

Grasim Industries Limited (Revised)

December 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. 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 (Rs. Four thousand eight hundred fifty six crore only)		
Proposed Non-Convertible Debentures	1,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	1,000.00 (Rs. One thousand crore only)		
Commercial Paper	1,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short term Instruments	1,500.00 (Rs. One thousand five hundred crore only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale and Key Rating Drivers

The reaffirmation of the rating 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 one of the leading producers of Caustic Soda in India. The ratings also derive comfort from the diversified business profile of GIL (VSF, chemicals, etc.), its strong financial flexibility being the flagship company of the Aditya Birla Group with substantial market value of its strategic investments especially UltraTech Cement Ltd. (CRISIL AAA; Stable/ CRISIL A1+ as per press release dated December 28, 2020). The ratings also factor in strong financial risk profile marked by healthy operating efficiencies and strong liquidity position.

The rating also takes into consideration recovery in operations post the easing of restrictions due to nationwide lockdown enforced to contain the COVID19 outbreak. CARE Ratings (CARE) notes that the improvement in realisations of both VSF and caustic soda have benefitted GIL and have led to significant improvement in its operating profitability in H1FY22 (refers to the period from April 2021 to September 2021).

CARE also notes that the company intends 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. GIL's foray into the paints segment will further diversify its business profile supported by strong financial profile. 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 to cyclicity in the VSF business and subdued ROCE owing to large investment made in strategic business.

Negative Factors

- Higher-than-envisaged debt levels due to funding of going capex and/or higher working capital requirements leading to deterioration of capital structure to 0.50x.
- Sluggishness in operational performance leading to decline in PBILDT margins to 15% or lower, on a sustained basis.
- Any significant financial support to subsidiaries/associate companies/group companies

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

- Adverse outcome of the Rs. 14,206 crore income tax demand departments disputed by the company impacting liquidity profile of the company

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 with an installed capacity of 1,347 ktpa. Furthermore, post-merger with Aditya Birla Nuvo Limited (ABNL), GIL now has a more diversified business profile through addition of viscose filament yarn (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.

Significant improvement in operating performance in H1FY22

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. The FY21, on account of outbreak of COVID19 pandemic, subdued demand and lower realisations saw fall in operational performance but there has been a significant improvement in H1FY22 owing to relaxations of restrictions as well as improved realisations in both VSF and caustic soda segments.

VSF Segment: Revenue from the VSF segment declined by 25% to Rs.6,965 crore in FY21 largely on account of fall in volumes on account of COVID-19. The two halves of FY21 were significantly different wherein the first half saw stalled operations owing to the pandemic with recovery picking up from Q3 onwards. The growing consumer preference for comfortable casual and value for money clothing has spurt demand for Cellulosic Fiber and VSF has been key beneficiary of this shift. The share of value-added products in the overall sales mix also improved in fourth quarter of FY21. Furthermore, the VSF prices in China traded at their multiyear high in FY21. Consequently, despite lower revenue in FY21, operating margins improved owing to improved realisations in H2FY21 and better product mix. Similar trend continued in H1FY22 which led to sustained operating profitability.

Chemical Segment: During FY21, chemicals segment reported decline of 17% on a YoY basis to Rs.5,502 crore. This was on account of lower volumes due to lower demand from end user industries, decline in chlorine realisations due to oversupply and COVID-19 restrictions. As per the management, the volume off-take was lower by 91KT (around 9% decline on a YoY basis) due to COVID-19. Fall in electro chemical unit (ECU) realisations in FY21 of caustic soda due to weakened global prices on back of excess capacity, negative chlorine realisations led to sharp contraction in PBILDTM to 12.88% in FY21 from 18.31% in FY20. For H1FY22, financial performance improved significantly both on account of increased demand in the epoxy side

from auto segment and also due to improved realisations. Chlorine realisations turned positive also 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 declined in FY21 on account of lower reliance on short term borrowings.

