

November 22, 2019

## Aditya Birla Capital Limited: Ratings reaffirmed

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	2,700.00	2,700.00	[ICRA]A1+; reaffirmed
Non-convertible debenture programme	800.00	800.00	[ICRA]AAA(stable); reaffirmed
<b>Total</b>	<b>3,500.00</b>	<b>3,500.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings factor in the strong ultimate parentage of Grasim Industries Limited (Grasim, rated [ICRA]AAA/Stable/[ICRA]A1+) and the strategic fit and importance of Aditya Birla Capital Limited (ABCL) group, which houses all the financial services entities (lending, asset management and insurance), to Aditya Birla Group. The support from promoter group is demonstrated in the strong capital, operational and managerial support from the group and stated intent by the parent to support adequate capitalisation and liquidity of ABCL group. The ratings also consider the improving diversity in the company's revenue profile and management's vast experience in the financial services domain. The ratings factor in the company's adequate risk management systems and processes, comfortable asset quality indicators (gross and net NPAs of 1.65% and 1.12%, respectively for lending businesses, as on September 30, 2019), diversified funding profile and improving capitalisation for the current scale of operations. ABCL's capitalisation profile has been supported by both internal capital generation and regular capital infusion from the parent.

ICRA takes note of the limited vintage of some of the company's business lines like digital finance, unsecured retail lending and housing finance. The company's ability to manage asset quality in these segments as the book seasons, will remain a key rating monitorable. The rating is partially offset by the high share of corporate lending in its portfolio (60% of portfolio including large & mid-corporate contributing 38% and SME lending contributing 22% as on September 30, 2019), with concentration of top 20 borrowers contributing ~10% of the total loan book, as of March 2019 ICRA also takes note of the profitability of the group impacted by to the health insurance and housing finance businesses that are in growth phase. However, ICRA notes the diversification of revenue profile of the group, with income from lending, asset management, insurance and other businesses. Going forward, the company's ability to manage its asset quality indicators while maintaining its solvency, with further growth in the business in the current challenging business environment, will remain a key rating sensitivity.

### Key rating drivers

#### Credit strengths

**Strong ultimate parentage of Grasim; key management personnel with vast experience in financial services domain -** ABCL, which is a subsidiary of Grasim with a shareholding of 56% as of September 2019, while the other promoters hold 17% stake in the entity. It is the holding company to all the financial services entities of Aditya Birla Group and is a prominent growth driver to the group. The strategic significance of the entity to the Group is reflected in the regular capital support from the parent (Rs. 4,783 crore in the last four years). ABCL group enjoys strong financial flexibility by

virtue of being a part of Aditya Birla group. Of the Rs. 2,100 crore proposed capital infusion, the promoters have infused their share of Rs. 1,000 crore in October 2019. ICRA expects Grasim to maintain more than 51% shareholding in the entity. ICRA also takes into consideration the vast experience of ABCL's key management personnel in the financial services domain.

**Capitalisation to be improved and consolidated gearing expected to reduce** - ABCL's capitalisation would improve significantly post capital infusion of Rs. 2,100 crore from promoters and external investors. This is expected to help deleverage the holding company and improve its profitability. The current profit accretions at consolidated level, are moderate compared to peers, as housing finance and health insurance business is in growth phase. Moreover, its current leverage is high with an adjusted gearing (borrowings divided by adjusted net worth<sup>1</sup>) of at 7.23X as on March 31, 2019 (6.49X as on March 31, 2018). This is high, on the back of high corporate lending book, however ICRA expects this to reduce by end of current fiscal (with the capital infusion). ICRA also notes the historical support through equity infusion by the parent.

**Diversified funding profile with access to market-based instruments** - ABCL's (lending businesses) borrowing profile remains diversified with bank borrowings, debentures, subordinated debt, commercial paper and external commercial borrowings (ECB) forming 52%, 31%, 4% and 13%, respectively, of the total borrowing profile as on September 30, 2019. The share of commercial paper borrowings has reduced to 12% in September 30, 2019, from 16% in March 2019. On-balance sheet liquidity at consolidated level has also improved in FY2020, with positive cumulative surplus in the asset liability maturity across short term buckets up to 1 year. The group maintains adequate unutilised bank lines and has a board approved inter corporate deposit (ICD) lines from Grasim, which can be utilised in the event of a liquidity crunch. Aditya Birla Finance Limited (ABFL) received sanction of Rs. 1,225 crore (USD 175 million) via ECB at competitive rates in H1 FY2020 while Aditya Birla Housing Finance Limited (ABHFL) received sanction of Rs. 700 crore (USD 100 million) during the period which indicates the strong fund raising ability of the group, especially in the current tight liquidity environment.

