

Trapti Trading and Investments Private Limited

December 06, 2018

Summary of rating action

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------|-----------------------------------|----------------------------------|---|
| Commercial Paper Programme | 1,750.00 | 1,750.00 | [ICRA]A1+ &, rating placed on watch with developing implication |
| Total | 1,750.00 | 1,750.00 | |

& Placed on Watch with Developing Implications

*Instrument details are provided in Annexure-1

Update

Update on the scheme of amalgamation of TGS Investment and Trade Private Limited (TGS), Trapti Trading and Investments Private Limited (TTIPL) and four other investment / holding companies with Birla Group Holdings Private Limited. The amalgamation will combine their business activities and operations into a single company with effect from April 01, 2018. The process is expected to be completed by March 2019.

Rationale

The rating factors in Trapti Trading and Investments Private Limited's (TTIPL) position as one of the primary holding companies of Aditya Birla Group and its consequent financial flexibility. TTIPL holds equity stakes in various Group companies including Grasim Industries Limited (rated [ICRA]AAA(Stable)/A1+), Aditya Birla Fashion and Retail Limited (rated [ICRA]AA(Stable)/A1+), Aditya Birla Capital Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+), Century Enka Limited, Hindalco Industries Limited and Ultratech Cement Limited. The rating also factors in the company's adequate liquidity position backed by the market value of its holdings in listed Group entities, the strategic holdings in non-listed Group companies (including other Group holding companies) and its access to the Group's support. Further, ICRA expects the Group to extend capital support to TTIPL, as and when required.

Key rating drivers

Credit strengths

Strong parentage and financial flexibility - TTIPL is a key holding company of Aditya Birla Group. It holds equity in a number of Group companies including Grasim Industries Limited, Aditya Birla Fashion and Retail Limited, Aditya Birla Capital Limited, Century Enka Limited, Hindalco Industries Limited and Ultratech Cement Limited. The company also holds stakes in a few unlisted companies of the Group. Given its strategic significance to the Group and the market value of its listed holdings, the company enjoys considerable financial flexibility. ICRA expects capital and managerial support from the Group to be forthcoming to TTIPL, as and when required.

Significant market value of holdings in various Aditya Birla Group companies - The company's liquidity position is comfortable, backed by the market value of its holdings in listed Group entities and its strategic holdings in non-listed Group companies including other Group holding companies. As on March 31, 2018, the company held equity stakes in various listed and/or unlisted Group companies. Apart from its equity investments, TTIPL extends loans to Group companies. The market value of its listed investments increased during FY2018. Given the high market value of its

quoted investments (Rs. 7,940.39 crore or 9.27 times the book value as on September 30, 2018) in the Group companies, the company's capital adequacy and gearing (based on adjusted net worth)¹ remained comfortable at 195% and 0.44 times, respectively, as on March 31, 2018.

Credit challenges

Cash flow mainly dependent on dividends declared by investee companies – The company's major source of revenue is dominated by dividend income on its investments in Aditya Birla Group companies. During FY2018, total dividend income increased by 25% to Rs. 33.9 crore (Rs. 37.64 crore for H1 FY2019) from Rs. 27.2 crore in FY2017 driven by growth in dividend from Grasim. Further, it reported a higher profit on the sale of investments of Rs. 79.5 crore in FY2018 (Rs. 215.25 crore in H1 FY2019) compared to Rs. 2.7 crore in FY2017. Consequently, the total income increased 3 times to Rs. 135.7 crore in FY2018 (Rs. 269.75 crore in H1 FY2019) from Rs. 34.1 crore in FY2017. The company's finance costs, which accounted for a major part of its expenses, increased by ~43% YoY during FY2018 owing to increased debt levels for the funding of investments in FY2018. During FY2018, Trapti reported a loss of Rs. 155.71 crore due to provision for investment of Rs. 175.06 crore. During H1 FY2019, it reported a profit of Rs. 204.52 crore owing to higher profit on the sale of investments.

