

February 07, 2020

## Grasim Industries Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) Programme	2,000.0	2,000.0	[ICRA]AAA (Stable); re-affirmed
Commercial Paper (CP) Programme	2,500.0	2,500.0	[ICRA]A1+; re-affirmed
<b>Total</b>	<b>4,500.0</b>	<b>4,500.0</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, further enhanced by the sizeable market value buffer of its investment holdings, especially in UltraTech Cement Limited (UTCL; a 57.29% subsidiary).

During the current year, Grasim has made additional investments of Rs. 2,886 crore in Vodafone Idea Limited (VIL, an investee company of Grasim, with the latter's shareholding at 11.55% as on December 31, 2019) and Rs. 770 crore in Aditya Birla Capital Limited (ABCL, rated [ICRA]AAA (Stable) / [ICRA]A1+, a 56.6%<sup>1</sup> subsidiary of Grasim). The aforesaid investments were funded through internal accruals and available liquid investments. ICRA notes that majority of the investment portfolio of the company is currently valued lower vis-a-vis its book value, though the company enjoys sizeable market value buffer with respect to its holding in UTCL. This leads to a comfortable total debt (as on September 30, 2019) / market value buffer of investments (as on January 27, 2020) of 6%. ICRA also draws comfort from the management's stated guidance of prioritising investments towards capital expenditure (capex) requirements of standalone business (~Rs. 6,639 crore over H2 FY2020–FY2022), followed by funding support to consolidating subsidiaries (primarily UTCL and ABCL) as well as other investee companies, including VIL. Any greater than envisaged investment outlay will be a key rating sensitivity.

After reporting robust financial performance in FY2019, the operating profit margin (OPM) for Grasim moderated to 17.1% in H1 FY2020 vis-à-vis 23.1% in H1 FY2019, following weakened realisations for VSF and caustic soda. Global VSF prices remained weak in H1 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. As regards to caustic soda, the domestic prices saw sharp correction towards the end of Q1 FY2020, owing to surge in imports following the

<sup>1</sup> As on December 31, 2019

receipt of BIS<sup>2</sup> certifications by importers, a requirement made mandatory for caustic soda exports to India in FY2019. New domestic (caustic soda) capacities also commissioned during FY2019 and H1 FY2020, which additionally put pressure on realisations. The near-term outlook on realisations for both VSF and caustic soda remains challenging, though some comfort can be drawn from the recent correction in spot pulp (raw material for VSF) prices, which is expected to help improve OPM for the VSF segment from Q4 FY2020 onwards. Coupled with the strong competitive position enjoyed by Grasim, the healthy medium-term demand outlook for both these segments lends a favourable revenue outlook for the company.

Grasim is currently undertaking significant capex of Rs. 6,639 crore over H2 FY2020–FY2022 (Rs. 1,136 crore already incurred in H1 FY2020) for expanding capacities in the VSF (to 788 KTPA from 566 KTPA) and caustic soda (to 1,457 KTPA from 1,147 KTPA) segments as well as towards normal modernisation and maintenance capex. Amid weakened accruals in H1 FY2020, ongoing capex has necessitated additional debt-funding. Notwithstanding the increased net debt levels to Rs. 1,840 crore as on September 30, 2019, the financial profile of the company remains strong as evinced in Net debt/OPBDITA of 0.5x and NCA/TD of 42% as on September 30, 2019. Despite the proposed capex plans, the steady cash flow generation from the core business is expected to result in a continued healthy financial profile for Grasim.

ICRA also notes the demand of Rs. 5,872.3 crore raised by 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 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 September 30, 2019 (over 938 KTPA as on March 31, 2018).

