Aditya Birla Finance Limited (Revised)

October 03, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Subordinate debt	195.00 (Reduced from 250.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total	**195.00 (₹ One hundred ninety-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating of the sub-debt issue of Aditya Birla Finance Limited (ABFL) factors in its strong ultimate parentage of Grasim Industries Limited (Grasim; rated 'CARE AAA; Stable/CARE A1+') and the strategic importance of ABFL to the Aditya Birla Group (ABG). The financial services business of ABG is housed in Aditya Birla Capital Limited (ABCL; 54.18% held by ABG's flagship company, namely, Grasim), which is a diversified financial conglomerate of ABG, holding a 100% stake in ABFL. The rating also factors in the demonstrated capital support from ABG to ABFL at regular intervals, which CARE Ratings Limited (CARE Ratings) expects to continue in future as well.

The rating further derives strength from the healthy capitalisation profile, diversified portfolio mix, consistent financial performance, and the flexibility available in raising resources anchored on the shared brand name. The rating also takes into consideration the relatively high, albeit reducing, share of the corporate and wholesale lending book, which stood at around 33.2% of the lending book as on June 30, 2022, and the moderate asset quality. ABFL's ability to sustain profitability and maintain asset quality and ABG's continued support on the financial, managerial, and operational front will be the key rating monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any dilution in the expected support from ABG or dilution of ABFL's strategic linkages with ABG.
- Deterioration in the credit profile of ABCL or Grasim.
- Deterioration in the asset quality parameters such that the gross non-performing assets (GNPA) remain above 5% on a sustained basis.
- Moderation in capital buffers with a deterioration in the gearing beyond 7.5x.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and strategic importance to ABG: ABFL is a step-down subsidiary of Grasim, which holds 54.18% in ABCL, while the other promoter entities hold another 16.89%, which in turn, hold a 100% stake in ABFL. Being a step-down subsidiary of Grasim, ABFL is a key non-banking financial company (NBFC) of ABG. The strategic importance of ABFL to ABG is reflected in the shared brand identity, managerial and capital support from the parent, and the financial services business being an integral part of ABG's overall business strategy. The strength of ABG also helps ABFL in mobilising funds from diversified sources at cost-effective rates. Thus, the rating of ABFL is strongly linked to the business

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

and financial profile of ABCL, Grasim, and the overall ABG. Any material deterioration thereof will be considered a credit negative for ABFL.

Experienced management team: Each business unit of ABFL is run by well-qualified and experienced teams. The board of directors of ABFL includes experienced individuals from within and outside ABG. The management team is well qualified and has experience in various businesses and functional areas for NBFCs. Furthermore, ABG maintains oversight of ABFL's management and operations through representations on the board and key committees of the board.

Adequate capitalisation levels supported by a demonstrated track record of capital support from AB: ABFL's capitalisation remains adequate with demonstrated support from ABG and healthy internal accruals. The last capital infusion happened during FY19, of about ₹325 crore. Furthermore, the capital position is augmented on account of the healthy internal accruals and nil dividend pay-outs in FY20 and FY21, barring an interim dividend of ₹109.24 crore in FY22. The company's total and Tier-1 capital adequacy ratio (CAR) stood at 21.77% and 18.07%, respectively, as on March 31, 2022 (PY: CAR and Tier-1 at 22.70% and 18.43%, respectively), which continues to be above the regulatory requirement of 15% of the total CAR and 12% for the Tier-I CAR. ABFL's gearing[2] levels are at 4.83x (PY: 4.85x),while , during Q1FY23, the company's gearing levels further increased to 5.01x with the total CAR at 20.99%. Considering ABFL's sizeable portfolio still characterised by high-ticket-sized wholesale funding at 33.2% as on June 30, 2022, although reducing consistently, the performance thereof in the current uncertain economic environment and the impact thereof on ABFL's capitalisation profile will continue to be one the key rating sensitivities. ABFL intends to maintain a gearing level at 6x on a steady basis.