Furthermore, 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 on a standalone basis is planning to invest about Rs.2,064 crore in FY22 towards i) Expansion of its VSF capacity, ii) Enhancement of caustic soda capacity and iii) Normal/maintenance capex. As on September 30, 2021, the company has incurred about Rs.905 crore towards the said expansion and envisages investing the balance in H2FY22. 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 stabilization of new capacities till completion of the expansion programme. However, the company has substantial experience and 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 decorative paints business with an initial capital outlay of Rs.5,000 crore, which will be utilised over a period of three years. Rs.5,000 crore will be raised through a mix of debt and internal accruals. GIL plans to leverage Ultratech's wide distribution network of Birla White Cement for its paints business. Till H1FY22, Rs.267 crore has been spent on acquisition of land parcels in Ludhiana (Punjab), Panipat (Haryana), Mahad (Maharashtra), Cheyyar (Tamil Nadu) and Chamaranjanagar (Karnataka). Environmental clearance is yet to be received. Basic Engineering and Detailed Engineering contract has been awarded for all project sites. Ordering of major equipment is under progress; Civil work to commence post environmental clearance has been received.

Large investments made in strategic businesses

A large part of Grasim's assets are deployed in strategic investments i.e. around 71% of tangible net worth as on March 31, 2021. Although the returns generated from these investments are low, some of these investments have substantial market value especially Ultratech Cement Limited. Significant decline in the market value of its investments, adversely impacting Grasim's financial flexibility will be key monitorable.

Financial support to subsidiaries/associates/group companies

GIL has been investing in subsidiaries/ associates/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 subsidiaries/ group companies or additional support to other subsidiaries/associates/group companies may impact the company's liquidity profile and continues to remain a key rating monitorable.

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.3,600 crore (which as per company was reduced from Rs.5,872.13 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, Aditya Birla Nuvo Limited (ABNL) and Aditya Birla Financial Services Limited (now known as ABCL). An additional demand of Rs.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 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 cyclicalities 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. GIL has strong liquidity in the form of undrawn working capital lines. Low average utilisation of 6% for the trailing 12 months October 2021 for fund-based limits under consortium and cash & cash equivalents (incl. liquid investments) over Rs.3,036 crore (as on September 30, 2021) is sufficient to service scheduled debt repayments of Rs. 110.96 crore in FY22. Furthermore, improving cashflows in FY22 and sales proceeds from fertilizer business will sufficiently support the company's capex plans in near term.

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, 2021).

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 September 30, 2021), 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, 2021). In financial services, the company has presence through its subsidiary Aditya Birla Capital Limited (ABCL, 54.21% stake as on September 30, 2021).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Income from operations	16,527	12,814	9,463
PBILDT	2,609	1,995	2,309
PAT	1,249	810	1,393
Overall gearing (times)	0.16	0.11	0.09
Interest coverage (times)	11.00	8.46	20.40

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information:**Disclosure of Interest of Independent/Non-Executive Directors of CARE:**

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

Mr. Adesh Kumar Gupta who is Non- Executive- Independent Director on the Board of Grasim Ltd. is a Non- Executive- Independent Director of CARE. Independent/Non-executive Directors of CARE are not a part of CARE's Rating Committee and do not participate in the rating process.

Mr. V. Chandrasekaran who is Non- Executive- Independent Director on the Board of Grasim Ltd. is a Non- Executive- Non Independent Director of CARE. Independent/Non-executive Directors of CARE are not a part of CARE's Rating Committee and do not participate in the rating process.

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

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coup on Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Various maturities	606.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC		-	-	-	3350.00	CARE A1+
Fund-based-Long Term		-	-	-	900.00	CARE AAA; Stable
Proposed Non Convertible Debentures		-	-	-	1000.00	CARE AAA; Stable
Commercial paper		-	-	7- 364days	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 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	Proposed Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	-	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)
2	Fund-based - LT-Term Loan	LT	606.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (09-Jul-20)	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	3350.00	CARE A1+	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (09-Jul-20)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (19-Dec-18)
4	Commercial Paper	ST	1500.00	CARE A1+	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (05-Feb-21)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (19-Dec-18)
5	Fund-based-Long Term	LT	900.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (09-Jul-20)	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable
Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Proposed 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	Commercial Paper	Simple

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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