**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.

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<sup>2</sup> Bureau of Indian Standards

**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; 56.6% subsidiary), among others. The total debt (as on September 30, 2019)/ market value of investments (as on January 27, 2020) for Grasim stood at 6%, 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 H1 FY2020, additional investments of ~Rs. 2,990.5 crore in investee companies and ongoing capex, resulted in increased net debt to Rs. 1840 crore as on September 30, 2019. Despite the increased net debt levels in H1 FY2020, the financial profile of the company remains strong as evinced in Net debt/OPBDITA of 0.5x and NCA/TD of 42% as on September 30, 2019. The company continues to maintain comfortable leverage, with gearing of 0.1x and TOL/TNW of 0.3x as on September 30, 2019, providing considerable financial flexibility to raise funds for any future requirement. Despite the proposed capex plans, the steady cash flow generation from the core business is expected to result in a continued healthy financial profile for Grasim.

## 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 H1 FY2020, when owing to sizeable capacity expansions by global and domestic players, realisations and, thus, profitability for these segments witnessed a moderation. Nonetheless, coupled with the strong competitive position enjoyed by Grasim, the healthy medium-term demand outlook for both these segments lends a favourable revenue outlook for the company.

**Lower returns from majority of investment portfolio** – Majority of the investment portfolio of the company is currently valued lower than its book value. 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 healthy cash flows, liquid investments of Rs. 2,652 crore as on September 30, 2019 and unutilised fund-based limits of Rs. 590 crore (under consortium) as on December 31, 2019. Grasim’s credit profile is further supported by its strong financial flexibility. An important source of this flexibility is its 57.29% stake in UTCL, which had a market valuation of Rs. 77,542 crore as on January 27, 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.

## 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 the insulators business.

During H1 FY2020, Grasim (on a standalone basis) reported a profit after tax (PAT) of Rs. 728.3 crore on an operating income (OI) of Rs. 10,004 crore, as compared to a net loss of Rs.544.1 crore on an OI of Rs. 10,080.2 crore during H1 FY2019. During H1 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 H1 FY2020, Grasim booked an exceptional loss of Rs. 290.3 crore towards write-off of its investments in ABIPBL due to unfavourable industry developments.

### Key financial indicators (audited, standalone)

	<b>FY2018</b>	<b>FY2019</b>
Operating Income (Rs. crore)	15,954.2	20,724.0
PAT (Rs. crore)	1,768.7	515.3
OPBDIT/OI (%)	20.7%	20.8%
RoCE (%)	8.0%	3.2%
Total Outside Liabilities/TNW (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.9	0.8
Interest coverage (times)	25.8	21.7
DSCR	6.9	5.8

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

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years				
				Date & Rating	Date & Rating	Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
1	NCD	2,000.00	1,750.00	07-Feb-20 [ICRA]AAA (Stable)	24-Apr-19 [ICRA]AAA (Stable)	22-Mar-19 [ICRA]AAA (Stable)	05-Feb-19 [ICRA]AAA (Stable)	29-Dec-18 [ICRA]AAA (Stable)	28-Jul-17 [ICRA]AAA (Stable)	-
2	CP	2,500.00	2,200.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

\*As on January 31, 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 [www.icra.in](http://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 10, 2013	9.00%	May 10, 2023	200.00	[ICRA]AAA (Stable)
INE069A08053	NCD	February 2, 2015	8.69%	February 2, 2020	300.00	[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)
INE047A14586	CP	October 30, 2019	5.88%	June 12, 2020	500.00	[ICRA]A1+
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+
INE047A14602	CP	December 20, 2019	5.60%	June 17, 2020	450.00	[ICRA]A1+
INE047A14610	CP	December 23, 2019	5.17%	March 16, 2020	200.00	[ICRA]A1+
INE047A14610	CP	December 23, 2019	5.17%	March 16, 2020	50.00	[ICRA]A1+
INE047A14628	CP	December 30, 2019	5.12%	February 28, 2020	350.00	[ICRA]A1+
INE047A14628	CP	December 31, 2019	5.12%	February 28, 2020	100.00	[ICRA]A1+
INE047A14628	CP	December 31, 2019	5.12%	February 28, 2020	50.00	[ICRA]A1+

Source: Grasim Industries Limited

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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.

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