.0	[ICRA]AAA (Stable); reaffirmed;
Long-term/short-term non fund-based facilities (letter of credit)	4000.0	4000.0	[ICRA]AAA (Stable) /[ICRA]A1+; reaffirmed
Commercial paper	3000.0	3000.0	[ICRA]A1+; reaffirmed
Total	11,500.0	13,500.0	

*Instrument details are provided in Annexure-I.

Rationale

The ratings reflect Grasim Industries Limited's (Grasim) strong business profile, evident from its large-scale integrated operations, established brand, and diversified presence with leadership position in the domestic viscose staple fibre (VSF), viscose filament yarn (VFY) and caustic soda industries. The ratings also continue to favourably factor in its healthy liquidity and comfortable leverage and debt coverage metrics. In addition, the ratings take comfort from the considerable financial flexibility enjoyed by Grasim, 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+).

The strength of Grasim's business profile was well reflected in a fast recovery in its capacity utilisations and profitability to pre-pandemic levels by the end of FY2022. In 9M FY2023, revenue growth was driven by higher volumes in the viscose business (volume sales for VSF was up by 22% in 9M FY2023 despite a weak third quarter), incremental sales of chlorine derivatives (volume up by 14% YoY on account of new chloromethane facility commissioned in FY2022) and caustic soda (volume improved by 11% YoY during the period). Additionally, higher dividend payout from UCL (~Rs. 628 crore in H1 FY2023) supported the company's cash flows. However, Grasim's (at standalone level) net debt was higher on account of increased capex allocation towards the paint division (Rs 10,000 crore). The company is also nearing completion of its Rs. 7,700-crore capex towards enhanced capacities and improving backward integration in the chemical segment (viz. increasing chlorine usage in value-added products). The capex towards the viscose segment is already complete. All these investments are expected to drive Grasim's revenues and profitability in the medium term, even as the planned capex towards the paint business and associated debt funding will constrain the overall debt coverage metrics for the company.

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 be a key rating sensitivity.

ICRA notes that Grasim's performance remains exposed to the inherent cyclicality in the VSF and caustic soda businesses, which lead to fluctuations in realisations and profitability. Further, the company's return indicators (return on capital employed, RoCE, of 2.9% in FY2021 and 7.1% in FY2022) remain subdued, as large part of the assets is deployed in strategic investments, yielding minimal returns. However, Grasim's proven 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 both the viscose and chemical businesses, divesture of the fertiliser business in FY2022 and large-scale foray into the decorative paints segment (initial capital outlay of ~Rs. 10,000 crore) are proactive steps in this regard. 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.

The Stable outlook reflects ICRA's expectations 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 (824-MTPA 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 1,311 KTPA as on December 31, 2022. 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 57.27% subsidiary, UTCL, is the leader in the domestic cement industry.

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. In 9M FY2023, while the ongoing capex programme and pressure on margins led to moderation of the interest coverage ratio (at 15.8 times in FY2022), the net leverage position remains low for Grasim (Net Debt/ OPBDITA at ~ 0.1 times in December 2022). As the company nears completion of its Rs. 7,700-crore capex cycle for its VSF and chemical businesses, and proceeds on the Rs. 10,000 crore of capex towards its decorative paints segment (over the next three to five years), debt funding and leverage are expected to increase, leading to weakening of the leverage and coverage indicators. However, the overall financial profile of Grasim is expected to remain healthy, aided by expected improvement in demand for the key end-user segment - VSF, ramp up of enhanced capacities, leadership position across segments 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 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, 2023) and financial services businesses (grouped under ABCL; 54.15% subsidiary as on March 31, 2023). The total debt (as on March 31, 2023)/market value of investments (as on May 9, 2023) for Grasim stood at ~3%, which lends the company significant financial flexibility. While incremental investments in subsidiaries and JVs have remained limited over the past two years (FY2022 and FY2023) and are expected to be largely limited to the planned investments in the renewables business over the near to 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 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.

