Grasim Industries Limited

February 05, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Commercial Paper (CP) issue/Short Term Loan	**1500.00 (One thousand five hundred crore)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Other rated facilities and instruments

Facilities	Amount (Rs. crore)	Rating
Short Term Bank Facilities (Non-Fund Based)	3350	**CARE A1+ (A One Plus)**
Long Term Bank Facilities (Fund Based)	900	**CARE AAA; Stable (Triple A; Outlook: Stable)**
Long Term Bank Facilities (Term Loan)	606	
Proposed NCD Issue (Long-term umbrella rating)	1000	

Detailed Rationale and Key Rating Drivers

The reaffirmation of the rating assigned to the proposed commercial paper issue of Grasim Industries Limited (GIL) continue to derive strength from its leadership position in the VSF business and being one of the leading producers of Caustic Soda in India, diversified business profile (VSF, chemicals, etc.), robust fund raising ability and strong financial flexibility being the flagship company of the Aditya Birla group with substantial market value of its strategic investments especially UltraTech Cement Ltd. The ratings also factor in strong financial risk profile marked by healthy operating efficiencies resulting into robust liquidity position, amongst others.

The rating also takes into consideration recovery in operations post the easing of restrictions due to nationwide lockdown enforced to contain the COVID19 outbreak. Although, all of the company's plants have resumed operations, the near term outlook for the VSF as well as the caustic soda segment continues to remain challenging on account of fall in realisations and low demand from user industries. CARE draws comfort from GIL's strong liquidity position over the medium term in form of undrawn working capital limits and cash & liquid investments sufficient to cover its fixed costs and debt repayments in the near term.

CARE has also noted the recent announcement made by the company to foray into the paints business at an initial capital outlay of Rs. 5,000 crore to be deployed over a period of three years. The same is expected to be funded through a mix of debt and internal accruals.

These rating strengths are susceptible to fluctuation in prices and exposure to risks associated to cyclicality in the VSF business and subdued ROCE owing to large investment made in strategic business.

Negative Factors

- Any significant weakening in the company's profitability and/or increase in debt-funded capex or greater than envisaged investment outlay
- Sluggishness in operational performance leading to significant decline in PBILDT margins on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Leadership position in the VSF industry

Aditya Birla Group is the global leader in VSF manufacturing with a leading share of global market and is the largest producer of VSF in India. GIL is India's pioneer in VSF, a man-made, bio-degradable fibre with characteristics akin to cotton. VSF is widely used in apparels, home textiles, dress material, knitted wear and non-woven applications. VSF operations are largely integrated with pulp plant, caustic soda plants in India along with captive thermal power plants and strong product mix leading to operational efficiency. Brownfield capacity expansion of VSF and caustic soda at Vilayat and leveraging Liva initiative shall further consolidate GIL's market position in the domestic market.

Diversified business profile

GIL's core businesses (on standalone basis) comprises of viscose Staple fibre (VSF), caustic soda, speciality chemicals, rayon-grade wood pulp (RGWP) with plants at multiple locations. GIL is the leading producer of caustic soda, post-merger with Aditya Birla Chemicals Limited (ABCL), caustic soda capacity has increased to 1,147 ktpa. Furthermore, post-merger with Aditya Birla Nuvo Limited (ABNL), GIL now has a more diversified business profile through addition of viscose Filament yarn

[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

(VFY a.k.a. Rayon), textiles, agriculture, and insulator businesses, however size of these businesses is not material. Apart from a strong market position and economies of scale, core businesses have healthy operating efficiencies.

Strong financial flexibility
Aditya Birla group, led by Mr Kumar Mangalam Birla, enjoys a leading presence across several business segments including metals, cement, telecom, financial services, textiles, etc. GIL derives strong financial flexibility being the holding company of the group having diversified presence across businesses with substantial market value of its strategic investments especially Ultratech and robust fund raising ability. GIL holds major strategic investments in subsidiaries such as Ultratech Cement Ltd (57.28%), Aditya Birla Capital Limited (54.12%) amongst others. These businesses are substantial and remain strategic to the group thereby making GIL a significant entity within the group.

