

Grasim Industries Limited

October 29, 2018

Summary of rated instruments

Instrument*		Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Programme	Debenture	500.00	500.00	[ICRA]AAA (Stable); Reaffirmed
Non-Convertible Programme	Debenture	300.00	0.00	[ICRA]AAA (Stable); Withdrawn
Commercial Paper Programme		1,750.00	1,750.00	[ICRA]A1+; Reaffirmed
Total		2,550.00	2,250.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AAA (pronounced ICRA triple A) assigned to the Rs. 500.00 crore¹ non-convertible debenture (NCD) programme of Grasim Industries Limited (Grasim or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 1,750.00 crore commercial paper (CP) programme of the company. The outlook on the long-term rating is Stable.

ICRA has also withdrawn the long-term rating of [ICRA]AAA, with Stable outlook, assigned to the Rs. 300.00 crore NCD programme of the company. The rating has been withdrawn as the instrument has been fully redeemed on maturity in January 2018. There is no amount outstanding against the rated instrument.

Rationale

The reaffirmation of ratings reflects Grasim's diversified and leading presence across manufacturing businesses such as viscose staple fibre (VSF), chemicals (chlor-alkali and other value added), viscose filament yarn (VFY), textiles (linen and woollen fabric), fertilisers (urea) and insulators (porcelain). The ratings also reflect the 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 Aditya Birla Nuvo Limited (ABNL) with the company, effective July 01, 2017, the financial risk profile continues to remain robust, with Grasim being a net cash surplus company as of June 30, 2018. 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).

ICRA notes the current subdued demand conditions for the textile and the insulator businesses, which are, however, small compared to Grasim's overall business profile and are expected to recover over the medium to long-term. Further, Grasim's return indicators (return on capital employed, RoCE, of 8.0% in FY2018) are constrained as large part of assets

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

are deployed in strategic investments, yielding minimal yearly returns. However, the company enjoys financial flexibility by virtue of market value of its investments, significantly in excess of their book value. The ratings also factor in the moderate capital expenditure (capex) and investment plans of the company, which it can adequately fund from the 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 (including capex), beyond ICRA's estimates of ~Rs. 3,500 crore for FY2019, or acquisitions by leveraging Grasim's balance sheet is a rating sensitivity.

Outlook: Stable

ICRA believes that Grasim will continue to benefit from its diversified presence across manufacturing businesses under its standalone operations and generate healthy cash flows from operations to largely meet its capex and investment requirements. Thus, the company is expected to maintain its robust financial risk profile, marked by healthy liquidity. Grasim's investment portfolio is also diversified across manufacturing, financial services, fashion retail and telecommunication, and currently, there exists considerable market value buffer over the book value of its investments. This further enhances Grasim's superior financial flexibility. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capex or investment weakens liquidity.

Key rating drivers

Credit strengths

Leadership position in the VSF business

Grasim is the largest producer of VSF and has 9% share in the global man-made fibre market. Operations are highly 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. Moreover, ramping-up of the Vilayat plant and leveraging of the Liva brand has strengthened Grasim's market position. ICRA believes that the company will maintain its leadership position and benefit from the healthy 7-8% growth in demand, which will keep the utilisation rate high.

Diversified businesses mitigate individual business risks and provide stability to cash flows – Subsequent to merger of ABNL with Grasim with effect from July 01, 2017, 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 FY2018, the manufacturing businesses cumulatively accounted for revenues of ~Rs. 16,000 crore at the standalone level, of which ~85% was contributed by the VSF and the chemicals businesses. In addition, through its investee companies, the company is also present in cement, financial services and telecommunication industries. 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 market 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. Its subsidiary, UTCL, is the leader in the domestic cement industry.

Being part of the Aditya Birla Group offers considerable financial flexibility – Grasim is the flagship company of the Group having significant presence in diverse businesses, manufacturing and services. Grasim holds the Group's strategic investments in cement (UTCL), telecommunication (Vodafone Idea Limited, an associate, with Grasim holding 11.55% stake) and financial services businesses (grouped under Aditya Birla Capital Limited, ABCL; 55.99% subsidiary), among others. Grasim thus derives strong financial flexibility from the market value of these investments, especially in UTCL.

Superior financial profile with Grasim being a net cash surplus company, on a standalone basis – As on March 31, 2018, Grasim (on a standalone basis) had total debt of Rs. 2,969 crore and free cash and liquid investments of Rs. 3,379 crore,

resulting in a net cash surplus of Rs. 410 crore. With a net-worth in excess of Rs. 44,700 crore, the gearing is low at ~0.07x and total debt/OPBDITA of 0.90x, 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.

Credit challenges

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 investments and earn sizeable profits – As on March 31, 2018, ~60% of Grasim's assets were in the form of strategic investments, which constrain the overall return indicators (RoCE of 8.0% in FY2018). However, these have sizeable market value buffer, which can be unlocked in case of any requirement.

Performance of the textile and insulator divisions impacted by slowdown in demand – Performance of the manufacturing divisions such as textiles and insulators has been impacted over the past two years due to slowdown in demand. While the textile business was impacted due to slowdown in export demand and labour issues at its Rishra (West Bengal) factory, the insulator business was impacted due to increased acceptance of alternate (composite) insulators, as against the company's presence in porcelain insulators. 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. Further, contribution of these two divisions to Grasim's top line is very small (~3% of consolidated revenues).

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has combined the standalone business and financial profile of Grasim with that of ABNL for Q1 FY2018 (since the merger is effective from July 01, 2017) and analysed the same. ICRA has also considered the market value of its quoted equity investments along with its portfolio of unlisted investments, which accord high financial flexibility.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for Financial Ratio Analysis](#)

About the company

Grasim Industries Limited, the flagship company of the Aditya Birla Group, is a ~US\$ 8 billion conglomerate comprising businesses in chemicals and textiles on a standalone basis, and also includes cement, financial services, telecommunications, and fashion retail at the consolidated level. 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 96.5 million metric tonnes 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 sunrise sectors such as financial services (life insurance, asset management, non-banking financial company, 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 FY2018, Grasim (on a standalone basis) reported a profit after tax (PAT) of Rs. 1,768.66 crore on an operating income (OI) of Rs. 15,788.47 crore, as compared to a PAT of Rs. 1,560.00 crore on an OI of Rs. 10,345.65 crore during FY2017. During Q1 FY2019, Grasim (on a standalone basis) reported a PAT of Rs. 642.55 crore on an OI of Rs. 4,789.18 crore.

Key financial indicators (audited, standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	10,345.65	15,788.47
PAT (Rs. crore)	1,560.00	1,768.66
OPBDIT/OI (%)	21.1%	19.9%
RoCE (%)	13.2%	8.0%
Total Debt/TNW (times)	0.04	0.07
Total Debt/OPBDIT (times)	0.32	0.94
Interest coverage (times)	37.90	24.52

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2018 (Rs. crore)	Date & Rating October 2018	Date & Rating July 2017	Date & Rating FY2018	Date & Rating FY2017
1 NCD	Long Term	500.00	500.00	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	-	-
2 NCD	Long Term	300.00	0.00	Withdrawn	[ICRA]AA A (Stable)	-	-
3 Commercial Paper	Short Term	1,750.00	-	[ICRA]A1+	[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 Name	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	Rating withdrawn
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)
NA	Commercial Paper	NA	NA	7-365 days	1,750.00	[ICRA]A1+

Source: Grasim Industries Limited

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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