December 09, 2024

Grasim Industries Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	5,250.0	5,250.0	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	750.0	0.0	ICRA]AAA (Stable); reaffirmed and withdrawn
Non-convertible debentures (Proposed)	-	2,000.0	[ICRA]AAA (Stable); assigned
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	**13,000.0**	**14,250.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings reflect Grasim Industries Limited's (Grasim) strong business profile, evident from its established brand, large-scale integrated operations, and diversified presence, along with leadership position in the domestic cellulosic staple fibre (CSF), cellulosic fashion yarn (CFY) and caustic soda industries. The ratings continue to favourably factor in Grasim's healthy liquidity, comfortable leverage and debt coverage metrics. 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 company's operational performance witnessed some moderation in FY2024, in terms of its revenues and operating margins (YoY decline of ~4% in revenues), owing to subdued demand across international markets, cheaper imports in the CSF segment and associated fall in realisations in the viscose and caustic soda segments. Additionally, ongoing investments for ramping up the paints and B2B e-commerce segments contributed to the moderation. Although the entity's standalone operating performance, in terms of operating profits, moderated in H1 FY2025, 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 capital expenditure (capex) allocation towards the paint division (~Rs. 10,000 crore to be incurred over FY2023-FY2025: ~Rs. 8,470 crore incurred till September 2024); ICRA notes that three plants (nearly half of the total capacity being setup) were commercialised in April 2024, and the capex for the remaining three plants is progressing as scheduled. Apart from the paints business, the company's other new venture, B2B e-commerce for building materials, is also being ramped up. In the existing businesses, the company has planned capex of Rs. 1,694 crore in FY2025 (of which, Rs. 467 crore has been incurred in H1 FY2025) towards capacity enhancement, including debottlenecking and improving backward integration in the chemical segment (viz. increasing chlorine usage in value-added products) and the capex towards the viscose segment. These investments are expected to drive Grasim's revenues and profitability over the medium term. However, the remaining debt-funded capex for the paint business, along with the initial investments for its ramp-up, is likely to constrain the company's overall debt coverage metrics in the near term.

To keep the leverage in check, Grasim's board approved raising up to Rs. 4,000 crore in October 2023 to fund its ongoing capex, repay its existing borrowings and general corporate purposes. The company received part of the proceeds of Rs. 2,000 crore till H2 FY2024 and is expected to receive the balance in Q4 FY2025. This timely fund raise provides comfort to the management plans to keep the leverage at manageable levels. ICRA also notes the comfortable residual debt tenor of Grasim's long-term loans, with no significant debt repayments over the next three years (following the ongoing refinancing of the NCD). The investment outlay towards its investee companies is likely to remain low and largely limited to the 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 Aditya Birla Capital Limited (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 CSF and caustic soda businesses. Further, the company's return indicators (return on capital employed, RoCE, of 3.1 % in FY2024) remain subdued, as a 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. 750 crore (ISIN INE047A08158), as the same has been fully redeemed on the due date in line with ICRA's withdrawal policy.

Key rating drivers and their description

Credit strengths

Leadership position in CSF and chemicals industries; significant presence in other manufacturing businesses – Grasim is the largest producer of CSF 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 March 31, 2024 (with plans to increase it to 1,530 KTPA by FY2025). Besides CSF and chemicals, Grasim enjoys a leading market position in CFY, 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 have led to some moderation in the interest coverage ratio (stood at 6.8 times in FY2024 against 15.8 times in FY2022) and the net leverage position (net debt/ OPBDITA at ~ 2.2 times as on March 31, 2024). 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, Grasim's overall financial profile is expected to remain healthy and improve over the medium term, aided by the expected increase in demand for the key end-user segment - CSF, 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 a 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 September 30, 2024) and financial services businesses (grouped under ABCL; 52.58% as on September 30, 2024). The total debt/market value of investments (as on December 06, 2024) for Grasim stood at less than ~0.04 times, allowing the company to enjoy significant financial flexibility.

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[1] KTPA: Kilo tonne per annum

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.

Credit challenges

Exposure to cyclicality associated with CSF and chemicals businesses – The demand for CSF 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 – Grasim is executing a significant capex, with the capital outlay of ~Rs. 10,000 crore into decorative paints over FY2023-FY2025. Of this, ~Rs. 8,470 crore has been incurred till September 30, 2024, accounting for 85% of the planned capex. Additionally, the company announced undertaking ~Rs. 2,000 crore of capex towards B2B e-commerce platforms in June 2022 (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

Grasim's liquidity profile is expected to remain strong, backed by healthy cash flows, in addition to unencumbered cash and bank balance and liquid investments of ~Rs. 3,427 crore as on September 30, 2024. The pending amount of ~Rs. 2,000 crore under the rights issue also supports the company's liquidity. The company has undrawn term loans of ~Rs. 3,400 crore as on December 5, 2024. Grasim is expected to incur a capex of Rs. 2,800 crore in H2FY2025 and Rs. 2,000-2,200 crore in FY2026 towards setting up the remaining facilities of the paints business, in addition to the capex for existing businesses and maintenance. The company's repayments are ~Rs. 1,270 crore for FY2025, substantially towards NCDs (~Rs. 1,250 crore), which have already been paid. After the proposed refinancing of the Rs. 1,000 crore NCD, the company's annual repayments are to the tune of Rs. 39 crore in FY2026 and Rs. 100.9 crore in FY2027. 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 its significant financial flexibility stemming 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 speciality 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 its operational planning and business models. Further, it has been focusing on increasing renewable power usage in its various plants to reduce carbon emissions. The CSF business has set a target to achieve net-zero carbon emissions across all its operations by 2040.