Refinancing risk with short-term borrowings – The company's entire borrowings, as on March 31, 2018, were in the form of commercial papers resulting in refinancing risk, though this was largely alleviated given the Group's strong financial strength and large liquid investment book. During FY2018, the company issued commercial papers with a maturity of 2-3 months and coupons of 7-7.5%. However, the market value of its holdings in listed Group entities and the strategic holdings in non-listed Group companies (including other Group holding companies) provides comfort. Further, ICRA expects the Group to extend capital support to TTIPL, as and when required.

Liquidity position

As per the details provided by the company, TTIPL has Rs. 1,750.00 crore of debt due till June 2019. Given the high market value of its quoted investments (Rs. 7,940.39 crore or 9.27 times the book value as on September 30, 2018) in the Group companies, liquidity profile of TTIPL is at comfortable level.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | ICRA Rating Methodology for Non-Banking Finance Companies |
| Parent / Group Support | As TTIPL is one of the primary investment holding company for Aditya Birla Group of companies. ICRA expects implicit support from Aditya Birla Group as and when required. |
| Consolidation / Standalone | Standalone |

¹Adjusted net worth means the aggregate of net worth as shown in the balance sheet, increased by 50% of the unrealised appreciation in the book value of quoted investments (such appreciation being calculated as the excess of the aggregate market value over the book value of such investments)

About the company

Trapti Trading & Investments Private Limited (TTIPL) is an investment company in Aditya Birla Group, held by TGS Investments & Trade Private Limited (51% holding) and other Group companies. During FY2018, the company reported a loss of Rs. 155.70 crore on total assets of Rs. 1,879.77 crore compared with a net loss of Rs. 38.00 crore on total assets of Rs. 1,145.94 crore in FY2017.

Key financial indicators (standalone)

| For the Financial Year | FY2017 Audited | FY2018 Audited | H1FY2018 Unaudited |
|-----------------------------------|-------------------|-------------------|-----------------------|
| Net Worth | 349.70 | 194.00 | 398.09 |
| Total Debt | 795.70 | 1683.00 | 1511.89 |
| Investments | 1124.80 | 1457.50 | 1472.10 |
| Dividend Income | 27.20 | 33.90 | 37.64 |
| Interest Income | 4.20 | 21.90 | 16.86 |
| Net Profit on Sale of Investments | 2.70 | 79.52 | 215.25 |
| Total Income | 34.10 | 135.70 | 269.75 |
| Finance Cost | 60.60 | 86.50 | 64.77 |
| Profit before Tax | -36.70 | -140.30 | 204.52 |
| Profit after Tax | -38.00 | -155.70 | 204.52 |
| Interest Coverage Ratio (times) | 0.39 | 1.40 | 4.16 |
| Total Debt/ Net Worth (times) | 2.28 | 8.67 | 3.80 |

Amount in Rs. crore

Source: Company data, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

| Instrument | Current Rating (FY2019) | | | Chronology of Rating History for the past 3 years | | | | | | | | |
|------------------------------|-------------------------|--------------------------|--------------------------------|---|------------|------------|------------|------------|------------|------------|------------|------------|
| | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | FY2018 | | | FY2017 | | | FY2016 | | |
| | | | | Dec-18 | Sep-18 | Mar-18 | Aug-17 | May-17 | Nov-16 | Mar-16 | Sep-15 | Apr-15 |
| 1 Commercial Paper Programme | Short Term | 1,750 | NA | [ICRA] A1+ & | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ | [ICRA] A1+ |

& Placed 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

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|

| | | | | | | |
|----|----------------------------|----|----|------------|-------|-------------|
| NA | Commercial Paper Programme | NA | NA | 7-365 days | 1,750 | [ICRA]A1+ & |
|----|----------------------------|----|----|------------|-------|-------------|

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Source: Company data

Annexure-2: List of entities considered for consolidated analysis

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