

July 28, 2017

Grasim Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	800.00	[ICRA]AAA (Stable); assigned
Commercial paper programme	1,750.00	[ICRA]A1+; assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA (pronounced ICRA triple A)¹ to the Rs. 800.00 crore² non-convertible debenture programme of Grasim Industries Limited ('Grasim'). ICRA has also assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,750 crore commercial paper programme of the company. The outlook on the long-term rating is 'stable'. These instruments were earlier rated at [ICRA]AA+ (stable) / [ICRA]A1+, as part of Aditya Birla Nuvo Limited ('ABNL'), and now form part of Grasim due to the merger of ABNL with Grasim, effective July 01, 2017.

Rationale

The assigned ratings reflect Grasim's diversified and leading presence across businesses (manufacturing, financial services and telecommunication) and robust financial risk profile as characterised by strong cash flows and healthy capital structure, debt coverage indicators and liquidity position. While debt levels have increased following the merger of ABNL with the company, effective July 01, 2017, the financial risk profile continues to remain robust. 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), Idea Cellular Limited (Idea; an associate, with Grasim holding 28.0% stake) and Aditya Birla Capital Limited (ABCL; 55.99% subsidiary on fully diluted basis and proposed to be listed on the stock exchange soon), which are strategic investments for the Group.

The ratings also take into account the current subdued demand conditions for the textile and the insulator businesses, which are, however, expected to recover over the medium to longer term. The ratings also factor in the moderate capital expenditure (capex) and investment plans, which the company is well placed for funding from available liquidity and cash accruals. ICRA does not expect any of the investee companies to require any major financial support from Grasim. Any large investment outlay, beyond ICRA's estimates of ~Rs. 1,500 crore (including capex) for FY2018, or acquisitions by leveraging Grasim's balance sheet is a rating sensitivity.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Diversified businesses mitigate individual business risks and provide stability to cash flows** – Post merger, Grasim's standalone operations include various manufacturing businesses, namely viscose staple fibre (VSF), chemicals, fertiliser, textiles, viscose filament yarn (VFY or rayon) and insulators. In FY2017, on a pro-forma basis, the manufacturing businesses cumulatively accounted for revenues of ~Rs. 16,500 crore, of which ~66% was contributed by the VSF and the chemicals businesses (Grasim's pre-merger businesses) and the balance by ABNL's manufacturing divisions. 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 competitive 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. On a consolidated basis, the company has a presence in cement manufacturing—wherein it is the leader in the domestic market, financial services and telecommunication industry. Under financial services, the company is present in life insurance, asset management, non banking financials company (NBFC), housing finance, health insurance, broking, and money management businesses. The company has a growing presence in each of these segments and is among the top five private players in the life insurance and asset management businesses.
- **Being part of the Aditya Birla Group offers considerable financial flexibility** – Grasim is a flagship company of the Group having significant presence in diverse businesses, manufacturing and services. Post merger, Grasim holds the Group's strategic investments in cement (UTCL), telecommunication (Idea) and financial services businesses (now grouped under ABCL), among others. The company thus derives strong financial flexibility from the market value of these investments, especially in UTCL.
- **Negligible net debt of merged entity results in superior financial profile** – On a pro-forma basis, the merged entity (Grasim and ABNL on a standalone basis) had a total debt of Rs. 3,658 crore and free cash and liquid investments of Rs. 3,104 crore as on March 31, 2017, resulting in a net debt position of Rs. 554 crore. With the combined net-worth in excess of Rs. 25,000 crore, the net gearing is low at ~0.02x (gross gearing of 0.14x) and net debt/OPBDITA of 0.21x (gross debt/OPBDITA of 1.36x), 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 and distributable surplus lying with subsidiaries.

Credit weaknesses

- **Return indicators constrained as large part of assets are deployed in strategic investments yielding minimal yearly returns; however, the company has the flexibility to divest stake in any of its investment and earn sizeable profits** – As of March 31, 2017, ~48% of Grasim's assets (pro-forma basis for combined entity) were in the form of strategic investments, which constrain the overall return on capital employed. However, these have sizeable market value buffer, which can be unlocked in case of any requirement.
- **Performance of the manufacturing divisions recently impacted by demonetisation and slowdown in demand** – Performance of each of the manufacturing divisions has been impacted in H2 FY2017 due to demonetisation and has witnessed considerable slowdown in demand. 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.

Analytical approach: For arriving at the ratings, ICRA has analysed the combined standalone business and financial profiles of Grasim and ABNL. ICRA has also taken into account the market value of the quoted equity investments along with its portfolio of unlisted investments, which accord high financial flexibility.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

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

On August 11, 2016, the Group proposed merger of 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, NBFC, 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 FY2017, Grasim reported a profit after tax (PAT) of Rs. 1,560.00 crore on an operating income (OI) of Rs. 10,342.61 crore, as compared to a PAT of Rs. 970.64 crore on an OI of Rs. 8,966.32 crore during FY2016.

Key Financial Indicators (Audited)

Standalone	FY2016	FY2017
Operating Income (Rs. crore)	8,966.32	10,342.61
PAT (Rs. crore)	970.64	1,560.00
OPBDIT/ OI (%)	17.59%	21.09%
RoCE (%)	9.76%	13.23%
Total Debt/ TNW (times)	0.13	0.04
Total Debt/ OPBDIT (times)	1.17	0.32
Interest coverage (times)	10.70	37.85
NWC/ OI (%)	19%	12%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2017 (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					July 2017			
1	NCD	Long-term	800.00	800.00	[ICRA]AAA (Stable)	-	-	-
2	Commercial Paper	Shor-term	1,750.00	875.00	[ICRA]A1+	-	-	-

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE069A08038	NCD	Jan-2013	8.99%	Jan-2018	300.00	[ICRA]AAA (Stable)
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)
	Commercial Paper	-	-	Upto one year from date of placement	1,750.00	[ICRA]A1+

Source: Grasim Industries Limited

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