

Pilani Investment and Industries Corporation Limited

May 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	1000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	1000.00 (Rs. One thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the Commercial Paper issue of Pilani Investment and Industries Corporation Limited (PIICL) factors in the status of PIICL as one of the investment company of “Birla Group” and robust financial flexibility emanating from the equity ownership in Birla group entities including Grasim Industries Limited (*rated CARE AAA; Stable/ CARE A1+*), Hindalco Industries Limited (*rated CARE AA+; Negative/ CARE A1+*), Ultratech Cement Limited, Century Textiles and Industries Limited (*rated CARE A1+*) among others.

The rating derives strength from the strong reputation of Birla group with long track record and healthy credit risk profile of the operating entities with diversified presence across sectors as well as exhibited track record of dividend payment. Further, the rating factors in the comfortable financial risk profile backed by the enhanced market value of its holdings in Birla group entities which provides a healthy debt cover against the existing debt borrowings and any proposed borrowing. CARE notes that the management intends to limit the consolidated external borrowings (*including contingent liabilities limited to guarantees extended to subsidiaries and third parties*) to Rs.1000 crore in the near medium term.

The above rating strengths are however offset by the exposure of investments to market related volatility as well as dependence on the group entities for the interest and dividend.

Rating Sensitivities

Positive Factors: not applicable

Negative Factors

- Fall in cover of market value of investments in Birla group entities over the external outstanding debt exposure of PIICL including those of its subsidiaries below **3.00x** times owing to decline in the share price of investee companies, or rise in debt levels of PIICL
- Deterioration in credit profile of group entities of Birla group in which PIICL has equity holdings impacting PIICL's credit profile
- Change in stance of support by the Birla group

Detailed description of the key rating drivers

Key Rating Strengths

Diversified business investments with strong parentage

Birla group has demonstrated and well-established management track record. With a simplified holding structure, PIICL has greater diversity in terms of investments in group companies. PIICL holds equity shares in several flagship group companies including Hindalco Industries Limited, Grasim Industries Limited, Ultratech Cement Limited, Century Textiles and Industries Limited, Aditya Birla Capital Limited (ABCL), Aditya Birla Fashion Retail Limited (ABFRL) among others. Apart from above, the company also holds shares in some unlisted companies of the group. Strong credit risk profile of Birla group companies will ensure steady dividend inflows for PIICL and remains a key rating monitorable.

Strong financial flexibility with healthy capital structure driven by the investments in Birla group companies

PIICL derives strong flexibility from stake in various listed as well as unlisted group companies of Birla group. The investment in listed companies translates into market value of Rs.9581 crore (*as on April 28, 2021*). Being an investment holding company, PIICL extends support to its group companies via equity investments, loans, and advances. Adequate debt cover of 11.34x as on April 28, 2021 maintained by PIICL provides it with strong flexibility to refinance existing debt exposure. Any significant rise in the debt levels or substantial decline in the market capitalization in the investments will remain a key rating monitorable.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Expected sustenance of comfortable cover and likely support from Birla group

PIICL has stated to maintain the overall consolidated external debt level capped at Rs.1000 crore which provides adequate cover based on market value of investments as on April 28, 2021. The cover is supported by the strong financial flexibility in the form of equity investments in listed companies of the Birla group.

Comfortable financial risk profile

The financial risk profile of the PIICL is marked by steady dividend income and comfortable capital structure marked by overall gearing of 0.10x as on March 31, 2020 (PY: 0.06x). The holding company derives income through dividend, interest income or sale of investments given the predominance of investments (*Equity and Mutual funds*) in its asset base.

Key Rating Weaknesses

Exposure to fluctuation in market value of investments

PIICL's investment value in Birla group companies remains susceptible to the economic downturn as well as deterioration in the performance of key operating entities of the group. The financial flexibility in terms of cover available would depend to a large extent on the market sentiments and share price of listed entities. Any increase in market-related risks leading to a sharp fall in the share prices of its investments will be a key rating sensitivity factor. In case of substantial diminution in the value of investments, financial flexibility of PIICL will also be impacted.

Dependence on the group companies for growth

PIICL's major income source includes dividend and interest income. The company has received dividend and interest income of Rs.49.74 crore and Rs.98.50 crore respectively in FY20 (*PY: Rs.44.29 crore and Rs.0.16 crore respectively*) and Rs.29.13 crore and Rs.128.10 crore respectively during 9MFY21 (*refers to the period between April 01, 2020 and December 31, 2020*). With dividend and interest income being the major source of income for PIICL, its projected performance is directly linked to the performance of its group companies. Given the regulatory exposure of the various sectors in which the group is operating, any decline in the performance of the industry or adverse regulatory stance might affect revenue stream of PIICL.

As on April 23, 2021, the company's borrowing is in the form of term loan from financial institutions and outstanding commercial paper. For its repayment obligations, PIICL may have to rely on refinancing, in addition to dividend and interest income. As the major income source is not sufficient to cover the principal repayments, the company is highly exposed to the refinancing risk. However, the high market value of its holdings in listed group entities vis-à-vis the outstanding debt provides a mitigant against refinancing risk.

Impact of Covid-19 on business operations

Given PIICL does not have any own core operations, the impact of COVID-19 was limited to the fluctuation in the market value of its investments in the operating entities of Birla group. However, the substantial value of its investments and subsequent recovery in the investment market value helped in maintaining the healthy debt cover over the past one year.

Liquidity: Strong

PIICL enjoys strong financial flexibility emanating from investments in various Birla group companies (Rs.9581 crore investment value as on April 28, 2021). PIICL's management intends to maintain debt at around Rs 1000 crore over the long-term which at current value of the shareholdings shall help in maintaining adequate cover and the same is expected to sustain over medium term. The cover gives sufficient financial flexibility to refinance the maturing repayment obligation. Also, in case of adverse market movements, adequate financial flexibility through Birla group companies shall be available to improve the cover.

Analytical approach:

Standalone. PIICL has been assessed based on investment holding company criteria basis of its investment holdings in "Birla group" entities. Furthermore, for the purpose of analysis, CARE has included the consolidated debt of PIICL, and its standalone contingent liability limited to guarantees, if any, extended to subsidiaries and third parties. For calculation of the debt-cover over outstanding as well as any proposed borrowings, PIICL's stake in various group companies of "Birla group" entities have been considered.

Applicable Criteria

Criteria on rating outlook and credit watch

CARE's Policy on Definition of Default

Financial ratios – Non-Financial Sector

Liquidity analysis of non-financial sector entities

Criteria on Loans by holding company

Short term instruments

About the Company

Incorporated in August 1948, Pilani Investment and Industries Corporation Limited (PIICL) is an investment holding company of "Birla Group" with investments in group companies including Hindalco Industries Limited (CARE AA+; Stable/ CARE A1+), Grasim Industries Limited (CARE AAA; Stable/ CARE A1+), UltraTech Cement Limited, Century Textiles and Industries Limited (CARE A1+), Aditya Birla Capital Limited, Aditya Birla Fashion and Retail Limited. The company is registered with the Reserve Bank of India (RBI) as a non-deposit-taking, non-banking financial company (NBFC). The company functions as a Core Investment company (CIC) with investments in shares and securities of Birla group companies apart from providing finance to them

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	48.52	152.73
PBILDT	45.30	147.50
PAT	33.39	81.09
Overall gearing (times)	0.06	0.10
Interest coverage (times)	2.40	3.42

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7-364 days	1000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper- Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (04-May-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument: not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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