Consistent financial performance: ABFL has maintained consistent profitability over the past few years, with its profit-after-tax (PAT) increasing from ₹768.83 in FY21 to ₹1,108.32 crore in FY22, registering a growth of 44.16%, while the total income increased by 4.86% only. The increase in PAT is primarily driven by a reduction in interest expense from ₹3,019 crore in FY21 to ₹2,709 crore in FY22, which was in line with the industry trend. The net interest margin (NIM) percentage improved to 5.27% in FY22 from 4.43% in FY21 because of a reduction in the cost of borrowings along with a marginal increase in the yield-on-advances, aided by growth in the retail loan book. The operating cost (opex/average total assets) saw a rise in FY22, to 1.77% from 1.56%, on account of the increased employee cost with growth in new geographies and Information Technology expenses due to an increase in the retail digital business. The credit costs for the company declined slightly to 1.22% in FY22 as compared with 1.34% in FY21, primarily due to lower slippages, while the write-offs increased from ₹542.29 crore in FY21 to ₹598.97 crore in FY22. Continuing the performance, ABFL registered a quarterly profit of ₹335.17 in Q1FY23 (₹234.59 in Q1FY22). In an increasing interest rate scenario, the ability of ABFL to maintain interest spread and credit cost will be key monitorable. CARE Ratings Limited (CARE Ratings) expects ABFL to maintain net interest margin (NIM) as it gradually expands into unsecured retail lending by tapping digital lending platforms (retail digital book size increased from ₹629 crore in FY21 to ₹2,676 crore in FY22 and further increased to ₹4,597 crore in Q1FY23).

Diversified portfolio mix, with the majority of the book being secured in nature: As on June 30, 2022, the company operates under four key segments – large and mid-corporate lending (33.2% of the loan book), SME lending (25.3%), high net worth individuals (HNI) and others (6.5%), and retail lending (35.0%). ABFL's lending book reported a 13.3% growth in FY22, which further increased by 4.81% in Q1FY23. The FY19 share of the retail book as a percentage of the loan book has grown from 13% to 35% in Q1FY23, while the high-ticket size wholesale lending represented by the large and mid-corporate book has reduced from 47% in FY19 to 33.2% in Q1FY23, indicating a change in strategy to focus more on the diversified retail loan book adopting digital channels. The digital retail lending ecosystem formed 15.04% in FY22 (PY: 5.56%) of the overall retail portfolio and further improved to 22.70% of the overall retail portfolio in Q1FY23 and is expected to be a major growth contributor to the assets under management (AUM). Furthermore, around 75.2% (PY: 81.53%) of ABFL's total outstanding exposure is backed by security, either in the form of charge on the fixed or current assets, or property or charge on the high-quality securities under its loan against shares (LAS) book.

[2] Gearing: Total Borrowings/Tangible Networth (Networth adjusted for deferred tax assets and intangibles assets)

[3] Credit cost = Provisioning and write off/ Average total assets (Total assets adjusted for Deferred Tax assets and Intangible assets)

The supply chain financing business is unsecured, and it is done mostly in the ABG eco-system, adding to comfort. Even in the case of the corporate finance book, which has a portion of unsecured lending, it has given loans to higher-rated entities and reputed groups, thereby reducing the riskiness inherent with higher ticket sizes.

Diversified resource profile and resource-raising ability: The company's resource profile is well diversified, with term loans accounting for 45.67% (PY: 42.6%), non-convertible debentures (NCDs) accounting for 27.50% (PY: 32.5%) of the total funding in FY22, while the remaining funding of 26.73% (PY: 24.9%) coming through cash credit (CC) or working capital demand loans (WCDL), commercial papers (CPs), external commercial borrowings (ECB), and subordinate liabilities. ABFL also has a diversified lenders base, in terms of banks, mutual funds, corporates, foreign institutional investors (FIIs), insurance, and provident funds (PFs). During FY22, the company has been able to raise long-term money of ₹12,719 crore (term loans of ₹9,460 crore from banks, ₹2,939 crore through debentures, and ₹320 crore through subordinated debt). ABFL is heavily dependent on borrowings to fuel the growth in its loan book. The borrowings increased from ₹41,215 crore in March 2021 to ₹45,985 crore in March 2022 and further to ₹49,307 crore in June 2022. The gearing thus increased from 4.85x to 5.01x in Q1FY23. Nevertheless, ABFL also benefits from the significant flexibility in raising resources on account of the shared brand name with ABG, which CARE Ratings expects to continue.

