Grasim Industries Limited

February 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	0.0	1,500.0	[ICRA]AAA (Stable); assigned
Non-Convertible Debenture Programme	500.0	500.0	[ICRA]AAA (Stable); outstanding
Commercial Paper Programme	1,750.0	1,750.0	[ICRA]A1+; outstanding
Total	**2,550.0**	**3,750.0**	

*Instrument details are provided in Annexure-1

Rationale

The ratings reflect Grasim Industries Limited's (Grasim) diversified and leading presence across manufacturing businesses such as viscose staple fibre (VSF), chemicals (chlor-alkali and other value added), viscose filament yarn (VFY), textiles (linen and woollen fabric), fertilisers (urea) and insulators (porcelain). The ratings also derive strength from the robust financial risk profile of Grasim as characterised by strong cash flows and healthy capital structure, debt coverage indicators and liquidity position. While debt levels have increased post-merger of Aditya Birla Nuvo Limited (ABNL) with the company, effective July 01, 2017, the financial risk profile continues to remain robust, with Grasim being a net cash surplus company as of September 30, 2018. Being the flagship company of the Aditya Birla Group (the Group), Grasim enjoys considerable financial flexibility, further enhanced by the sizeable market value buffer on its investment holdings, especially in UltraTech Cement Limited (UTCL; a 60.2% subsidiary).

ICRA notes the current subdued demand conditions for the textile and the insulator businesses, which are, however, small compared to Grasim's overall business profile and are expected to recover over the medium to long-term. Furthermore, Grasim's return indicators (return on capital employed, RoCE, of 8.0% in FY2018) are constrained as large part of assets are deployed in strategic investments, yielding minimal yearly returns. However, the company enjoys financial flexibility by virtue of market value of its investments, significantly in excess of their book value.

ICRA notes the recent approval of fund raising by way of rights issue of equity shares and other securities convertible to equity shares to existing shareholders, aggregating to Rs. 25,000.0 crore, by the Board of Vodafone Idea Limited (VIL, an investee company of Grasim, with latter's shareholding being 11.55% as of December 31, 2018). While the terms and conditions of the rights issue, which include among others, the issue price, instrument, timeline, is yet to be finalised, ICRA expects Grasim to invest ~ Rs. 2,800 crore (based on its entitlement of rights issue participation) towards the aforesaid rights issue, to be funded through internal accruals and cash and liquid investments available with the company. This may, however, necessitate additional debt-funding for the on-going capital expenditure (capex) programme of Grasim (aggregating to Rs. 7,541 crore over FY2019-FY2022). Notwithstanding this, the financial profile of Grasim is expected to remain strong. Any large investment outlay (including capex) or acquisitions resulting in increased leverage is a rating sensitivity.

Outlook: Stable

ICRA believes that Grasim will continue to benefit from its diversified presence across manufacturing businesses under its standalone operations and generate healthy cash flows from operations to largely meet its capex and investment requirements. Thus, the company is expected to maintain its robust financial risk profile, marked by healthy liquidity. Grasim's investment portfolio is also diversified across manufacturing, financial services, fashion retail and telecommunication, and currently, there exists considerable market value buffer over the book value of its investments. This further enhances Grasim's superior financial flexibility. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capex or investment weakens liquidity.

Key rating drivers

Credit strengths

Leadership position in the VSF business – Grasim is the largest producer of VSF and has 9% share in the global man-made fibre market. Operations are highly 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. Moreover, ramping-up of the Vilayat plant and leveraging of the Liva brand has strengthened Grasim's market position. ICRA believes that the company will maintain its leadership position and benefit from the healthy 7-8% growth in demand, which will keep the utilisation rate high.

Diversified businesses mitigate individual business risks and provide stability to cash flows – Subsequent to merger of ABNL with Grasim with effect from July 01, 2017, Grasim's standalone operations include various manufacturing businesses, namely VSF, chemicals, fertiliser, textiles, VFY / rayon and insulators. In FY2018, the manufacturing businesses cumulatively accounted for revenues of ~Rs. 16,000 crore at the standalone level, of which ~85% was contributed by the VSF and the chemicals businesses. In addition, through its investee companies, the company is also present in cement, financial services and telecommunication industries. This diversified presence mitigates, to a large extent, the risks related to volatility in cash flows of individual businesses and provides stability to the overall cash flows of the company.

Favorable market position in manufacturing businesses – Grasim enjoys a leading market position in most of the businesses it is present in. It is the market leader in VSF, chemicals, VFY, linen yarn / fabric and insulator production in the country. In urea manufacturing, the company is one 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 – Grasim is the flagship company of the Group having significant presence in diverse businesses, manufacturing and services. Grasim holds the Group's strategic investments in cement (UTCL) and financial services businesses (grouped under Aditya Birla Capital Limited, ABCL; 55.99% subsidiary), among others. Grasim thus derives strong financial flexibility from the market value of these investments, especially in UTCL.

