

Grasim Industries Limited

December 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,506.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	3,350.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	4,856.00 (₹ Four thousand eight hundred fifty-six crore only)		
Non-convertible debentures	1,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	1,000.00 (₹ One thousand crore only)		
Commercial paper	1,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	1,500.00 (₹ One thousand five hundred crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Grasim Industries Limited (GIL) continue to derive strength from its leadership position in the VSF business and being leading producers of caustic soda in India. The ratings also derive comfort from the diversified business profile of GIL (viscose staple fibre [VSF], chemicals, etc), its strong financial flexibility being the flagship company of the Aditya Birla group with a substantial market value of its strategic investments, especially UltraTech Cement Ltd. The ratings also factor in the strong financial risk profile, marked by healthy operating efficiencies and a strong liquidity position. The ratings also take into consideration the healthy operational performance in FY22 and H1FY23 on account of improved demand in the VSF and caustic soda segments and improvement in realisations of caustic soda.

CARE Ratings Limited (CARE Ratings) also notes that the company intends to foray into the paints business at a capital outlay of ₹10,000 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. CARE Ratings also notes GIL's plans to foray into B2B e-commerce platform for building materials segment with an investment of around ₹2,000 crore over the next five years.

GIL's foray into the paints segment and B2B business will further diversify its business profile, supported by a strong financial profile. The timely execution within the cost envisaged and GIL's ability to expand in new operations while gaining the envisaged market share will be key monitorable.

These rating strengths are susceptible to fluctuation in prices and exposure to risks associated with the cyclicity in the VSF business and subdued return on capital employed (ROCE) owing to the large investments made in the strategic business.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Nil

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

- Higher-than-envisaged debt levels due to funding of the ongoing capex and/or higher working capital requirements, leading to a deterioration of the capital structure to 0.50x.
- Sluggishness in the operational performance, leading to a decline in the PBILDT margin to 15% or lower on a sustained basis.

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

- Any significant financial support to the subsidiaries, associate companies or group companies.
- Adverse outcome of the ₹16,897 crore income tax demand departments disputed by the company, impacting its liquidity profile.

Detailed description of the key rating drivers

Key rating strengths

Leadership position in the VSF industry: The Aditya Birla group is the global leader in VSF manufacturing with a leading share of the 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 apparel, home textiles, dress materials, knitted wear and non-woven applications. VSF operations are largely integrated with pulp plants and caustic soda plants in India, along with captive thermal power plants and a strong product mix, leading to operational efficiency. The capacity expansion of VSF and caustic soda will further strengthen GIL's market position in the domestic market.

Diversified business profile: GIL's core businesses (on a standalone basis) comprise VSF, caustic soda, speciality chemicals, and rayon-grade wood pulp (RGWP) with plants at multiple locations. GIL is the leading producer of caustic soda with an installed capacity of 1,311 kilo tonne per annum (KTPA). Merger with Aditya Birla Nuvo Limited (ABNL) has further strengthened textile offerings of GIL. The company now have capabilities over the entire value chain from fibre to yarn to textile. Within textile the company has been able to create indigenous brand "LIVA". GIL also operates insulator and renewable businesses which are not material. Apart from a strong market position and economies of scale, the core businesses have healthy operating efficiencies. GIL completed the divestment of its fertilisers business (Indo-Gulf Fertilisers) on a going concern basis on January 1, 2022. The total consideration was of ₹1,860 crore. GIL's foray into the paints segment and B2B business will further diversify its business profile.

Strong financial flexibility: The Aditya Birla Group, led by 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 a diversified presence across businesses with a substantial market value of its strategic investments, especially UltraTech Cement, and robust fundraising ability. GIL holds major strategic investments in subsidiaries such as UltraTech Cement (57.27%) and Aditya Birla Capital Limited (54.17%), among others. These businesses are substantial and remain strategic to the group, thereby making GIL a significant entity within the group.

Improvement in operating performance in FY22 and H1FY23: The company has sound fundamentals, characterised by a robust business model in its core business segments, high bargaining power with suppliers and customers, a strong distribution network, and healthy profitability. The improvement in operating performance is largely on account of volume growth in both, the caustic soda and VSF segments, and also due to the improved realisations in the caustic soda segment led by a recovery in caustic soda prices in FY22. The global caustic soda prices recovered from multi-year lows, with a recovery in the end-consumer demand for textile, paper, and aluminium.

VSF segment: The revenue from the VSF segment improved by 75% to ₹12,210 crore in FY22, largely on account of volume growth of 30%, partially attributed due to lower sales in FY21 owing to the COVID-19 lockdown. As compared with pre-COVID levels (FY20), the sales volume is up 9%. The share of the domestic sales volume in the overall sales volume stood at 84% in FY22 (PY: 89%) and registered a 29% y-o-y volume growth. The growing consumer preference for comfortable casual and value-for-money clothing has spurt demand for cellulosic fibre and VSF has been a key beneficiary of this shift. The share of value-added products in the overall sales mix increased by 4% y-o-y to 26% in FY22. Furthermore, the global VSF prices averaged higher by 32% y-o-y in FY22. The prices of cotton have been trending down since June 2022 post peaking in FY22; this weakness in the prices of cotton and polyester is likely to reflect in the global prices of VSF. During FY22 and H1FY23, the operating margins in the VSF segment were impacted on account of the rise in the input cost of pulp, caustic soda, and power rates. During FY22, the operating margins declined to 14.10% from 17.04% in FY21. It further declined to 10.05% in H1FY23.

