Grasim Industries Limited

June 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	6,506.00 (Enhanced from 1,506.00)	CARE AAA; Stable	Reaffirmed
Short-term bank facilities	3,350.00	CARE A1+	Reaffirmed
Non-convertible debentures	1,000.00	CARE AAA; Stable	Reaffirmed
Short Term Instruments	1,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 Viscose Staple Fibre (VSF) business and being leading player of caustic soda and speciality chemicals like Epoxy polymers and curing agents 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 a substantial market value of its strategic investments, especially UltraTech Cement Ltd (CARE AAA: Stable/ CARE A1+). 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 FY23 on account of improved demand in the VSF and caustic soda segments and improved realisations in caustic soda segment.

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 starting 2022. 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 starting 2022.
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 cyclicality in the VSF business and subdued return on capital employed (ROCE) owing to the large investments made in the strategic business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Nil

Negative factors

- 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.
- Any significant financial support to the subsidiaries, associate companies or group companies.

Analytical approach:

Standalone

Outlook: Stable

The company is expected to sustain its strong financial risk profile amidst healthy cash flow generation from operations due to its integrated scale of operations and strong brand, which coupled with stable demand scenario shall enable it to sustain and improve its healthy business profile over the long term. The healthy cash accruals and strong cash and bank balances shall support its robust liquidity profile.

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

Detailed description of the key rating drivers:

Key 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 business which is 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 (54.15%), among others. These businesses are substantial and remain strategic to the group, thereby making GIL a significant entity within the group.

Healthy operating performance in FY23: 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 healthy 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 higher average caustic soda prices in FY23 as compared to last year despite fall in prices from Q2FY23.

Viscose segment: The revenue from the Viscose segment (VSF + VFY) improved by 24% to ₹15,149 crore in FY23, largely on account of volume growth of 18%, led by strong demand despite competition from imports and decline in blended realizations in H2FY23. The share of the domestic sales volume in the overall sales volume stood at 91% in FY23 (PY: 84%). 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 speciality fibre stood at 19% in FY23 (PY: 26%) due to low demand across markets. Viscose demand was adversely impacted by lower exports of textile value chain and subdued market conditions in the developed economies. During FY23, the operating margins declined to 6.81% from 14.04% in FY23. The operating margins in the VSF segment were impacted due to cost pressures from key raw materials like pulp, power and caustic soda, and low-priced imports at zero duty under FTA. However, VSF demand has improved and prices have also increased from its lows in Sep-Nov'22. Furthermore, moderation in cost pressure is being witnessed, from its peak, but still input costs continues to remain elevated.

Chemical segment: During FY23, the chemicals segment reported a growth of 32% on a y-o-y basis to ₹10,420 crore, largely on account of the higher average caustic soda prices in FY23 vis-à-vis FY22, despite fall in prices from Q2FY23. The global caustic soda prices averaged higher in Q1FY23, driven by factors like supply chain disruption and higher energy prices. The prices started to soften towards the end of June. This has led to sequentially lower ECU realisation in domestic markets too. During FY23, the operating margins improved to 21.79% from 19.45% in FY22. The global caustic soda prices improved at 19% from $556/tonne in FY22 to $659/ton in FY23. The caustic soda prices in India also increased in line with the global prices. The Electro Chemical Unit (ECU) realisation, which captures the impact of caustic soda and chlorine prices, witnessed a 33% YoY increase. Caustic soda sales volume improved in FY23 on the back of new capacities commissioned in H2FY22. The business continues to work on adding more chlorine derivatives products in the portfolio. The Speciality Chemicals (Epoxy Polymers and Curing Agents) business saw realisation level normalise from the peak seen in FY22, as global supply chain issues eased.

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 remained comfortable in FY23 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: Significant capex is expected to be incurred in FY24 and FY25 majorly for Paints and B2B e-commerce segments. 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 capex 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.

GIL has decided to foray into the decorative paints business with a 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. Till March 31, 2023, cumulative capex for paints business stood at ₹2,592 crore (around 26% of the planned outlay for paints business). During FY23, the company has spent ₹1,979 crore of capex for paints business. The capex spend is expected to peak of its requirements in the current and next year. Plants construction is progressing as planned at all six sites and all requisite approvals are in place. The company's state-of-the-art R&D laboratory and pilot plant for paints business is fully operational. Business plan implementation activities progressing for commercial launch in phases beginning Q4FY24.

