June 20, 2017

Aditya Birla Nuvo Limited

Summary of rated instruments

Instrument*	Rated amount (Rs. crore)	Rating action
Non-convertible debenture	700.00	[ICRA]AA+ (Stable); withdrawn
Non-convertible debenture	800.00	[ICRA]AA+ (Stable); re-affirmed
Term loans	100.00 (revised from 500.00)	[ICRA]AA+ (Stable); re-affirmed
Long-term, fund based limits	1,250.00	[ICRA]AA+ (Stable); re-affirmed
Long-term / Short-term, non-fund based limits	1,500.00	[ICRA]AA+ (Stable) / [ICRA]A1+; re-affirmed
Commercial paper	1,750.00	[ICRA]A1+; re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs. 800.00 crore[1] non-convertible debenture (NCD) programme, the Rs. 100.00 crore (revised from Rs. 500.00 crore) term loans and the Rs. 1,250.00 crore long-term, fund based limits of Aditya Birla Nuvo Limited ('ABNL')[2]. ICRA has also reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,500.00 crore long-term / short-term, non-fund based limits of the company. Moreover, ICRA has re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,750.00 crore commercial paper / short-term debt programme of the company. The outlook on the long-term rating is 'Stable'. ICRA has withdrawn the [ICRA]AA+ (pronounced ICRA double A plus) rating assigned to the Rs. 700.00 crore NCD programme of ABNL, as the company has not placed the said NCDs and there is no amount outstanding against the said instrument.

Rationale

The re-affirmation of the ratings takes into account the market leading position of ABNL's various manufacturing and services businesses, diversified revenue streams providing stability to cash flows and its conservative financial structure. The divisions, which include rayon, textiles, fertilisers and insulators, have been generating healthy cash flows, although moderated to an extent in FY2017 due to subdued demand and impact of demonetisation, because of its leadership position in some of the businesses and strong domain expertise. The ratings continue to derive comfort from the strong performances of its investee companies (Birla Sun Life Asset Management or BSLAMC, Birla Sun Life Insurance Company or BSLI, Aditya Birla Finance, and Idea Cellular or Idea, among others), which are of high strategic importance to the Aditya Birla Group ('the Group').

ABNL enjoyed strong financial flexibility from its position as a premier company in the Group; the Group has demonstrated strong support to ABNL in the recent past by way of equity infusion to fund the investment and capital expenditure requirements of the company. ABNL also derives financial flexibility by way of large market value buffer on its investments in subsidiaries/group companies and the surplus

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

liquidity available with the subsidiaries in the financial services sector, which can be up-streamed to meet the funding requirements, if any.

ICRA notes that the group has proposed composite scheme for merger of ABNL with Grasim Industries Limited ('Grasim') with an aim to provide strong parentage to financial services business, consolidate the Group's common businesses and stakes in different group companies, as well as to form a large and well-diversified company with a combination of cash generating and high growth businesses. ICRA further notes that the said merger has been approved by the National Company Law Tribunal (NCLT) and is expected to take effect during the second quarter of FY2018. The merged entity will have further diversified businesses with a leadership position across textiles, chemicals, viscose staple fibre (VSF) and agri-inputs, lending stability to cash flows coupled with a conservative financial position. As a part of the merger process, the company will list the financial services businesses which will lead to value unlocking for the shareholders. The merged entity will continue to derive financial flexibility from the large market value buffer on its investments in subsidiaries/group companies as well as its position as a premier company in the Aditya Birla Group. The merged entity is estimated to have a strong balance sheet with sizeable cash surplus (net of debt), as of March 31, 2017. Thus the merged entity will have enhanced ability to provide strong parentage to the financial services business.

Key rating drivers

Credit strengths

- Diversified businesses mitigate individual business risks and provide stability to cash flows; exit from sub-scale business releases capital
- Favourable competitive position in manufacturing businesses helps generate healthy cash flows
- Businesses such as financial services, solar power and telecommunication have the potential to generate higher growth and profitability
- High financial flexibility supported by significant market value of investments and distributable surplus lying with subsidiaries; monetisation of 23% stake in BSLI provided the required liquidity to support investments in financial services and to reduce debt levels
- Being part of the Aditya Birla Group strengthens its financial flexibility

Credit weaknesses

- Large part of assets (more than 70% as on March 2017) deployed in investments currently yielding minimal returns, though expected to improve in the near term
- Increased competitive intensity in the telecommunication business; however, the proposed consolidation of Vodafone (second largest player in India) and Idea is expected to enhance the market position of the combined entity
- Higher than expected funding requirements in solar and payments bank ventures

Description of key rating drivers:

ABNL is a diversified conglomerate with presence across sectors and industries—namely manufacturing, financial services and telecommunication. While ABNL was initially present in the manufacturing sector, over the past more than a decade it has incubated several high growth businesses in areas such as financial services (covering broad spectrum of activities including non-banking finance company (NBFC), asset management, broking and life insurance), telecommunication and branded apparel retailing businesses (de-merged into Aditya Birla Fashion & Retail Limited or ABFRL, effective April 1, 2015; ABNL currently holds ~9.1% in ABFRL). ABNL's business position stems from the fact that it has built up leading positions in all the key sectors it has chosen to operate in. The company has exited sub-scale businesses such as IT/ITeS, where the company could not scale up to be one amongst the leading players in the industry. The manufacturing segment—which includes rayon, textile, fertilisers and insulator divisions—has been generating healthy cash flows over the years. However, it has moderated to an extent in FY2017 on account of subdued domestic demand and demonetisation.

