ICRA

October 06, 2020 Revised

Aditya Birla Capital Limited: Rated CP amount reduced; NCD withdrawn

Summary of rating action[1]

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,000.00	300.00	[ICRA]A1+; outstanding
Non-convertible debenture programme	200.00	200.00	[ICRA]AAA(stable); outstanding
Non-convertible debenture programme	600.00	-	[ICRA]AAA(stable); withdrawn
Total	**1,800.00**	**500.00**	

Rationale

ICRA has reduced the amount of rated commercial paper (CP) programme of Aditya Birla Capital Limited (ABCL) and withdrawn the rating for Rs. 600 crore of Non-convertible debenture at the request of the company and in accordance with ICRA's policy on withdrawal and suspension.

ICRA has used the consolidated financials for Aditya Birla Capital Limited (collectively referred to as ABCL) as the basis for the rating.

The rating factors in the strong ultimate parentage in the form of Grasim Industries Limited (Grasim; rated [ICRA]AAA/Stable/[ICRA]A1+) and the strategic fit and importance of the ABCL Group, which houses all the financial services entities (lending, asset management and insurance), to the Aditya Birla Group. The support from the promoter group is demonstrated by the strong capital, operational and managerial support and the stated intent of the parent to ensure adequate capitalisation and liquidity of the ABCL Group. The rating also considers the improving diversity in ABCL's revenue profile and the management's vast experience in the financial services domain. The rating factors in the company's adequate risk management systems and processes, diversified funding profile and improving capitalisation for the current scale of operations. ABCL's capitalisation profile has been supported by internal capital generation and regular capital infusions 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 the asset quality in these segments, as the book seasons, will remain a key rating monitorable. ICRA notes the deterioration in the asset quality in FY2020 with slippages of a few corporate accounts. The timely resolution of these will be closely monitored. The rating is partially offset by the high share of corporate lending in the portfolio (including large and mid-corporate with a share of 37% and small and medium enterprises (SME) lending with a share of 22% as on June 30, 2020), with the top 20 borrowers forming 10% of the portfolio as of December 2019. ICRA takes note of the increase in the gross and net stage 3 to 3.1% and 1.9%, respectively, as on June 30, 2020, for the lending businesses and the expected overall asset quality pressure in the near term on account of the Covid-19-related lockdown. ICRA also takes note of the profitability of the ABCL Group, which has been impacted by

[1] The rating is basis the consolidated financials for Aditya Birla Capital Limited (collectively referred to as ABCL). ICRA had recently assigned [ICRA]A1+ rating to enhanced CP limit of Aditya Birla Finance Limited (subsidiary of ABCL) published on September 30, 2020.

the health insurance and housing finance businesses that are in the growth phase, and the likely impact of the lending business on profitability with the expected spike in credit costs. However, ICRA notes the diversification of the revenue profile of the ABCL 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 and their description

Credit strengths

Strong ultimate parentage of Grasim; key management personnel with vast experience in financial services domain – ABCL is a subsidiary of Grasim, which held 54.24% as of June 30, 2020 while the other promoters had a 16.24% stake. It is the holding company of all the financial services entities of the Aditya Birla Group and is a prominent growth driver for the Group. Its strategic significance to the ABCL Group is reflected in the regular capital support from the parent (Rs. 4,783 crore in the last four years). The ABCL Group enjoys strong financial flexibility by virtue of being a part of the Aditya Birla Group. ICRA expects Grasim to maintain a shareholding of more than 51% in the entity. ICRA also takes into consideration the vast experience of ABCL's key management personnel in the financial services domain.

Capitalisation supported by recent equity infusion – ABCL's capitalisation improved following a capital infusion of Rs. 2,100 crore in FY2020 from the promoters/promoter group and external investors. The leverage has moderated with an adjusted gearing (borrowings divided by adjusted net worth[2]) of 4.9 times in March 2020 (6.70 times in March 2019), given the reduction in borrowings (in line with the decline in the portfolio) and the capital infusion of Rs. 2,100 crore in FY2020. ICRA takes note of the historical support through equity infusions by the parent.

Diversified funding profile with access to market-based instruments – ABCL's (lending businesses) borrowing profile remains diversified with bank term loans, debentures, commercial paper, and external commercial borrowings forming 57%, 31%, 7% and 6%, respectively, of the total borrowing profile as on June 30, 2020. The share of commercial paper borrowings reduced to 7%, as on June 30, 2020, from 16% in March 2019. The Group maintains adequate unutilised bank lines and has a board-approved inter-corporate deposit (ICD) line from Grasim, which can be utilised in the event of a liquidity crunch. ABFL raised Rs. 1,464 crore (USD 205 million) via external commercial borrowings (ECBs) at competitive rates in FY2020 while Aditya Birla Housing Finance Limited (ABHFL) raised Rs. 354 crore (USD 50 million) during the period.

Credit challenges

Asset quality indicates deterioration due to slippages from corporate accounts; sizeable unseasoned loan assets in portfolio – ABCL reported consolidated gross and net stage 3 assets of 3.10% and 1.94%, respectively, in the lending businesses as on June 30, 2020, compared to 1.34% and 0.79%, respectively, as on March 31, 2019. An increase in delinquencies from March 2019 was seen in segments like corporate loans, digital loans and mortgage loans. 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 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 retail book.