Chemical segment: During FY22, the chemicals segment reported a growth of 72% on a y-o-y basis to ₹7,888 crore, largely on account of the recovery in caustic soda prices. During FY22, the operating margins improved to 19.45% from 12.88% in FY21. It further improved to 26.01% in H1FY23. The global caustic soda prices recovered from multi-year lows in FY22, with a recovery in the end-consumer demand for textile, paper, and aluminium. The global prices recovered from a low of \$338 per tonne to upwards of \$800 per tonne in FY22. The caustic soda prices in India also increased in line with the global prices. For FY22 and H1FY23, the financial performance improved significantly both, on account of improved demand and also due to improved realisations. The weak demand environment prevailed in the chlorine user industry in segments like dyes and

pigments; chlorine realisation continued to stay negative. However, global caustic soda prices have started softening, mainly due to the easing of global supply chain conditions. This has led to sequentially lower electro chemical unit (ECU) realisation in domestic markets too.

Healthy financial risk profile: Healthy accruals over the past several years have resulted in a strong financial profile for GIL, despite investments in subsidiaries and related parties and the ongoing capex. The company's debt coverage metrics have improved in FY22 and H1FY23 on account of healthy cash accruals, despite an increase in the total debt (TD) due to its capex requirements. Despite the debt-funded capex planned over the medium term, the overall financial risk profile will continue to remain strong.

Capacity expansion projects: The company on a standalone basis is planning to invest about ₹3,498 crore (excluding paints and B2B e-commerce business) in FY23 towards i) Debottlenecking and maintenance of its VSF capacity, ii) the enhancement of caustic soda capacity and iii) modernisation and maintenance capex. As on September 30, 2022, the company incurred about ₹873 crore towards the said expansion and envisages investing the balance in H2FY23. The company will fund the planned capex through a mix of debt and internal accruals. GIL is exposed to risk associated with the project implementation and stabilisation of new capacities until the completion of the expansion programme. However, the company has substantial experience and a track record in executing similar projects in the past. Therefore, project execution risk is mitigated to a large extent.

Apart from the above-mentioned expansions, GIL has also decided to foray into the decorative paints business with an capital outlay of ₹10,000 crore. Considering the changing market dynamics of the decorative paints sector, the company has accelerated the execution of the paints capacity of 1,332 million litre per annum (MLPA) with plans to commission plants in phases from Q4FY24. GIL plans to leverage UltraTech's wide distribution network of Birla White Cement for its paints business. Up to Q4FY22, an overall capex of ₹605 crore has been spent primarily on the acquisition of land parcels for the paints business. The project is on track for the commissioning of its first plant in Q4FY24 and the remaining plants by FY25 in a phased manner. The total capex for the paints business stood at ₹1,263 crore (around 13% of the total project cost) up to September 30, 2022 (₹651 crore in H1FY23).

GIL has announced its foray into the B2B e-commerce platform for the building materials segment with an investment of around ₹2,000 crore over the next five years. The platform will primarily focus on micro, small and medium enterprises (MSMEs) in the building materials segment with the potential to further extend to other relevant categories. The B2B e-commerce business plan is under execution for launch by Q2FY24 as scheduled.

Large investments made in strategic businesses: A large part of GIL's assets are deployed in strategic investments, ie, around 71% of the tangible net worth (TNW) as on March 31, 2022. Although the returns generated from these investments are low, some of these investments have substantial market value, especially UltraTech Cement. A significant decline in the market value of its investments, adversely impacting Grasim's financial flexibility, will be a key monitorable.

Financial support to subsidiaries, associates and group companies: GIL has been investing in subsidiaries, associates and group entities over the years through cash generated from internal accruals and liquidation of current investments. While some of these investments lend financial flexibility to the company, any capital call towards the subsidiaries or group companies or additional support to other subsidiaries, associates or group companies may impact the company's liquidity profile and continues to remain a key rating monitorable.

Status of income tax demand pertaining to the demerger of financial services and penalty levied by CCI: CARE Ratings notes the Competition Commission of India's (CCI's) order dated March 16, 2020, imposing a penalty of ₹301.61 crore in respect of the VSF turnover of the company as well as the demand of ₹3,786 crore (which was reduced from ₹5,872 crore in October 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, ABNL, and Aditya Birla Financial Services Limited (now known as ABCL). An additional demand of ₹8,334 crore was raised in October 2021 by the DCIL on capital gains tax on the value of shares as per the above-mentioned scheme of arrangement. The above matters are currently subjudice. CARE Ratings will continue to monitor the development. The adjudication of the demand and the subsequent impact on the company's financials will remain critical from the credit perspective. As per the company announcement dated November 30, 2022, The Income Tax Appellate Tribunal, Mumbai has held that the demerger of Financial Services Business was a qualifying merger under the provisions of the Income Tax Act, 1961 and therefore provisions of deemed dividend are not applicable. As per the said order of the Hon'ble Tribunal, the demand of DDT is not sustainable and hence quashed.

