Aditya Birla Finance Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term instruments – Subordinate debt	95.00	CARE AAA; Stable	Reaffirmed
Long-term instruments – Subordinate debt	250.00	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating of the subordinate debt of Aditya Birla Finance Limited (ABFL) factors its strong parentage of Aditya Birla Capital Limited (ABCL), ultimate parentage of Grasim Industries Limited (Grasim; rated 'CARE AAA; Stable/CARE A1+'), and the strategic importance of the company to the Aditya Birla Group (ABG). The financial services business of ABG is housed in ABCL (52.7% held by ABG's flagship company, Grasim, which is a diversified financial conglomerate of ABG, holding 100% stake in ABFL. The rating further derives strength from adequate capitalisation profile, diversified portfolio mix, consistent financial performance, diversified resource profile, and flexibility available in raising resources anchored on the shared brand name. The rating also considers the relatively high, though reducing, share of the corporate and wholesale lending book and growing share of unsecured retail book, and moderate asset quality. ABFL's ability to maintain stable asset quality, profitability metrics while maintaining its gearing levels, and ABG's continued support on the financial, managerial, and operational front will be the key rating monitorable.

ABFL, through its press release dated March 11, 2024, has intimated the stock exchange that its Board of Directors has approved the Scheme of Amalgamation of ABFL with ABCL, which is its holding company. The scheme aims to help ABFL to be in compliance with the scale-based regulations of the Reserve Bank of India (RBI) which require mandatory listing of ABFL by September 30, 2025. The completion of the transaction is subject to the receipt of requisite regulatory approvals. Post the amalgamation, ABCL will be the surviving entity and will get converted from NBFC CIC (holding company) to NBFC ICC (operating company).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors - Factors that could, individually or collectively lead to positive rating action/upgrade: Not applicable

Negative factors - Factors that could, individually or collectively lead to negative rating action/downgrade:

- Dilution in expected support or dilution of ABFL's strategic linkages with ABCL/Grasim.
- Deteriorating credit profile of ABCL/Grasim.
- Deteriorating asset quality parameters such that gross non-performing asset (GNPA) remains above 5% on a sustained basis.
- Moderating capital buffers with deteriorating gearing beyond 7.5x.

Analytical approach:

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

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that ABFL will continue to increase scale of operations, maintain net interest margins (NIM), and maintain adequate liquidity profile to fund operations and growth.

Detailed description of key rating drivers:

Key strengths

Strong parentage and strategic importance to ABG

ABFL is a step-down subsidiary of Grasim (rated 'CARE AAA; Stable/ CARE A1+'). As on March 31, 2024, Grasim holds 52.7% in ABCL while other promoter entities of AB Group hold another 16.3% in ABCL. Moreover, ABCL holds 100% stake in ABFL, which

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

is a key non-banking finance company (NBFC) of ABG. The significance of ABFL to ABG is underscored by several factors, including, shared brand identity, board representation and substantial capital support. Financial services business is an integral part of ABG's overall business strategy. ABFL's association with ABG provides the company with the advantage of sourcing funds from diverse channels at competitive rates. CARE Ratings anticipates that the group will continue providing ongoing support to fund future growth.

Adequate capitalisation levels supported by demonstrated track record of capital support from ABG

ABFL's capitalisation remains adequate with demonstrated support from ABG and healthy internal accruals. There have been frequent instances of capital infusion by ABG through ABCL with latest infusion of ₹1,600 crore done in FY24. The capital position is augmented considering healthy internal accruals. The company's total and Tier-1 capital adequacy ratio (CAR) stood at 16.24% and 14.13%, respectively, as on March 31, 2024, which continues to be above the regulatory requirement. Even with the infusion in FY24, the CAR remains at similar levels as compared to last year due to increase in loan book and the RBI guidelines for increased risk weights for personal loans. In FY24, the gearing ratio has slightly improved to 6.27x from 6.46x in FY23.

Considering the significant growth plans, the company is likely to require capital in the medium term. However, with the expected amalgamation, CARE Ratings expects the gearing and CAR to improve over the short-term owing to the increase in net worth of the amalgamated company. However, on the steady state basis, it is expected to remain in the range of 6-6.5x.

Consistent financial performance metrics

The company's total income and profitability has shown improvement over the years. The increase in profit after tax (PAT) is due to the growth in loan book with similar margins. The return on total assets (ROTA) has remained stable in FY24 at 2.28% compared to 2.22% in FY23 indicating stability in the operations of the company. The NIMs slightly improved to 5.73% in FY24 compared to 5.63% in FY23.

Credit cost (credit provision/average total assets) for FY24 stood at 1.39% vs. 1.29% in FY23. Given the cautious approach of ABFL in the small-ticket personal loan segment (post RBI's circular) and the benefits accruing from a benign credit cycle, CARE Ratings expects credit costs to hover around current levels or see only minor uptick from current level going ahead as well.