Superior financial profile with Grasim being a net cash surplus company, on a standalone basis – As on September 30, 2018, Grasim (on a standalone basis) had total debt of Rs. 2,364.8 crore and free cash and liquid investments of Rs. 3,313.4 crore, resulting in a net cash surplus of Rs. 948.5 crore. With a net-worth in excess of Rs. 43,061 crore, the gearing is low at ~0.05x and total debt/OPBDITA of 0.56x, providing considerable financial flexibility to raise funds for any future requirement. The financial flexibility is further strengthened by the sizeable market value buffer of its investment holdings.

Credit challenges

Performance of the textile and insulator divisions impacted by slowdown in demand – Performance of the manufacturing divisions such as textiles and insulators has been impacted over the past two years due to slowdown in demand. While the textile business was impacted due to slowdown in export demand and labour issues at its Rishra (West Bengal) factory, the insulator business was impacted due to increased acceptance of alternate (composite) insulators, as against the company's presence in porcelain insulators. While the demand is expected to pick up over the medium term, the stress is not expected to last longer for Grasim, given its established market position in each of the businesses. Furthermore, contribution of these two divisions to Grasim's top line is very small (~3% of consolidated revenues).

Liquidity position

Grasim has sizeable cash and bank balance (unencumbered cash of Rs. 39 crore) and liquid investments (Rs. 3,274 crore) as on September 30, 2018. Grasim's credit profile is further supported by its strong financial flexibility. An important source of this flexibility is its 60.2% stake in UTCL, which had a market valuation of Rs. 59,829 crore as on January 25, 2019. Furthermore, with the merger of ABNL, it also holds stake in other key businesses like Aditya Birla Capital Limited (ABCL) and VIL. Stock prices of these two entities have, however, been impacted recently due to their respective industry factors. While the market value of its investments does fluctuate, its high ownership and the strong business proposition of these investee companies provides a sufficient buffer, in case Grasim looks to unlock the value of its investments.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for Financial Ratio Analysis
Parent / Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company. ICRA has combined the standalone business and financial profile of Grasim with that of ABNL for Q1 FY2018 (since the merger is effective from July 01, 2017) and analysed the same. Besides Grasim's standalone business, ICRA considers the expected dividend inflows and the potential funding requirement of some 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 the Group entities.

About the company

Grasim Industries Limited, the flagship company of the Aditya Birla Group, is a ~US$ 8 billion conglomerate comprising businesses in chemicals and textiles on a standalone basis, and also includes cement, financial services, telecommunications, and fashion retail at the consolidated level. It started 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 96.5 million metric tonnes 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 sunrise sectors such as financial services (life insurance, asset management, non-banking financial company, private equity, broking, wealth management, housing finance, online money management, payments bank and general insurance advisory), solar and telecommunications, and a leadership position in various manufacturing businesses such as VSF, cement, chemicals, linen, agri-business, rayon and the insulators business.

During FY2018, Grasim (on a standalone basis) reported a profit after tax (PAT) of Rs. 1,768.7 crore on an operating income (OI) of Rs. 15,788.5 crore, as compared to a PAT of Rs. 1,560.0 crore on an OI of Rs. 10,345.6 crore during FY2017. During H` FY2019, Grasim (on a standalone basis) reported a net loss of Rs. 544.1 crore (due to non-cash provision of Rs. 2,283.4 crore, representing difference between the book value and fair value of its investment in VIL, which ceased to be its associate from August 31, 2018 and thus had to classified as a financial investment) on an OI of Rs. 9,907.6 crore.

Key financial indicators (audited, standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	10,345.65	15,788.47
PAT (Rs. crore)	1,560.00	1,768.66
OPBDIT/OI (%)	21.1%	19.9%
RoCE (%)	13.2%	8.0%
Total Debt/TNW (times)	0.04	0.07
Total Debt/OPBDIT (times)	0.32	0.94
Interest coverage (times)	37.90	24.52

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)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					February 2019	October 2018	July 2017	-	-
1	NCD	Long-term	1500.00	-	[ICRA]AAA (Stable)	-	-	-	-
2	NCD	Long-term	500.00	500.00*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
3	Commercial Paper Programme	Short-term	1,750.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

*As on September 30, 2018

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
INE069A08046	NCD	May-2013	9.00%	May-2023	200.00	[ICRA]AAA (Stable)
INE069A08053	NCD	Feb-2015	8.68%	Feb-2020	300.00	[ICRA]AAA (Stable)
-	NCD	Not placed yet			1500.00	[ICRA]AAA (Stable)
NA	Commercial Paper Programme	NA	NA	7-365 days	1,750.00	[ICRA]A1+

Source: Grasim Industries Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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