

July 23, 2020 <sup>Revised</sup>

## 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	-	300.0	[ICRA]AAA (Stable); assigned
NCD Programme	1,700.0	1,700.0	[ICRA]AAA (Stable); outstanding
Commercial Paper (CP) Programme	3,000.0	3,000.0	[ICRA]A1+; outstanding
<b>Total</b>	<b>4,700.0</b>	<b>5,000.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reflect the leading presence of Grasim Industries Limited (Grasim) across manufacturing businesses such as viscose staple fibre (VSF), chemicals (chlor-alkali and other value-added products), viscose filament yarn (VFY), textiles (linen and woollen fabric), fertilisers (urea) and insulators (porcelain) in India. Grasim's financial risk profile is robust, as characterised by strong cash flows and healthy capital structure, debt coverage indicators and strong liquidity position. Being the flagship company of the Aditya Birla Group (the Group), Grasim enjoys considerable financial flexibility. While majority of the investment portfolio of the company is currently valued lower vis-à-vis its book value, the company enjoys sizeable market value buffer with respect to its holding in UltraTech Cement Limited (UTCL; a 57.28% subsidiary as on March 31, 2020). This had resulted in a comfortable total debt / market value buffer of investments (as on July 7, 2020) of 11%.

The near-term outlook on demand and realisations for both VSF and caustic soda remains challenging, aggravated by the lockdown imposed due to the Covid-19 pandemic. These segments were already witnessing significant pressure on realisations during FY2020. Global VSF prices remained weak in FY2020, amid increased capacities over the last one-and-a-half years. Coupled with the ongoing trade tensions between the US and China, this led to weakening of domestic VSF prices. The demand for VSF was also impacted by the surge in yarn imports during Q2 FY2020 and Q3 FY2020. As regards to caustic soda, the domestic prices saw sharp correction towards the end of Q1 FY2020, owing to surge in imports following the receipt of BIS<sup>1</sup> certifications by importers, a requirement made mandatory for caustic soda exports to India in FY2019. New domestic (caustic soda) capacities commissioned during FY2019 and FY2020 additionally put pressure on realisations. This also led to a decline in Grasim's overall operating profit margin (OPM) to 13.6% in FY2020, over 20.8% in FY2019.

Despite the above, ICRA draws comfort from the strong liquidity position of Grasim, underpinned by its unencumbered cash balance and liquid investments of Rs. 2,093 crore and unutilised fund-based limits of Rs.477.5 crore<sup>2</sup> as on March 31, 2020. Given the demand slowdown in Grasim's business segments following the pandemic and the subsequent lockdown, the company has also put its capacity expansion plans (entailing an outlay of ~Rs. 4,947 crore over FY2021-FY2023) on hold, which should additionally support its liquidity position. Also based on its discussions with the management, ICRA

<sup>1</sup> Bureau of Indian Standards

<sup>2</sup> Under consortium

does not expect any significant investments by Grasim in its investee companies during FY2021. For the medium term, ICRA draws comfort from the management's stated guidance of prioritising investments towards capital expenditure (capex) requirements of standalone business, followed by funding support to consolidating subsidiaries (primarily UTCL 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.

The net debt of the company increased to Rs. 2,975 crore as on March 31, 2020 (vis-à-vis cash surplus of Rs. 449 crore as on March 31, 2019), amid weakened accruals, investments of ~Rs. 3,760.5 crore towards investee companies (primarily Rs. 2,886 crore in VIL and Rs. 770 crore in ABCL) and largely debt-funded capex (Rs. 2,828 crore) undertaken by the company in FY2020. Notwithstanding the increased net debt levels, the financial profile of the company remains strong as evinced in net debt/ operating profit before depreciation, interest and tax or net debt/OPBDITA of 1.2x and net cash accruals/ total debt or NCA/TD of 34% as on March 31, 2020. Despite the ongoing demand slowdown, Grasim's strong liquidity position, strict control on its working capital intensity of operations and its curtailed capex and investment plans, are expected to lead to a continued healthy financial profile.

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 VSF turnover of the company. Grasim believes that it has reasonably good case on the basis of its grounds and accordingly, no provision for the same has been made in the books. Grasim will submit the appeal after it receives the certified copy of the order from the CCI. Furthermore, ICRA notes the demand of Rs. 5,872.13 crore 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 Hon'ble Bombay High Court has, however, stayed the recovery of demand vide its order dated December 12, 2019, till the next date of hearing before the High Court. As per the management, the demand is not tenable in law. ICRA would continue to monitor the developments in this regard.

## Key rating drivers

### 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 March 31, 2020.

**Favourable market position in other manufacturing businesses** – Besides VSF and chemicals, Grasim enjoys a leading market position in VFY, linen yarn / fabric and insulator production in the country. In urea manufacturing, the company ranks among the top 10 in the country. Its subsidiary, UTCL, 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 buffer of investments** – Grasim is the flagship company of the Group with significant presence in diverse businesses, manufacturing and services and, hence, enjoys strong financial flexibility. Grasim also holds the Group's strategic investments in cement (UTCL) and financial services businesses (grouped under ABCL; 54.24% subsidiary as on March 31, 2020), among others. The total debt (as on March 31, 2020)/ market value of investments (as on June 17, 2020) for Grasim stood at 10%, which further bolsters its financial flexibility.

