

August 28, 2020

Birla Group Holdings Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	3,500.00	3,500.00	[ICRA]A1+; reaffirmed
Non-convertible Debenture Programme	1,500.00	1,500.00	[ICRA]AA- (Stable); reaffirmed
Total	5,000.00	5,000.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the position of Birla Group Holdings Private Limited (BGHPL) as one of the main holding companies of the Aditya Birla Group. The ratings factor in the company's equity ownership of listed Group entities including Grasim Industries Limited (rated [ICRA]AAA(Stable)/A1+), Aditya Birla Capital Limited (rated [ICRA]AAA(Stable)/A1+), Aditya Birla Fashion and Retail Limited (rated [ICRA]AA@¹/A1+) and Hindalco Industries Limited. The ratings also factor in the company's adequate liquidity position 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). Further, ICRA expects the Group to extend capital support to BGHPL, as and when required. The ratings are constrained by the standalone financials of the company and the negative net worth on its balance sheet. The outlook is Stable for the company.

Key rating drivers and their description

Credit strengths

Strategic importance by virtue of being a key holding company of the Aditya Birla Group – BGHPL is the key holding company of the Aditya Birla Group. It holds equity in several Group companies including Grasim Industries Limited, Aditya Birla Capital Limited, Aditya Birla Fashion and Retail Limited and Hindalco Industries Limited. The company also holds a stake in a number of unlisted companies of the Group. ICRA notes its strategic significance to the Group and the market value of its listed holdings, which provides comfort despite the lower revenue generation on a standalone level.

Large market value of holdings in various Aditya Birla group companies – As on March 31, 2020, the company held equity stakes in various listed and unlisted Group companies. Apart from equity investments, BGHPL extends loans to Group companies. The market value of its listed investments decreased significantly during March-June 2020 due to the Covid-19 impact. However, the market value of the quoted investments (Rs. 15,229 crore) as on August 6, 2020 was 5.23 times the book value and 4.76 times the total external debt outstanding (as on March 31, 2020).

¹ Placed on Watch with Negative Implications

Credit challenges

Negative net worth on balance sheet – BGHPL's balance sheet had a negative net worth of Rs. 993 crore as on March 31, 2020. It posted a loss of Rs. 768 crore in FY2020 on account of the write-off of the Rs. 427-crore investment in Birla TMT Holdings Pvt Ltd and high interest expenses. ICRA does take note of the proposed regulatory guidelines applicable to BGHPL (applicable when it receives an NBFC-CIC licence²) wherein its adjusted net worth shall not be less than 30% of its aggregate risk-weighted assets and the gearing will not be more than 2.5 times of its adjusted net worth³. Given the high market value of its quoted investments in Group companies (5.23 times the book value as on August 6, 2020), the company's capital adequacy and gearing on the adjusted net worth remain adequate at 70% and 1.72 times, respectively, as on March 31, 2020.

Standalone revenue dependent on stake sale and dividends declared by investee companies – The company's revenues for FY2020 were dominated by divided income, which contributed 75% to revenues followed by interest income (16%) earned on its investments in the Aditya Birla Group companies. BGHPL's finance costs, which account for a major part of its expenses, increased by 7% in FY2020 owing to the higher average debt levels. Its total income of Rs. 158 crore could cover only 33% of the finance cost in FY2020 (116% in FY2019).

Liquidity dependent on reduction of promoter stake in Group holdings – The primary mode for the repayment of the debt, apart from refinance, would be through a reduction in the promoter stake in the listed entities and capital infusion/support from the promoters.

Refinancing risk and regulatory changes effect – BGHPL reduced its commercial borrowing to Rs. 1,640 crore in March 2020 (Rs. 1,490 crore as of June 2020) from Rs. 3,475 crore in FY2019. Its total external debt (including commercial paper; CP) as of March 2020 was Rs. 3,275 crore (Rs. 3,050 crore as of June 2020) and is expected to remain in the range of Rs. 3,000-3,500 crore in FY2021. ICRA also notes that the total borrowings increased to Rs. 5,710 crore as of March 2020 (Rs. 5,148 crore in March 2019), though the increase was through borrowings from related parties. Historically, the company has been highly reliant on debt refinancing to service the principal and interest repayments. However, the market value (as on August 6, 2020) of its holdings in listed Group entities (providing 4.76 times cover of the total debt as of March 31, 2020) and the strategic holdings in non-listed Group companies provide a mitigant against the refinancing risk. In addition, ICRA takes note of the proposed changes in the regulations for an NBFC-CIC, which would also be a key rating monitorable.