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 starting 2022. 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. While the pilot operations began in January 2023, full-scale roll-out across different geographies beginning from cities in the state of Maharashtra and Madhya Pradesh is expected from Q2FY24 in a phased manner. Product categories to be covered by the platform includes cement, steel, doors, windows, kitchen, electrical, paints, sanitary ware, plumbing, pipes, fittings and tiles. B2B e-commerce platform is expected to be high growth business in terms of revenue with less capital-intensive needs, but with moderate profit margins.

Large investments made in strategic businesses: A large part of GIL's assets are deployed in strategic investments, ie, around 67% of the tangible net worth (TNW) as on March 31, 2023. 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.

Key weaknesses

Exposure to risks related to cyclicality 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 created a brand around its textile offerings under tag "LIVA" which assures high-quality fabric and through brand "LIVA" the company has been able to enhance awareness, create and expand market, and brand pull.

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 DCIT 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.

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 3% for the trailing 12 months ended May 31, 2023, for fund-based limits under consortium and cash and cash equivalents (including liquid investments) of about ₹2,932 crore (as on March 31, 2023) is sufficient to service the scheduled debt repayments of ₹768 crore in FY24.

Environment, social, and governance (ESG) risks

The company's financial strength and long-term approach give it the ability to invest in sustainable initiatives with an ambition to be at the forefront of change. The VSF business has set a target of Net Zero carbon emissions across all operations by 2040 and to reduce greenhouse gas (GHG) emissions intensity to half by 2030. Nagda Plant created the distinction of being the first viscose unit globally to achieve ZLD. The VSF business has achieved the EU Best Available Technology (BAT) compliance independently verified by a third party at its Vilayat site. The company has partnered with global organisations to speed up and integrate circular economy criteria into all its processes with an objective of extending the useful life of its products via reuse or recycling. The company is committed to sustainable forestry, circularity, and increasingly having renewable energy powering its operations. On the social front, the company undertakes various community initiatives to empower the society at large in its key areas of interventions. From a governance standpoint, the company has instituted stringent policies that are followed and updated regularly, and have an effective governance mechanism powered by the Board and its committees. On the reporting front, the company's efforts have been recognised at multiple forums. GIL received the Gold Shield for 'Integrated Reporting' and 'Excellence in Financial Reporting' by the Institute of Chartered Accountants of India (ICAI) for FY21.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

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 874 KTPA and caustic soda capacity of 1,311 KTPA (as on March 31, 2023). 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 March 31, 2023), which is a leading cement player in India having an installed capacity of 132.35 MTPA of grey cement in India and (as on March 31, 2023) and in financial services, the company has a presence through its subsidiary, ABCL (54.15% stake as on March 31, 2023).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	20,977.37	26,974.77
PBILDT	3,329.69	3,308.61
PAT	3,051.27	2,123.73
Overall gearing (times)	0.11	0.14
Interest coverage (times)	13.68	9.10

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:

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

Adesh Kumar Gupta and V. Chandrasekaran who are Non-Executive - Independent Directors on the Board of Grasim Industries Ltd. are Non-Executive - Independent Directors 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.

Disclosure of Interest of Managing Director & CEO:
Not applicable

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: Annexure-4

Lender details: Annexure-5

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
Debentures-Non Convertible Debentures*	-	-	-	-	1000.00	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	18-04-2033	5606.00	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*	-	-	-	7-365 days	1500.00	CARE A1+

*Proposed

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 2023-2024	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
1	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Dec-22)	1)CARE AAA; Stable (06-Dec-21) 2)CARE AAA; Stable (05-Apr-21)	-
2	Fund-based - LT-Term Loan	LT	5606.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Dec-22)	1)CARE AAA; Stable (06-Dec-21) 2)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (09-Jul-20)
3	Non-fund-based - ST-BG/LC	ST	3350.00	CARE A1+	-	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (06-Dec-21) 2)CARE A1+ (05-Apr-21)	1)CARE A1+ (09-Jul-20)
4	Short Term Instruments-CP/ Short Term loan	ST	1500.00	CARE A1+	-	1)CARE A1+ (05-Dec-22)	1)CARE A1+ (06-Dec-21) 2)CARE A1+ (05-Apr-21)	1)CARE A1+ (05-Feb-21)
5	Fund-based-Long Term	LT	900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Dec-22)	1)CARE AAA; Stable (06-Dec-21) 2)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (09-Jul-20)

*Long term/Short term.

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

Not available

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of 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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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