ABFL's ability to maintain its profitability and credit cost will be a key monitorable. CARE Ratings expects ABFL to increase NIM (%) as it gradually expands into unsecured retail lending by tapping digital lending platforms, however, the credit cost is also expected to increase resulting in the stable ROTA.

Diversified portfolio mix, with majority of book being secured in nature

Despite rundown of wholesale book, ABFL has grown at compounded annual growth rate (CAGR) 20% from FY20-23 and reported a 31% growth in FY24. From FY22 to FY24, share of personal and consumer loans has almost doubled while the share of Corporate & Mid-market loans has come down from 37% in FY22 to 30% in FY24 depicting the focus of the company towards retail lending.

On other hand, the MSME segment constituted 53% of the total portfolio, and management plans to continue grow the same. Large share of growth has come from secured products and primarily through direct sourcing channels. Secured loans to MSME customer grew 42% YoY. Apart from the term and working capital loans the secured book also includes loans against shares (LAS), business loans against property (LAP), and a lease rental discounting portfolio. The unsecured book comprises supply chain financing and the business loans. About 43% of the unsecured portfolio is guaranteed by SIDBI. The share of retail business loans to overall book has remained range bound between 50% and 54% in the last three years with unsecured and secured business loans contributed 10% and 43% in FY24, respectively.

CARE Ratings expects strong credit growth for ABFL due to several factors: the favourable current credit environment, the potential to increase penetration within the ABCL network, the ABG group ecosystem, the availability of comprehensive digital platforms like Udyog Plus and ABCD, and planned branch expansion.

CARE Ratings acknowledges ABFL's conscious strategy to reduce its wholesale lending book by reducing average ticket sizes and considers the performance of this book and of the gradually growing unsecured retail lending book to be key monitorable as far as asset quality is concerned.

Diversified resource profile and ability to raise funds at competitive rate

ABFL's resource profile is well diversified with term loans accounting for 50% (FY23: 53%), NCDs (including sub debt and public issue NCD) accounting for 25% (FY23: 27%) of total funding in FY24, while remaining funding of 25% (FY23: 20%) came through cash credit/WCDL, commercial paper, and ECB. The company also has diversified lenders base in terms of banks, mutual funds, and corporates, FIIs, insurance, and PFs. Borrowings increased from ₹70,771 crore in March 2023 to ₹92,292 crore in March 2024. Nevertheless, ABFL also benefits from significant flexibility in raising resources at competitive rates considering shared brand name with ABG.

Key weaknesses

Moderate asset quality metrics

ABFL's asset quality matrix via gross stage 3 and net stage 3 improved in FY24 compared to FY23 with GS 3 at 2.51% in FY24 compared to 3.12% in FY23 and NS 3 at 1.27% in FY24 compared to 1.70% in FY23. The improvement in NPA was due to lower slippages, and higher write-offs and the increased size of the loan book. ABFL is gradually increasing its retail loan book and reducing wholesale book to lower the concentration risk and granularise the exposure.

Liquidity: Adequate

ABFL's high-quality liquid assets (HQLA) stood at around ₹4,916 crore as on March 31, 2024. The cash and cash equivalents and contracted inflows from loans and advances should enable the company to meet its debt obligations for next one year. CARE Ratings expects ABFL to have ability and financial flexibility to raise required resources on the back of strength of its shared brand name with ABG.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

ABFL was incorporated in 1991 and was formerly known as Birla Global Finance Company. It is registered with RBI as systemically important non-deposit-taking NBFC. ABFL is among the top five premier diversified non-bank financiers in India. The company has diversified its portfolio across a wide range of customer segments, channels and geographies with focus on retail and SME segments.

ABFL is a step-down subsidiary of Grasim (rated 'CARE AAA; Stable/ CARE A1+'). ABCL, which is a subsidiary of Grasim, holds 100% stake in ABFL. ABFL is one of the 15 upper layer NBFCs which operates under various business segments, such as large corporate, mid corporate, SME, promoters & ultra HNI, and retail. The strategic importance of ABFL to ABG is reflected in the shared brand identity and regular financial and managerial support from the parent.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total income	5,797	8,268	12,764
PAT	1,108	1,554	2,221
Total assets^	56,629	83,645	1,10,688
Net NPA (%)	2.19	1.70	1.27
ROTA (%)	2.07	2.22	2.29

A: Audited; Note: 'these are latest available financial results'
^Total assets are adjusted for deferred tax assets and intangible assets

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Subordinate debt	INE860H08DJ4	December 12, 2014	9.75%	December 12, 2024	50.00	CARE AAA; Stable
Debt-Subordinate debt	INE860H08DK2	January 09, 2015	9.45%	January 09, 2025	45.00	CARE AAA; Stable
Debt-Subordinate debt (Proposed)	-	-	-	-	250.00	CARE AAA; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Debt-Subordinate debt	LT	95.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Sep-23)	1)CARE AAA; Stable (03-Oct-22)	1)CARE AAA; Stable (04-Oct-21)
2	Debt-Subordinate Debt	LT	250.00	CARE AAA; Stable	-	-	-	-

LT: Long term

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

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of 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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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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