Liquidity position: Adequate

BGHPL has adequate liquidity considering its stake in Grasim Industries Limited and Hindalco Industries Limited, which also qualify as high-quality liquid assets (HQLA). The total market value of investments in BGHPL was Rs. 15,229 crore (as of August 6, 2020) while the debt repayment for the period of August 2020 to March 2021 is Rs. 1,944 crore (including interest payments). Additionally, a capital infusion in the range of Rs. 100-150 crore is proposed for one of the investee companies, which would be funded through inter-corporate deposits (ICDs) from Group companies.

² BGHPL functions as a systemically important core investment company (CIC) as per the provisions of Core Investment Companies (Reserve Bank) Directions, 2016 issued by the Reserve Bank of India vide a notification dated August 25, 2016

³ Adjusted net worth means the aggregate of the net worth as appearing 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 of such investments over the book value of such investments)

Rating sensitivities

Positive triggers –

- » Sustained improvement in the standalone operating income and net profit
AND
- » Material reduction in total debt level

Negative triggers –

- » Market value of its unencumbered equity shares of listed companies goes below 4 times its outstanding debt (excluding debt from group companies, the debt cover as of August 6, 2020 as 4.76) on sustained basis
OR
- » Material increase in total debt level
OR
- » Any change in the status of being a key holding company for the group
OR
- » Deterioration in the credit ratings of any of the large group investee companies

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Non-Banking Finance Companies Rating Methodology for Holding Companies
Parent/Group Support	As BGHPL is the key holding company of the Aditya Birla Group, ICRA expects financial support from the promoter as and when required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Birla Group Holdings Private Limited is a key holding company of the Aditya Birla Group. It holds equity in several Group companies including Grasim Industries Limited, Aditya Birla Capital Limited, Aditya Birla Fashion and Retail Limited and Hindalco Industries Limited. It also holds stakes in a number of 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 support from the Group to be forthcoming to BGHPL, as and when required.

The Aditya Birla Group completed a scheme of amalgamation wherein its investment/holding companies (namely TGS Investment & Trade Private Limited, Trapti Trading & Investments Private Limited, Turquoise Investments and Finance Private Limited, Gwalior Properties and Estates Private Limited, Seshasayee Properties Private Limited and BGH Exim Private Limited) were merged with BGHPL. The said scheme came into effect from July 8, 2019.

In FY2020, BGHPL reported a loss of Rs. 768 crore on total assets of Rs. 4,768 crore compared to a loss of Rs. 27 crore on total assets of Rs. 4,933 crore in FY2019.

Key financial indicators (standalone)

Parameters	FY2019	FY2020
	Audited	Audited
Net Worth	-226	-993
Adjusted Net Worth	8,843	3,325
Total Debt*	5,148	5,710
Investments	4,419	4,659
Market Value of Quoted Investments	21,050	11,551
Book Value of Quoted Investments	2,913	2,913
Total Assets	4,933	4,768
Dividend Income	110	119
Interest Income	69	25
Net Profit on Sale of Investments	327	1
Total Income	511	158
Interest Expense	442	473
Profit after Tax	-27	-768

Amount in Rs. crore

*CPs taken at face value in total debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021) Type	Amount Rated	Amount Outstanding*	Rating History for the Past 3 Years				
				28-Aug-20	FY2020		FY2019	FY2018
					14-Apr-20	24-Jul-19		
1 Commercial paper programme	Short Term	3,500	1,490	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-
2 Non-convertible debentures programme	Long Term	1,500	0	[ICRA]AA-(stable)	[ICRA]AA-(stable)	[ICRA]AA-(stable)	-	-

*As of June 2020; Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	NA	3,500	[ICRA]A1+
NA	Non-convertible Debenture Programme	NA	NA	NA	1,500	[ICRA]AA- (stable)

Source: Birla Group Holdings Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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