**Strong financial profile and liquidity position** – Healthy accruals over the past several years have resulted in a strong 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 to Rs. 2,975 crore as on March 31, 2020. Despite the increased net debt levels in FY2020, the financial profile of the company remains strong as evinced in Net debt/OPBDITA of 1.2x and NCA/TD of 34% as on March 31, 2020. The company continues to maintain comfortable leverage, with gearing of 0.1x and TOL/TNW of 0.3x as on March 31, 2020, providing considerable financial flexibility to raise funds for any future requirement. Despite the on-going demand slowdown, Grasim's strong liquidity position, strict control on its working capital intensity of operations and its curtailed capex and investment plans, are expected to lead to a continued healthy financial profile.

## Credit challenges

**Exposure to cyclicity 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 dynamics, input costs and industry capacity additions. This is visible in FY2020, when owing to sizeable capacity expansions by global and domestic players, realisations and, thus, profitability for these segments witnessed a moderation. The near-term outlook on demand and realisations for both VSF and caustic soda remains challenging, aggravated by the lockdown imposed due to the global pandemic.

**Lower returns from majority of investment portfolio** – Majority of the investment portfolio of the company is currently valued lower than its book value<sup>3</sup>. Grasim, during Q2 FY2020, wrote off its entire investments in Aditya Birla Idea Payment Bank Limited (ABIPBL) due to unfavourable industry developments. Nonetheless, the company enjoys sizeable market value buffer with respect to its holding in UTCL.

## Liquidity position: Strong

The liquidity position of Grasim is strong, underpinned by its healthy cash flows, unencumbered cash balance and liquid investments of Rs. 2,093 crore and unutilised fund-based limits of Rs. 519 crore<sup>4</sup> as on March 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 UTCL, which had a market valuation of Rs. 63,834 crore as on June 17, 2020.

## Rating sensitivities

**Positive triggers:** Not applicable

**Negative triggers:** 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.

<sup>3</sup> Fair Value Changes in financial investments gets routed through other comprehensive income

<sup>4</sup> Under consortium

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Holding companies</a> <a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for Entities in the Chemicals industry</a>
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 ~\$10-billion conglomerate comprising businesses in chemicals and textiles 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 UTCL; 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. 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 solar, and a leadership position in various manufacturing businesses such as VSF, cement, chemicals, linen, agri-business, rayon and insulators.

## Key financial indicators (audited, standalone)<sup>5</sup>

	FY2019	FY2020*
Operating Income (Rs. crore)	20,724.0	18,815.4
PAT (Rs. crore)	515.3	1,270.0
OPBDIT/OI (%)	20.8%	13.6%
PAT/OI (%)	2.5%	6.7%
Total Outside Liabilities/ Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.8	2.0
Interest coverage (times)	21.7	8.4

\*Notes to account not available

<sup>5</sup> During FY2019, Grasim had booked an exceptional loss of Rs. 2,283.4 crore reflecting the difference between the book value and fair value of its investment in VIL, following its classification as financial investment from associate due to reduction in Grasim's shareholding to 11.55% from 23.13% (upon merger of VIL and Vodafone Mobile Services Limited with Idea Cellular Limited effective from August 31, 2018). During FY2020, Grasim booked an exceptional loss of Rs. 290.17 crore towards write-off of its investments in ABIPBL due to unfavourable industry developments and Rs. 10.2 crore towards its liquidation expenses.

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**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2021)		Chronology of Rating History for the Past 3 Years								
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2020			Date & Rating in FY2019			Date & Rating in FY2018	
				23-July-20	24-Feb-20	07-Feb-20	24-Apr-19	22-Mar-19	05-Feb-19	29-Oct-18	28-Jul-17	
1	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)
2	NCD	Long-term	300.0	-	[ICRA]AAA (Stable)							
3	CP	Short-term	3,000.0	1,900.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

\*As on June 26, 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 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)
-	NCD	Not placed yet	-	-	250.00	[ICRA]AAA (Stable)
	Proposed NCD	Not placed yet	-	-	300.00	[ICRA]AAA (Stable)
INE047A14594	CP	November 11, 2019	5.80%	September 22, 2020	250.00	[ICRA]A1+
INE047A14594	CP	November 15, 2019	5.80%	September 22, 2020	200.00	[ICRA]A1+
INE047A14594	CP	November 15, 2019	5.80%	September 22, 2020	50.00	[ICRA]A1+
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+
INE047A14644	CP	April 23, 2020	5.50%	July 22, 2020	500.00	[ICRA]A1+
INE047A14651	CP	April 27, 2020	5.65%	March 26, 2021	200.00	[ICRA]A1+
INE047A14669	CP	May 19, 2020	3.90%	August 18, 2020	200.00	[ICRA]A1+
INE047A14677	CP	June 11, 2020	3.75%	September 9, 2020	200.00	[ICRA]A1+

Source: Grasim Industries Limited

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## Corrigendum

Document dated July 23, 2020 has been corrected with revisions as detailed below:

- Revision on Page Number 6 under section, Rating History for last three years, wherein ratings outstanding as per press release (PR) dated 29-Dec-18 under FY2019 was mentioned. The date of the PR has been updated to 29-Oct-18.

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