Exposure to risks related to cyclical in the VSF business: The demand for VSF remains impacted by any downturn in the economy. Besides, it faces intense competition from other fibres, mainly cotton and polyester staple fibre, leading to fluctuations in profitability. VSF improves the moisture absorption of blended yarn, however, cotton can be used instead of VSF in manufacturing blended yarn. Hence, the demand for VSF will be influenced by movements in cotton prices. GIL's strong market position, aided by largely backward integration of operations, should help it manage any downturn in the industry. The company has also been able to create a brand around its textile offerings under tag "LIVA" which assures high quality fabric.

Liquidity: 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. GIL has strong liquidity in the form of undrawn working capital lines. The low average utilisation of 2% for the trailing 12 months ended October 31, 2022, for fund-based limits under consortium and cash and cash equivalents (including liquid investments) of about ₹5,145 crore (as on September 30, 2022) is sufficient to service the scheduled debt repayments of ₹1,067.06 crore in FY23.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manmade Yarn Manufacturing](#)

[Manufacturing Companies](#)

About the company

GIL, the flagship company of the Aditya Birla group, ranks among India's largest private sector companies. On a standalone basis, GIL's core businesses comprise of VSF, caustic soda, speciality chemicals, and RGWP, with plants at multiple locations. It also has certain other businesses such as textiles, insulators, etc. GIL has an aggregate VSF capacity of 824 KTPA and caustic soda capacity of 1,311 KTPA (as on September 30, 2022). On a consolidated basis, GIL has a presence in other businesses such as cement and financial services – in cement, through its subsidiary UltraTech (57.27% stake as on September 30, 2022), which is a leading cement player in India having an installed capacity of 121.25 MTPA of grey cement in India and (as on September 30, 2022) and in financial services, the company has a presence through its subsidiary, ABCL (54.17% stake as on September 30, 2022).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	12,814.68	21,683.91	14,797.49
PBILDT	1,996.00	4,036.23	3,076.06
PAT	905.00	3,051.27	1,460.74
Overall gearing (times)	0.11	0.11	0.10
Interest coverage (times)	8.46	16.59	17.91

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of interest of independent/ non-executive directors of CARE Ratings:

Name of Director	Designation of Director
Adesh Kumar Gupta	Non-Executive - Independent Director
V Chandrasekaran	Non-Executive - Non-Independent Director

Adesh Kumar Gupta, who is a Non-Executive - Independent Director on the Board of GIL, is Non-Executive - Independent Director on the Board of Directors of CARE Ratings. Independent/non-executive directors of CARE Ratings are not a part of CARE Ratings' Rating Committee and do not participate in the rating process.

V Chandrasekaran, who is a Non-Executive - Independent Director on the Board of GIL, is a Non-Executive - Non-Independent Director on the Board of Directors of CARE Ratings. Independent/non-executive directors of CARE Ratings are not a part of CARE Ratings' Rating Committee and do not participate in the rating process.

Disclosure of interest of the Managing Director & CEO: Not applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of the 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
Proposed Debentures - Non-convertible Debentures	-	-	-	-	1000.00	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	01-10-2024	606.00	CARE AAA; Stable
Fund-based-Long Term	-	-	-	-	900.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	3350.00	CARE A1+
Short Term Instruments-CP/ Short Term loan*	-	-	-	7-364 days	1500.00	CARE A1+

*Details of commercial paper issue: There is no outstanding CP as on December 4, 2022.

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.	Debentures-Non-convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-21) 2)CARE AAA; Stable (05-Apr-21)	-	1)CARE AAA; Stable (07-Feb-20)
2.	Fund-based - LT-Term Loan	LT	606.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-21) 2)CARE AAA; Stable	1)CARE AAA; Stable (09-Jul-20)	1)CARE AAA; Stable (07-Feb-20)

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
						(05-Apr-21)		
3.	Non-fund-based - ST-BG/LC	ST	3350.00	CARE A1+	-	1)CARE A1+ (06-Dec-21) 2)CARE A1+ (05-Apr-21)	1)CARE A1+ (09-Jul-20)	1)CARE A1+ (07-Feb-20)
4.	Short Term Instruments-CP/ Short Term loan	ST	1500.00	CARE A1+	-	1)CARE A1+ (06-Dec-21) 2)CARE A1+ (05-Apr-21)	1)CARE A1+ (05-Feb-21)	1)CARE A1+ (07-Feb-20)
5.	Fund-based-Long Term	LT	900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Dec-21) 2)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (09-Jul-20)	1)CARE AAA; Stable (07-Feb-20)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - Not available

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

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based-Long Term	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Short Term Instruments-CP/ Short Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please [click here](#).

Note on the 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.

Contact us**Media contact**

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Arti Roy
Phone: +91-98192 61115
E-mail: arti.roy@careedge.in

Relationship contact

Name: Saikat Roy
Contact no. -022-67543404/136
E-mail: saiikat.roy@careedge.in

About us:

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