## Credit challenges

**Asset quality indicates a marginal deterioration, with sizeable unseasoned loan assets** - ABCL has reported consolidated gross and net NPAs for lending businesses at 1.65% and 1.12%, respectively, as on September 30, 2019, compared to 1.09% and 0.63%, respectively, as on March 31, 2019. Increase in delinquencies from March 2019 are seen in segments like corporate loans, digital loans and mortgage loans, while the overall weak environment is expected to impact the asset quality of the portfolio. ABFL, which was primarily a capital market lender till FY2012, has successfully diversified across segments and has scaled up its portfolio significantly in the past few years through both, new product offerings and geographical expansion, while ABHFL began its lending operations in FY2015. However, with significant ramp up in its retail loan book over the last few years, the company has sizeable unseasoned long-term loan assets like housing finance and retail mortgage loans. ABFL has an exposure of Rs. 388 crore to IL&FS group, of which loans amounting to Rs. 220 crore are in stage 3 (of which 28% has been provided for). Going ahead, the ability of the company to manage its asset quality with scaling up its operations, increasing share of unsecured retail lending and seasoning of housing and mortgage loans would remain a key rating sensitivity.

**High share of non retail lending in portfolio** – Consolidated lending book of ABCL stood at Rs. 60,447 crore in September 2019, with corporate lending (large & mid-corporate contributing 38% and SME lending contributing 22%) contributing a share of 60% (62% in March 2019 and 67% in March 2018), while the balance being retail, HNI and treasury investments.

<sup>1</sup> Adjusted net worth is calculated as sum of net worth and minority interest less net worth of insurance subsidiaries

While the mix of corporate business continues to improve with increased focus on retail loans like mortgage, digital, unsecured loans and housing loans, exposures to top 20 borrowers which forms 10% of the portfolio ( 81% of the adjusted net worth<sup>2</sup>). ICRA notes loans extended to holding companies of corporate groups, which have limited operations, however these have adequate collateral coverage. ICRA also notes that the total portfolio is secured (80% of ABFL's portfolio and 100% of ABHFL's portfolio). ICRA notes that a large proportion of the portfolio is secured (80% of ABFL's portfolio and 100% of ABHFL's portfolio), which helps to reduce the losses in the event of defaults. ICRA also notes the group plans to reduce the concentration of its top exposures and largely limit its lending to operating companies, going forward. Strong growth in retail lending and cautious lending to corporate is expected to improve the granularity of the portfolio in the long term.

**Moderate profitability indicators, with health and housing in initial stages of operations requiring capital support –** ABCL reported PAT (before minority interest) / average net worth of 8.99% in FY2019 (6.78% in FY2018), which is low compared to its peers of similar size. The muted profits from life insurance subsidiary and losses from health insurance subsidiary impacted the overall profitability while the strong profitability from lending business and asset management subsidiary helped to support the profits. Excluding the insurance companies, the profitability indicator would have been 13.85% in FY2019 (11.50% in FY2018). Capital requirements are also seen in lending, health insurance business and asset reconstruction business (~Rs. 500 crore - Rs. 600 crore in FY2020 as per management assessment, depending on growth estimates). However, ICRA notes the diverse revenue stream of the group with income from lending companies, asset management business, life insurance business etc., which will help the company to tide over weak economic cycles better in the long term. Going forward, the profitability of the new businesses is expected to improve with lower capital requirements, which would boost the profitability of the group.

**Standalone revenue dependent on dividend upstream of subsidiaries:** ABCL's standalone revenue profile includes dividend income from asset management and general insurance broking subsidiaries, and interest income from loans lent to group companies. Its borrowing requirements are driven by capital requirements from subsidiaries. In the current year, the funds from capital infusion will be used to retire some existing debt and meet some capital requirements from subsidiaries, while fresh borrowings will be raised to meet additional capital requirements as and when required. On standalone basis, the company reported a loss of Rs. 9.60 crore in FY2019 as compared to a profit of 36.17 crore in FY2018. This was mainly due to an exceptional item on write-off of equity investment and loans extended to group companies. Profitability was also impacted by higher borrowing costs.