Other than operating the manufacturing divisions, ABNL is also an investment holding company for the group's high growth businesses such as financial services (diversified across life insurance, NBFC, asset management, broking, online money management, health insurance and housing finance, among others), telecommunications and solar power. While the financial services companies (subsidiaries and joint ventures of ABNL) have been posting strong performance, the performance of Idea, the telecommunications venture of the Group, moderated in FY2017 on account of increased competitive intensity in the industry, especially during H2 FY2017, impacted by free offerings by a new entrant into the sector. The solar power joint venture is relatively a new one and is in the investment phase currently. The return for ABNL from these investments, in the form of dividends, has been minimal over the years. However, ABNL could garner Rs. 1,664 core in FY2017 from sale of 23% stake in BSLI to Sun Life Financial, Canada, the joint venture partner. The listing of the financial services business as part of the merger process will unlock value for shareholders and provide financial services business to raise funds independently to meet growth capital requirements. The strong balance sheet of ABNL+Grasim (estimated to be cash surplus, net of debt, as of March 31, 2017) is expected to provide strong parentage to the financial services business.

Analytical approach: For arriving at the ratings, ICRA has taken into consideration the expected operating cash flows on a standalone basis, the expected dividend inflows and the potential funding requirement of ABNL's investee companies that may have to be supported by the company. ICRA has also taken into account the market value of the quoted equity investments, which accord high financial flexibility.

Links to applicable criteria
Corporate Credit Rating – A Note on Methodology

About the company:
Aditya Birla Nuvo is a ~US$ 2.2 billion conglomerate having leadership position across its business sectors. Its Financial Services business ranks among the top five fund managers in India. Its telecommunication venture, Idea Cellular, ranks among the top three cellular operators in India. It is a leading player in linen, fertilizer, rayon and insulators businesses. ABNL has recently ventured into the solar power sector. It has also received a Payments Bank licence from the Reserve Bank of India (RBI), in joint venture with Idea Cellular and targeting to launch operations in the second quarter of FY2018 post requisite approvals. The promoters hold 62.8% stake in the company.

Grasim Industries Limited is a ~US$ 6 billion conglomerate comprising businesses in cement, chemicals and viscose staple fibre. It is a leading global player in viscose staple fibre and is the largest manufacturer of chlor-alkali and epoxy resins in India. Its subsidiary, UltraTech, is the largest manufacturer of cement in India with a capacity of 95 MTPA (post completion of acquisition of Jaiprakash Associates Limited's cement capacity of 21.2 MTPA and proposed greenfield acquisition) and offers a complete range of building products.

As per audited financials for FY2017, ABNL, on a standalone basis, reported a profit after tax (PAT) of Rs. 1,346.21 crore (including exceptional gain of Rs. 1,120 crore on sale of 23% stake in BSLI) on an operating income (OI) of Rs. 5,041.54 crore, as against a PAT of Rs. 386.21 crore on an OI of Rs. 5,465.35 crore during FY2016.

As per audited financials for FY2017, ABNL, on a consolidated basis, reported a PAT (concern share) of Rs. 908.31 crore on an OI of Rs. 14,408.27 crore, as against a PAT (concern share) of Rs. 1,612.77 crore on an OI of Rs. 13,119.99 crore during FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table:

S. No	Name of instrument	Current rating			Chronology of rating history for the past 3 years			
		Type	Rated amount (Rs. crore)	Month-year & rating	Month- year & rating in FY2017		Month-year & rating in FY2016	Month-year & rating in FY2015
				June 2017	October 2016	August 2016	February 2016	October 2014
1	NCD	Long-term	800.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Term loans	Long-term	100.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fund based bank facility	Long-term	1,250.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Non-fund based bank facility	Long-term/ Short-term	1,500.00	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ / [ICRA]A1+ &	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
5	Commercial paper	Short-term	1,750.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+

Note: '&' sign in the table represents 'rating on watch with developing implications'

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 www.icra.in

Annexure-1
Instrument Details

Name of the instrument	Date of issuance / sanction	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NCD	Jan-2013	8.99%	Jan-2018	300.00	[ICRA]AA+ (Stable)
NCD	May-2013	9.00%	May-2013	200.00	[ICRA]AA+ (Stable)
NCD	Feb-2015	8.68%	Feb-2020	300.00	[ICRA]AA+ (Stable)
Term loan 1	Mar-2008	-	Mar-2018	8.96	[ICRA]AA+ (Stable)
Term loan 2	Jul-2013	-	Jan-2020	22.29	[ICRA]AA+ (Stable)
Term loan 3	Nov-2013	-	Dec-2019	31.00	[ICRA]AA+ (Stable)
Term loan 4	Jun-2014	-	Jun-2021	20.76	[ICRA]AA+ (Stable)
Term loan 5	Aug-2015	-	Dec-2021	15.14	[ICRA]AA+ (Stable)
Proposed term loan	-	-	-	1.85	[ICRA]AA+ (Stable)
Long-term, fund based bank facilities	-	-	-	1,250.00	[ICRA]AA+ (Stable)
Long-term / Short-term, non-fund based bank facilities	-	-	-	1,500.00 *	[ICRA]AA+ (Stable) / [ICRA]A1+
Commercial paper	-	-	Upto one year from date of placement	1,750.00	[ICRA]A1+

Source: ABNL * including outside-consortium limit of Rs. 1,000 crore

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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