Social considerations – Entities operating in the chemicals sector, including Grasim, remain exposed to significant on-site 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 continue to be a reputational risk factor. Grasim, like most chemical manufacturers, has a 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 a 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 the significant market value of its quoted investments in Group entities.

Note (for analyst reference only):

About the company

Incorporated in 1947, Grasim Industries Limited (Grasim), the flagship company of the Aditya Birla Group, is a ~$ 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 CSF (with an installed capacity of ~842 KTPA as on December 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 a foray into the decorative paints business, with a planned capex of Rs. 10,000 crore to be spent over FY2023-FY2025. In July 2022, Grasim announced foray into the B2B e-commerce platform for the building materials segment, with an 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 a presence through its 52.58% subsidiary Aditya Birla Capital Limited.

Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025
Operating income	27,468	26,476	15,904
PAT	2,124	945	669
OPBDIT/OI	14.2%	11.4%	12.8%
PAT/OI	7.7%	3.6%	4.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.4
Total debt/OPBDIT (times)	1.4	3.2	2.6
Interest coverage (times)	10.6	6.8	6.8

*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

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	09-Dec-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term / short term-letter of credit-non fund based	Long Term/Short Term	4,000.00	[ICRA]AAA (Stable)/[ICRA]A1+	15-MAY-2024	[ICRA]AAA (Stable)/[ICRA]A1+	17-MAY-2023	[ICRA]AAA (Stable)/[ICRA]A1+	19-MAY-2022	[ICRA]AAA (Stable)/[ICRA]A1+	-	-
Commercial paper	Short Term	3,000.00	[ICRA]A1+	15-MAY-2024	[ICRA]A1+	17-MAY-2023	[ICRA]A1+	19-MAY-2022	[ICRA]A1+	12-OCT-2021	[ICRA]A1+
				-	-	-	-	-	-	31-JAN-2022	[ICRA]A1+
NCD (Proposed)	Long Term	2,000.00	[ICRA]AAA (Stable)	-	-	-	-	-	-	-	-
NCD	Long Term	2,000.00	[ICRA]AAA (Stable)	15-MAY-2024	[ICRA]AAA (Stable)	17-MAY-2023	[ICRA]AAA (Stable)	19-MAY-2022	[ICRA]AAA (Stable)	12-OCT-2021	[ICRA]AAA (Stable)
				-	-	17-MAY-2023	[ICRA]AAA (Stable)	19-MAY-2022	[ICRA]AAA (Stable)	31-JAN-2022	[ICRA]AAA (Stable)
NCD	Long Term	2,000.00	[ICRA]AAA (Stable)	15-MAY-2024	[ICRA]AAA (Stable)	17-MAY-2023	[ICRA]AAA (Stable)	19-MAY-2022	[ICRA]AAA (Stable)	12-OCT-2021	[ICRA]AAA (Stable)
				-	-	17-MAY-2023	[ICRA]AAA (Stable)	19-MAY-2022	[ICRA]AAA (Stable)	31-JAN-2022	[ICRA]AAA (Stable)
NCD	Long Term	1250.00	[ICRA]AAA (Stable)	15-MAY-2024	[ICRA]AAA (Stable)	17-MAY-2023	[ICRA]AAA (Stable)	19-MAY-2022	[ICRA]AAA (Stable)	12-OCT-2021	[ICRA]AAA (Stable)
				-	-	17-MAY-2023	[ICRA]AAA (Stable)	19-MAY-2022	[ICRA]AAA (Stable)	31-JAN-2022	[ICRA]AAA (Stable)

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
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)
INE047A08158	Non-convertible debentures	June 04, 2019	7.6%	June 04, 2024	750.0	[ICRA]AAA (Stable); Withdrawn
Proposed	Non-convertible debentures	NA	NA	NA	2,000	[ICRA]AAA (Stable)
INE047A14AD0	Commercial paper	December 03,2024	7.22%	February 25, 2025	200.0	[ICRA]A1+
INE047A14AD0	Commercial paper	December 03,2024	7.22%	February 25,2025	200.0	[ICRA]A1+
INE047A14982	Commercial paper	September 10,2024	7.23%	December 10,2024	500.0	[ICRA]A1+
INE047A14990	Commercial paper	October 11,2024	7.21%	January 10,2025	500.0	[ICRA]A1+
INE047A14AA6	Commercial paper	October 17,2024	7.14%	January 16,2025	100.0	[ICRA]A1+
INE047A14AA6	Commercial paper	October 17,2024	7.14%	January 16,2025	100.0	[ICRA]A1+
INE047A14AA6	Commercial paper	October 17,2024	7.14%	January 16,2025	250.0	[ICRA]A1+
INE047A14AA6	Commercial paper	October 17,2024	7.14%	January 16,2025	50.0	[ICRA]A1+
INE047A14AB4	Commercial paper	November 26,2024	7.18%	February 14,2025	100.0	[ICRA]A1+
INE047A14AC2	Commercial paper	November 29,2024	7.21%	February 28,2025	500.0	[ICRA]A1+
NA	Commercial paper	Yet to be placed			500.0	[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)	52.58%	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

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