### Liquidity Position : Strong (at consolidated level)

As on September 30, 2019, ABCL group has total debt of Rs. 10,209 crore of debt maturing by March 2020, against which it has cash and liquid assets of Rs. 3,656 crore, scheduled inflows of Rs. 10,690 crore and unutilised bank lines of Rs. 7,424 crore and. In addition, the equity pipeline of Rs. 2,100 crore is also available (of which Rs. 1,100 crore has already been received in October 2019). The liquidity profile of the group is also supported by board approved ICD line from Grasim. The liquidity buffer is strong in comparison with the debt maturities falling due over the period from October 2019 to March 2020. ICRA does not foresee any liquidity risk in the near term.

At the standalone level of ABCL as on September 30, 2019, the company has Rs. 1,652 crore of debt maturing by March 2020 and expected capital infusion in subsidiaries of Rs. 500 crore – Rs. 600 crore (depending on growth requirements), against which it has cash balance of Rs. 16 crore, undrawn board approved ICD lines from Grasim, equity pipeline of Rs.

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<sup>2</sup> Adjusted net worth is calculated as sum of net worth and minority interest less net worth of insurance subsidiaries

2,100 crore, proportionate cash balance of Rs. 570 crore of asset management business and listed shares of Aditya Birla Money Limited (a subsidiary) worth Rs. 137.5 crore.

## Rating Sensitivities

### Negative triggers:

Material change in expected level of support or material deterioration of credit risk profile of parent could warrant a rating downgrade. Negative pressure on rating could arise if, there is a deterioration in solvency levels (net stage 3 assets divided by net worth adjusted for net worth of insurance companies) remaining weaker than 20% on a sustained basis or adjusted gearing remaining above 7.5 on a sustained basis.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Parent / Investor: Grasim Industries Limited (Grasim, rated [ICRA]AAA/Stable/[ICRA]A1+) ICRA factors in the strategic fit and importance of ABCL to Aditya Birla Group, which is demonstrated in the strong capital, operational and managerial support from the parent.
Consolidation / Standalone	The ratings are based on the consolidated financial statements of the issuer.

### About the company:

Aditya Birla Capital Limited (ABCL) is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the Reserve Bank of India. It is the holding company of the financial services businesses of Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited and Grasim Industries Limited (GIL), ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on September 30, 2019, the promoter group held a stake of 72.70% stake (of which GIL holds 55.95%) in ABCL.

On a standalone basis, ABCL reported a net loss of Rs. 9.6 crore in FY2019 on an asset base of Rs. 8,899.3 crore as against a net profit of Rs. 36.2 crore in FY2018 on an asset base of Rs. 8,084 crore compared. During H1 FY2020, it reported a net profit of Rs. 0.8 crore, as compared to a net profit of Rs. 28.9 crore in H1 FY2019. On a consolidated basis, it posted a net profit of Rs. 811 crore in FY2019 on an asset base of Rs. 1,09,703.3 crore, as against a net profit of Rs. 513.6 crore in FY2018 on an asset base of Rs. 93,714.2 crore. In H1 FY2020, net profit was Rs. 499.0 crore, as compared with net profit of Rs. 348.1 crore in H1 FY2019.

### About Grasim Industries Limited

Grasim Industries Limited ('Grasim'), the flagship company of the Aditya Birla Group ('the Group'), is a ~US\$ 6 billion conglomerate comprising businesses in cement, chemicals and viscose staple fibre (VSF). 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 UltraTech Cement Limited-UTCL; grey cement capacity of 93 million metric tonnes per annum-MTPA) and chlor-alkali producer in India.

On August 11, 2016, the Group proposed merger of Aditya Birla Nuvo Limited ('ABNL') with Grasim, through a composite scheme of amalgamation; post all the regulatory approvals, the stage 1 of the scheme (merger of ABNL with Grasim) was made effective on July 01, 2017 and the stage 2 (demerger of financial services business from the merged

entity) was made effective on July 04, 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 finance company (NBFC), private equity, broking, wealth management, housing finance, online money management, health insurance and general insurance advisory), solar, payments bank and telecommunication, and a leadership position in various manufacturing businesses such as VSF, cement, chemicals, linen, agri-business, rayon and the insulators business.