Key rating weaknesses

Significant deterioration in asset quality: ABFL's asset quality metrics deteriorated in FY22 on account of higher stage 3 assets as compared to FY21. The gross and net stage 3 stood at 3.58% (PY: 2.93%) and 2.19% (PY: 1.73%), respectively, as on March 31, 2022, whereas the net non-performing assets (NNPA) to net worth stood at 12.43% (PY: 9.80%). Furthermore, in Q1FY23, the gross and net stage 3 stood at 3.70% and 2.17%, respectively, while the NNPA to net worth stood at 12.54%. As on March 31, 2022, 13,805 (PY: 21,079) accounts were restructured, amounting to ₹1,792.37 crore (PY: ₹1,194.68 crore), representing 3.01% (PY: 2.32%) of the gross loan outstanding. In FY22, the top 20 customers' non-perming assets (NPAs) amounted to ₹1,103 crore (PY: ₹850.8 crore), representing 56.39% (PY: 59.76%) of the total NPAs, indicating highly concentrated stress in large-ticket size loans. In FY22, assets worth ₹598.97 crore (PY: ₹542.29 crore) were written off, representing 1.23% (PY: 1.16%) of the opening advances. ABFL's asset quality deteriorated in FY22, mainly due to slippages in some large corporate account exposures into NPAs. As informed by the company, these exposures are secured and adequately collateralised, and the resolution process is underway for these exposures. Provisions maintained as per Ind AS 109 stood at ₹1,074.82 crore (PY: ₹1,021.18 crore) and are well more than the requirement as per the Income Recognition, Asset Classification and Provisioning (IRACP) norms of ₹761.49 crore (PY: ₹603.91 crore). ABFL is gradually increasing its retail loan book, evident from the fact that the retail book size increased from ₹11,327 crore (23.26%) in FY21 to ₹17,788 crore (32.2%) in FY22 with a further increase to ₹20,248 crore (35%) in Q1FY23. CARE Ratings acknowledges ABFL's conscious strategy to de-risk its wholesale lending book by reducing the average ticket sizes and considers the performance of this book as well as of the gradually growing unsecured retail lending book to be key monitorable as far as asset quality is concerned. Nonetheless, CARE Ratings continues to derive comfort from the fact that, in FY22, 75% (PY: 81.53%) of the loans are secured by tangible assets, guarantees, working capital and book debt, and the company expects to recover all outstanding once legal proceedings are completed.

Inherent concentration risk due to higher proportion of wholesale lending though reducing consistently: The total lending to the large and mid-corporate segment (structured finance, project loan, construction finance and terms loans (TL)/WCDL) stood at ₹19,222 crore, constituting around 33.2% of the total lending book in Q1FY23. However, the concentration risk is reducing mainly due to the gradually increasing proportion of retail loans (loan against property (LAP), unsecured and digital), whose proportion in the total loan book has increased from 23.26% in Q4FY21 to 32.2% in Q4FY22 and further increased to 35.0% in Q1FY23.

Liquidity: Adequate

ABFL's asset and liability management (ALM) profile as of June 30, 2022, as submitted by the company, shows cumulative positive mismatches in the up to one-year buckets. ABFL had debt outflows of ₹21,307 crore in the up to one-year bucket, against which, ABFL has an advances inflow of ₹22,235 crore during the same period, covering the outflows by over 1x.