Muted operational performance
The company has sound fundamentals characterised by a robust business model in its core business segments, high bargaining power with suppliers and customers, strong distribution network and healthy profitability. FY20, on account of outbreak of COVID19 pandemic, subdued demand and lower realisations saw fall in operational performance.
VSF Segment**:** Revenue from the VSF segment declined by 54.71% to Rs. 2,237 crore in H1FY21, whereas PBILDT slumped by 90.28% to Rs. 80 crore. For H1FY21, segment's performance deteriorated significantly on account of nationwide lockdown due to COVID-19, fall in realisation of VSF on account of capacity overhang and reduced global demand leading to further fall in prices by 6% on a QoQ basis and 26% on a YoY basis.
The company undertook cost optimisation measures which resulted in cost saving of Rs. 186 crore and Rs. 116 crore in Q1FY21 and Q2FY22 respectively. The company's VSF business capacity utilisation level touched 100% in Oct.2020.The increase in spread between VSF and cotton augurs well for the company.
Chemical Segment**:** Revenue from the chemical segment declined by 35.80% to Rs. 1,830 crore in H1FY21, whereas PBILDT slumped by 68.29% to Rs. 228 crore. For H1FY21, the performance declined sharply on account of lower volume off-take due to lockdown imposed on account of COVID-19 and fall in realisations on a sequential basis due to oversupply in global markets. Chlorine realisations however, turned positive due to demand from disinfectant and hygiene products from organic intermediaries and agrochemical industries.

Healthy financial risk profile
Healthy accruals over the past several years have resulted in a strong financial profile for GIL, despite investments in subsidiaries/related parties and ongoing capex. The company's debt levels have increased in FY20 on account of additional investment in investee companies and ongoing capex. Despite increase in debt GIL's financial risk profile remains healthy supported by robust overall gearing.
Further, the recent scheme of arrangement entered by the company to divest its fertiliser business for a consideration of Rs. 2,649 crore, subject to working capital adjustments and requisite approvals is expected to strengthen the company's financial risk profile.

Capacity expansion projects and divestment of fertiliser business
The company has in last financial year guided for a total capex outlay of Rs. 4,947 crore for FY21 and subsequent years, towards expanding capacities in the VSF and caustic soda segments as well as normal modernisation and maintenance capex in existing businesses. However, due to Covid-19 pandemic and ensuing restrictions, the same was initially put on hold. Post, the easing of restrictions, GIL resumed its capex from Q2FY21 and has guided total capex of Rs. 1,852 crore in FY21. The capex for FY22 and subsequent years is currently being reviewed by the management. The recent announcement by the company to diversify into paints business with an initial capital outlay of Rs. 5,000 crore, to be utilised over a period of three years, will be funded through a mix of debt and internal accruals. Although, the development is at a nascent stage, successful execution within envisaged timelines and budget will be the key rating monitorable.
The board of directors on November 12, 2020 approved the sale of company's fertilizer business – Indo Gulf Fertilizers on a going concern basis to Indorama India Private Limited through slump sale for a lump sum cash consideration of Rs. 2,649 crore, subject to working capital adjustments and requisite approvals. The deal is expected to be closed in 9 months.
GIL has partnered with Lubrizol Advanced Materials to manufacture and supply chlorinated polyvinyl chloride (CPVC) resin. A 100KTPA plant will be constructed at Vilayat, Gujarat. Lubrizol will fully invest in the project and license the technology to GIL whereas land, materials and utilities will be provided by the latter. GIL will manage the plant for commercial consideration and will manufacture exclusively for Lubrizol.

Large investments made in strategic businesses
A large part of Grasim's assets are deployed in strategic investments i.e. ~71% of tangible net worth as on March 31, 2020. Although the returns generated from these investments are low, some of these investments have substantial market value especially Ultratech Cement Limited.

Financial support to subsidiaries/associates/group companies

GIL in FY20 has invested Rs. 3,837 crore in its subsidiaries/associates/group companies. Of this Rs. 2886.34 crore pertains to investment in Vodafone Idea Limited and Rs. 770 crore in its subsidiary ABCL through preferential allotment. The company has been investing through cash generated from internal accruals and liquidation of current investments. Any capital call towards Vodafone Idea Limited or additional support to other subsidiaries/associates/group companies may impact the company's liquidity profile and continues to remain a key rating monitor able.