### Key financial indicators – ABCL (Standalone)

In Rs. crore	FY2018	FY2019	H1 FY2020
Net worth	7,211	7,295	7,314
Total debt	675	1,440	1,652
Investments	7,923	8,709	8,968
Dividend income	111	162	84
Net profit on sale of investments	38	-3	0
Total income	165	178	95
Finance cost	25	89	57
Profit before tax	36	-12	-1
Profit after tax	36	-10	1
Interest coverage ratio (times)	2.46	0.87	0.98
Total debt / net worth	0.09	0.20	0.23

### Key financial indicators – ABCL (Consolidated)

In Rs. crore	FY2018	FY2019	H1 FY2020
Total income	11,527	15,172	7,634
Profit after tax	693	811	499
Net worth	8,538	9,512	10,068
Total portfolio	51,380	63,119	60,477
Total assets	93,714	1,09,703	1,12,060
Return on average assets	0.81%	0.80%	0.90%
Return on average equity	6.78%	8.99%	10.20%
Adjusted gearing	6.49	7.23	NA
Gross NPA / Gross Advances	0.85%	1.10%	1.64%
Net NPA / Net Advances	0.42%	0.63%	1.11%
Net NPA / adjusted net worth	3.04%	5.00%	NA

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

**Any other information: None**

### Rating history for last three years:

S. No.	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years					
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	22-Nov-19	FY2019		FY2018		FY2017
						20-Sep-18	02-Aug-18	01-Jun-18	05-Jun-17	23-Mar-17
1	Commercial Paper Programme	Short Term	2700	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-Convertible Debenture	Long Term	800	NA	[ICRA]AA A (stable)	[ICRA]AA A (stable)	-	-	-	-

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

Sl. No.	ISIN No.	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. in crore)	Rating Assigned along with Outlook
1.	NA	Commercial Paper	NA	NA	7-365 days	2,700.00	[ICRA]A1+
2.	NA	Non-Convertible Debentures	Proposed	NA	NA	800.00	[ICRA]AAA(stable)

*\*Proposed; as on October 31, 2019*

*Source: Aditya Birla Capital Limited*

## Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidated approach
Aditya Birla PE Advisors Private Limited	100%	Full consolidation
Aditya Birla MyUniverse Limited	100%	Full consolidation
Aditya Birla Trustee Company Private Limited	100%	Full consolidation
ABCAP Trustee Company Private Limited	100%	Full consolidation
Aditya Birla Money Limited	73.80%	Full consolidation
Aditya Birla Commodities Broking Limited	100%	Full consolidation
Aditya Birla Financial Shared Services Limited	100%	Full consolidation
Aditya Birla Finance Limited	100%	Full consolidation
Aditya Birla Housing Finance Limited	100%	Full consolidation
Aditya Birla Health Insurance Co. Limited	51%	Full consolidation
Aditya Birla Sun Life Insurance Company Limited	51%	Full consolidation
Aditya Birla Sun Life Pension Management Limited	51%	Full consolidation
Aditya Birla Insurance Brokers Limited	50.002%%	Full consolidation
Aditya Birla Money Mart Limited	100%	Full consolidation
Aditya Birla Money Insurance Advisory Services Limited	100%	Full consolidation
Aditya Birla ARC Limited	100%	Full consolidation
ABC SL – Employee Welfare Trust	100%	Full consolidation
Aditya Birla Stressed Asset AMC Private Limited	100%	Full consolidation
ABARC-ARC-001-Trust	100%	Full consolidation
Aditya Birla Sun Life Trustee Private Limited	50.85%	Equity method
Aditya Birla Wellness Private Limited	51%	Equity method
Aditya Birla Sun Life AMC Company Limited	51%	Equity method
Aditya Birla Sun Life AMC (Mauritius) Ltd.	51%	Equity method
Aditya Birla Sun Life Asset Management Company Ltd., Dubai	51%	Equity method
Aditya Birla Sun Life Asset Management Company Pte. Ltd., Singapore	51%	Equity method

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