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[2] *Adjusted net worth is calculated as sum of net worth and minority interest less net worth of insurance subsidiaries*

Further, the likely impact of Covid-19 on its borrowers' cash flow could exert pressure on the company's asset quality. ICRA notes that the company is currently carrying additional Covid-19-related provisions of Rs. 170 crore (~29 bps on the loan book). ICRA would monitor the extent of the impact of the asset quality on the company's risk profile as a sizeable share of the portfolio remained under moratorium till August 2020.

High share of non-retail lending in portfolio – ABCL's consolidated lending book stood at Rs. 58,073 crore as on June 30, 2020, with corporate lending [large & mid-corporate (37%) and SME lending (22%)] contributing a share of 58% (62% in March 2019 and 66% in March 2018) while the balance comprised retail, HNI and treasury investments. The assets under management (AUM) declined by 6% on a YoY basis with a decline being witnessed across all segments barring retail. While the mix of retail loans continues to improve with increased focus on loans like mortgage, digital, unsecured loans and housing loans, the exposure to the top 20 borrowers formed 10% of the portfolio as of December 2019. ICRA also notes that a large part of the total 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 that the Group plans to reduce the concentration of its top exposures and largely limit its lending to operating companies, going forward. Higher growth in retail lending and cautious lending to corporate are expected to improve the granularity of the portfolio in the long term.

Moderate profitability indicators with health and housing in initial stages of operations – ABCL reported profit after tax (PAT; excluding minority interest)/average net worth of 8.33% in FY2020 (9.65% in FY2019), which is low compared to peers of a similar size. The muted profits from the life insurance subsidiary and losses from the health insurance subsidiary impacted the overall profitability. PAT was also impacted by the Covid-19 provision (Rs. 108 crore) made in Q4 FY2020. For Q1 FY2021, the company reported PAT of Rs. 198 crore (Rs. 144 crore in Q4 FY2020 and Rs. 270 crore in Q1 FY2020) with a spike in provisioning (Covid-19 provision of Rs. 62 crore). Going forward, the profitability would depend on the ability of the Group to manage its credit costs in the lending business in light of the impact of Covid-19. 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 tide over weak economic cycles in a better manner in the long term.

Liquidity position: Strong (consolidated)

The ABCL Group had cash and liquid investments of Rs. 2,372 crore and unutilised bank lines of Rs. 7,534 crore as on August 31, 2020 against debt repayments of Rs. 5,627 crore due in the next six months. The liquidity profile is also supported by a board-approved ICD line from Grasim.

At the standalone level, as on August 31, 2020, ABCL has on balance sheet liquidity of Rs. 299 crore with no borrowings.

Rating sensitivities

Negative triggers – A material change in the expected level of support or a material deterioration in the credit risk profile of the parent could warrant a rating downgrade. Pressure on the ratings could also arise if there is a deterioration in the solvency levels (net stage 3 assets divided by net worth adjusted for net worth of insurance companies) to less than 20% on a sustained basis or if the adjusted gearing remains above 7.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating ICRA's Policy on Withdrawn and Suspension of Credit Rating
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 the 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 (RBI). It is the holding company of the financial services businesses of the Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited (ABNL) and Grasim Industries Limited, ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on June 30, 2020, the promoter group held a stake of 70.48% (of which Grasim holds 55.24%) in ABCL.
On a consolidated basis, the company posted a net profit of Rs. 866 crore in FY2020 on an asset base of Rs. 1,13,769 crore against a net profit of Rs. 811 crore in FY2019 on an asset base of Rs. 1,09,703 crore.

Grasim Industries Limited

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 includes cement and financial services at the consolidated level. It began as a textile 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 a 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 insulators.

Key financial indicators – ABCL (consolidated)

Rs. crore	FY2018	FY2019	FY2020
Total income	11,527	15,172	16,810
Profit after tax	693	811	866
Net worth	8,538	9,512	12,576
Total portfolio	51,380	63,119	58,073
Total assets	93,714	1,09,703	1,13,769
Return on average assets	0.81%*	0.80%	0.82%
Return on average equity	9.15%*	9.65%	8.33%
Adjusted gearing	6.1	6.7	4.9
Gross stage 3/ Gross advances	0.85%	1.34%	3.12%
Net stage 3 / Net advances	0.42%	0.79%	2.10%
Net stage 3/ Adjusted net worth	2.8%	5.9%	10.9%

**Average of assets and net worth of FY2018 as per Ind-AS and FY2017 as per Indian GAAP accounting*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	06-Oct-20	FY2020 16-Mar-20	22-Nov-19	FY2019 20-Sep-18	02-Aug-18	01-Jun-18	FY2018 05-Jun-17
1	Commercial Paper Programme	Short Term	300.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-Convertible Debenture	Long Term	200.00	0	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (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

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	300.00	[ICRA]A1+
2.	NA	Non-Convertible Debentures*	Proposed	NA	NA	200.00	[ICRA]AAA(stable)

**Proposed; as on September 25, 2020*

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 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
ABCSL – 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

Corrigendum-

Document dated October 06, 2020 has been corrected with revision as detailed below:

- Name of the section: Rating history for last three years, Page No. 6 of the document

Revision: The date of rating action changed to “October 06, 2020” from “September 06, 2020”.

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