Significant capex commitments towards foray into new business segments to moderate credit metrics – Grasim announced its foray into decorative paints with a capital outlay of ~Rs. 10,000 crore, to be deployed over a period of three to five years (~Rs 1,800 crore already incurred at end of 9M FY2023). Additionally, in June 2022, the company announced ~Rs. 2,000 crore of capex towards B2B e-commerce platforms. 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; the same will thus impact the net leverage and debt coverage metrics of the company over the near to medium term. In this regard, the company’s ability to commercialise the facilities in a timely manner and achieve a healthy ramp-up post commercialisation, 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 flows from operations in addition to unencumbered cash and bank balance and liquid investments of ~Rs. 5,090 crore as of December 2022. Its credit profile is further supported by significant financial flexibility from the market value of its investments in UCL (viz., over Rs. 1.3 lakh crore). Against the same, Grasim is expected to incur a capex of ~Rs. 10,000- 12,000 crore over the next two years, towards setting capacities for its paint and B2B e-commerce divisions, in addition to capex for existing businesses. In addition, it has NCD and term loan repayments of ~Rs. 770 crore in FY2024. While incremental investment requirements in subsidiaries/JVs are expected to be relatively lower 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.

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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
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, the flagship company of the Aditya Birla Group, is a ~US\$ 66 billion conglomerate. On a standalone basis, its core businesses include viscose, chemical, textile manufacturing and insulators. It is a leading global player in viscose staple fibre (VSF, with an installed capacity of ~824 KTPA) and largest chlor-alkali producer in India (installed capacity of 1,311 KTPA). 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 the next three to five years. Further, in July 2022, Grasim

announced foray into B2B e-commerce platform for the building materials segment, with investment outlay of Rs. 2,000 crore over the next five years.

On a consolidated basis, Grasim also has a strong presence in the 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 subsidiary Aditya Birla Capital Limited (54.17%).

Key financial indicators (audited)

	FY2021	FY2022	9MFY2023
Operating income	12,601.3	21,479.0	20,821.9
PAT	905.0	3,051.3	2,030.2
OPBDIT/OI	14.6%	18.2%	16.2%
PAT/OI	7.2%	14.2%	9.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	NA
Total debt/OPBDIT (times)	2.3	1.1	1.3
Interest coverage (times)	7.8	15.8	13.0

Amount in Rs crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
All calculations are as per ICRA Research; Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Apr 30, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
						May 17, 2023	May 19, 2022	Jan 31, 2022 Oct 12, 2021
1 Non-convertible debentures	Long-term	2,500.0	2,450.0*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Non-convertible debentures	Long-term	2,000.0	2,000.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	
3 Commercial paper	Short-term	3,000.0	500.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Non-convertible debentures (proposed)	Long-term	2,000.0	-	[ICRA]AAA (Stable)	-	-	-	
5 Non-fund-based facilities	Long-term and short-term	4,000.0	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	

*Rs. 50 crore NCD limits not yet placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Commercial paper	Very Simple
Non convertible debentures (Proposed/ not placed)	Simple*
Long-term/ Short -term – Non Fund-based facilities	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 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	7.9%	Apr 15, 2024	500.0	[ICRA]AAA (Stable)
INE047A08158	Non-convertible debentures	June 04, 2019	7.6%	Jun 04, 2024	750.0	[ICRA]AAA (Stable)
INE047A08182	Non-convertible debentures	April 05, 2021	7.0%	Apr 04, 2031	1000.0	[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	7.6%	Dec 1, 2027	1,000.0	[ICRA]AAA (Stable)
Not placed	Proposed Non-convertible debenture	Not Placed	NA	NA	250.0	[ICRA]AAA (Stable)
Not placed	Proposed Non-convertible debenture	Not Placed	NA	NA	2,000.0	[ICRA]AAA (Stable)
INE047A14800	Commercial paper	April 17, 2023	6.95%	Jun 27, 2023	500.0	[ICRA]A1+
Not placed	Commercial paper	Not Placed	NA	NA	2,500.0	[ICRA]A1+
NA	Letter of Credit	Multiple	NA	NA	4,000	[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: Annual Report

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