Status of income tax demand pertaining to demerger of financial services and Penalty levied by CCI

CARE notes the Competition Commission of India's (CCI's) order dated March 16, 2020, imposing a penalty of Rs. 301.6 crore in respect of the VSF turnover of the company as well as the demand of Rs. 3,786.40 crore (which as per the company has reduced from Rs. 6,6351.51 crore as on March 31, 2020) raised by the Deputy Commissioner of Income Tax (DCIT) on account of dividend distribution tax (DDT, including interest), pursuant to the composite Scheme of Arrangement between Grasim, Aditya Birla Nuvo Limited (ABNL) and Aditya Birla Financial Services Limited (now known as ABCL). The above matters are currently subjudice. CARE would continue to monitor the development. The adjudication of the demand and the subsequent impact on the company's financials will remain critical from credit perspective.

Exposure to risks related to cyclicality in the VSF business

The VSF demand remains impacted by any downturn in the economy. Besides, it faces intense competition from other fibres, mainly cotton and polyester staple fibre leading to fluctuation in profitability. VSF improves the moisture absorption of blended yarn however cotton can be used instead of VSF in the manufacture of blended yarn. Hence, demand for VSF will be influenced by movements in cotton prices. Grasim's strong market position aided by largely backward integration of operations should help it manage any downturn in the industry.

Liquidity Analysis: Strong

GIL being the flagship company of the Aditya Birla Group enjoys strong financial flexibility in terms of raising low cost debt from financial institutions and refinancing the maturing debt. The company is the holding company of Ultratech Cement Limited and Aditya Birla Capital Limited (Stake value as on Dec 31, 2020 for both companies' combined was over Rs. 98,000 crore).

GIL has strong liquidity in the form of undrawn working capital lines. Low average utilisation of 23.35% for trailing 12 months November 2020 for fund based limits under consortium and cash & cash equivalents (incl. liquid investments) over Rs. 2,600 crore (as on September 30, 2020) is sufficient to service scheduled debt repayments of Rs. 181 crore in FY21.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology for Manmade Yarn Manufacturing Sector
Criteria for Short Term Instruments
Financials Ratio-Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Grasim Industries Limited (GIL), the flagship company of the Aditya Birla group, ranks amongst India's largest private sector companies. On standalone basis, GIL's core businesses comprise of viscose Staple fibre (VSF), caustic soda, speciality chemicals, rayon-grade wood pulp (RGWP) with plants at multiple locations. It also has certain other businesses such as fertiliser, textile, etc. GIL has an aggregate VSF capacity of 578 kilo tonnes per annum (KTPA) and rayon grade caustic soda capacity of 1,147 KTPA (as on September 30, 2020).

On consolidated basis, GIL has presence in other businesses such as cement and financial services. In cement, through its subsidiary UltraTech Cement Limited (UltraTech; 57.28% stake as on December 31, 2020), which is a leading cement player in India having installed capacity of 114.8 Mn. TPA of grey cement in India and overseas (as on September 30, 2020). In financial services, the company has presence through its subsidiary Aditya Birla Capital Limited (ABCL, 54.21% stake as on December 31, 2020).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Income from operations	20,346	19,135
PBILDT	4,571	2,836
PAT	515	1,270
Overall gearing (times)	0.08	0.14
Interest coverage (times)	23.06	9.33

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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
Short Term Instruments-CP/ Short Term loan	-	-	7 days to 364 days	1500.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)
2.	Fund-based - LT-Term Loan	LT	606.00	CARE AAA; Stable	1)CARE AAA; Stable (09-Jul-20)	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)
3.	Non-fund-based - ST-BG/LC	ST	3350.00	CARE A1+	1)CARE A1+ (09-Jul-20)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (10-Oct-17)
4.	Short Term Instruments-CP/ Short Term loan	ST	1500.00	CARE A1+	-	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (10-Oct-17)
5.	Fund-based-Long Term	LT	900.00	CARE AAA; Stable	1)CARE AAA; Stable (09-Jul-20)	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)

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.*

Contact us

Media Contact
Mradul Mishra
Contact no.: 022-68374424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Pulkit Agrawal
Contact no.: 022-67543505
Email ID: pulkit.agrawal@careratings.com

Relationship Contact
Name: Ankur Sachdeva
Contact no.: 022-67543495
Email ID: ankur.sachdeva@careratings.com

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