That said, in the opinion of CARE Ratings, this reflects dependence on the drawl of unutilised sanctioned lines of ₹6,235 crore (short-term: ₹2,955 crore and long-term: ₹3,820 crore) as on June 30, 2022, to support disbursements and debt repayments. Furthermore, ABFL's high-quality liquid assets (HQLA) stood at around ₹2,333 crore as on June 30, 2022. CARE Ratings expects ABFL to have the ability and financial flexibility to raise required resources on the back of the strength of its shared brand name with ABG.

Analytical approach

The standalone business profile of ABFL along with linkages with its parent, ABCL and/or Grasim, is considered.

Applicable criteria

Rating outlook and credit watch
CARE Ratings' policy on Default Recognition
Criteria for non-banking financial companies
Financial ratios – Financial sector
Consolidation
Factoring linkages with parent sub JV group

About the company

ABFL was incorporated in 1991 and was formerly known as Birla Global Finance Limited. It is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. ABFL is a step-down subsidiary of Grasim (CARE AAA; Stable). ABCL (erstwhile Aditya Birla Financial Services Limited), which is a subsidiary of Grasim, holds a 100% stake in ABFL. ABFL operates under various business segments such as large corporate, mid-corporate, SME, promoters, and ultra HNI and retail. The strategic importance of ABFL to ABG is reflected in the in shared brand identity and the managerial and capital support from the parent. ABFL's lending book stood at ₹57,839 crore as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total income	5,528	5,797	1,619
PAT	769	1,108	335
Adjusted total assets*	50,412	56,629	60,528
Net stage 3 (%)	1.73	2.19	2.17
ROTA (%) ^	1.51	2.07	2.29

A: Audited.
* Adjusted Total Assets: Total assets adjusted for Deferred Tax assets and Intangible assets
^ ROTA = Profit after tax / Average total assets (Total assets adjusted for Deferred Tax assets and Intangible assets)

ABCL: Holds 100% ownership of ABFL

ABCL is the holding company for the financial services businesses of ABG.
ABCL's subsidiaries have a strong presence across protecting, investing, and financing solutions. ABCL is a universal financial solutions group catering to the diverse needs of its customers across their life stages. Powered by more than 30,500 employees, the subsidiaries of ABCL have a nationwide reach, with 1,048 branches and more than 200,000 agents or channel partners and several bank partners.
The company's consolidated total assets stood at ₹141,139 crore (up 13.55% y-o-y) as on March 31, 2022. The company's consolidated PAT for FY21 reflected a growth of 50% y-o-y to ₹1,660 crore. Its gearing ratio stood at 4.83x as on March 31, 2022, while its net worth stood at ₹17,090 crore.

Grasim: Holds 54.18% in ABCL and other promoter entities hold another 16.89% in ABCL

Grasim, a flagship company of ABG, ranks among the top publicly-listed companies in India. Grasim is celebrating 75 glorious years of its existence. Incorporated in 1947, it started as a textile manufacturer in India. Today, it has evolved into a leading diversified player, with a leadership presence across many sectors. It is a leading global producer of viscose staple fibre and viscose filament yarn, the largest chlor-alkali; advanced materials; linen yarn and fabrics producer in India. The company has forayed into the paints business and is setting up six plants pan-India across locations. Through its subsidiaries, UltraTech Cement and Aditya Birla Capital, it is also India's largest cement producer and a leading diversified financial services player. The company reported consolidated net revenue of ₹95,701 crore and earnings before interest, taxes, depreciation, and amortisation (EBITDA) of ₹17,772 crore in FY2022.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Subordinated debt	INE860H08DI6	June 04, 2013	9.85%	June 02, 2023	100.00	CARE AAA; Stable
Subordinated debt	INE860H08DJ4	December 12, 2014	9.75%	December 12, 2024	50.00	CARE AAA; Stable
Subordinated debt	INE860H08DK2	January 09, 2015	9.45%	January 09, 2025	45.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debt-Subordinate debt	LT	195.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (09-Oct-19)
2	Debt-Subordinate debt	LT	-	-	-	-	-	1)Withdrawn (09-Oct-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Debt-Subordinate debt	Complex

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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