

## Grasim Industries Limited

February 07, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Fund Based-LT-Term Loan	606.00	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Fund Based- LT/ST-CC/ EPC/PCFC	900.00		
Non-Fund Based-ST-LC/BG	1100.00	<b>CARE A1+ (A One Plus)</b>	
<b>Total</b>	<b>2,606.00 (Rs. Two thousand six hundred six crore only)</b>		
Proposed Commercial Paper Issue*	1500.00	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
Proposed NCD Issue (Long-term umbrella rating)	1000.00	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	

\*Interchangeable between CP issue of Rs.1000 crore and Short Term Bank Loan (STL) of equivalent amount.

Details of instruments/facilities in Annexure-1

### Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities and various instruments issued by Grasim Industries Limited (GIL) continue to derive strength from its leadership position in the VSF business and leading producer of Caustic Soda in India, diversified business profile (VSF, chemicals, etc.), robust fund raising ability and strong financial flexibility being the holding company of the Aditya Birla group with substantial market value of its strategic investments especially UltraTech Cement Ltd. The ratings also positively factor in healthy financial risk profile marked by healthy operating efficiencies resulting into strong gross cash accruals, net surplus position and robust liquidity position, amongst others.

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 generating low returns.

### 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.

### 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 global market share of ~9% and is the largest producer of VSF in India. Grasim 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 at Vilayat plant and leveraging Liva initiative shall further consolidate Grasim's market position in the domestic market.

##### Diversified business profile

Grasim's core businesses (on standalone basis) comprised of viscose Staple fibre (VSF), caustic soda, speciality chemicals, rayon-grade wood pulp (RGWP) with plants at multiple locations.

Grasim is the leading producer of caustic soda, post-merger with ABCL, caustic soda capacity has increased to 1,147 KTPA. Furthermore, post-merger with ABNL, Grasim now has a more diversified business profile through addition of viscose filament yarn (VFY a.k.a. Rayon), textiles, agriculture, and insulator businesses. Apart from a strong market position and economies of scale, core businesses have healthy operating efficiencies, resulting in a robust return on capital employed.

##### Strong financial flexibility

Aditya Birla group, led by Mr Kumar Mangalam Birla, enjoys a leading presence across several business segments including metals, cement, financial services, textiles, etc. Grasim 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. Grasim holds major strategic investments in subsidiaries such as UltraTech Cement

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Ltd (57.29%) and Aditya Birla Capital Limited (56.60%). These businesses are substantial and remain strategic to the group thereby making Grasim a significant entity within the group.

### **Strong 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.

**VSF Segment:** Revenue from the VSF segment increased by 23.30% to Rs. 10,325 Crore in FY19 largely on account of increased volume. PBILDT increased by 22% to Rs. 2,052 Crore in FY19. The share of domestic has grown to 88% (as on Sep 30, 2019) of total sales as compared to about 70% in the past. The operational performance in H1FY20 deteriorated on account of fall in realisations and prices due to capacity overhang, increase in yarn imports and slowing global economy.

**Chemical Segment:** During FY19, the chemicals segment reported a strong growth of 28.64% on a YoY basis. This was on account of increase in volumes (12.87% on YoY basis) coupled with improving realisations (13.97% on YoY basis). Led by weather related disruption in the US and capacity shutdown in China on the back of environmental-related concerns the price of caustic soda rose sharply during FY19. Consequently, PBILDT increased by around 40.54% on a YoY basis in FY19. Marked by slowdown in user industries and increase in imports, the division reported pressure on the pricing during H1FY20.

### **Healthy financial risk profile**

Healthy financial risk profile is supported by robust overall gearing and strong gross cash accruals resulting into healthy debt coverage indicators, albeit transient moderation witnessed in FY18 on account of merger with ABNL and in FY19 on account of loss in investment value of Vodafone Idea Limited.

### **Capacity expansion projects**

As on September 30, 2019, the company on a standalone basis is planning to invest about Rs. 6,639 crore up to FY21-FY22 towards i) Expansion of its VSF capacity to (Brown field as well as debottlenecking) about 788 kilo tonnes per annum (KTPA) by FY21-FY22, ii) Enhancement of caustic soda capacity by 310 KTPA and iii) Normal/maintenance capex. As on September 30, 2019 the company has incurred about Rs. 1,136 crore towards the said expansion and envisages investing Rs. 2,678 crore in H2FY20.

### **Subdued ROCE due to large investments made in strategic businesses generating low returns**

A large part of Grasim's assets are deployed in strategic investments i.e. 67% of tangible net worth as on March 31, 2019 which has declined the overall RoCE to 2.06% in FY19. The subdued returns are mainly on account of fall in value of investment of Vodafone Idea Limited. However, some of these investments have substantial market value especially Ultratech Cement Limited which can be unlocked at any point of time.

### **Financial support to subsidiaries/associates/group companies**

GIL in H1FY20 has invested Rs. 2,990.50 crore in its subsidiaries/associates/group companies. Of this Rs. 2886.34 crore pertains to investment in Vodafone Idea Limited. The company in Oct 2019 invested 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 significant support will remain monitor able.

### **Status of income tax demand pertaining to demerger of financial services**

An income tax demand of Rs. 5,872.3 crore has been raised by 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 Hon'ble Bombay High Court has, however, stayed the recovery of demand vide its order dated December 12, 2019, till next date of hearing before the High Court. As per the management, the demand is not tenable in law.

CARE will 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 cyclicity 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. The company is the holding company of Ultratech Cement Limited and Aditya Birla Capital Limited (Stake value as on Dec 31, 2019 for both companies combined was more than Rs. 80,000 crore).

GIL has strong liquidity in the form of undrawn working capital lines. Low average utilisation of 3.75% for trailing 12 months Dec 2019 for fund based limits under consortium and envisaged GCA of Rs. 2,122 crore is sufficient to service scheduled debt repayments and interest of Rs. 776 crore in FY20. Apart from the investments in subsidiaries/associate companies, the company has current investments of Rs. 2,280 crore as on Sep 30, 2019. As per the management, the company also has out of consortium fund based and non-fund based sanctioned limits of Rs. 2,000 crore each which can be utilised to support its working capital requirements.

**Analytical Approach:** Standalone

### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

### About the Company

Grasim Industries Limited (Grasim), the flagship company of the Aditya Birla group, ranks amongst India's largest private sector companies. On standalone basis, Grasim'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. Grasim has an aggregate VSF capacity of 566 kilo tonnes per annum (KTPA) and rayon grade caustic soda capacity of 1,147 KTPA (as on September 30, 2019).

On consolidated basis, Grasim has presence in other businesses such as cement and financial services. In cement, through its subsidiary UltraTech Cement Limited (UltraTech; 57.29% stake as Dec 31, 2019), 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 Dec 31, 2019). In financial services, the company has presence through its subsidiary Aditya Birla Capital Limited (ABCL, 56.60% stake as on Dec 31, 2019).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Income from operations	15,848	20,346
PBILDT	3,503	4,571
PAT	1,769	515
Overall gearing (times)	0.07	0.08
Interest coverage (times)	27.34	23.06

A: Audited

### 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
Fund-based - LT-Term Loan	-	-	Mar-2028	606.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	1100.00	CARE A1+
Fund-based-Long Term	-	-	-	900.00	CARE AAA; Stable
Proposed Non-Convertible Debentures	-	-	-	1000.00	CARE AAA; Stable
Proposed 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)	1)CARE AAA (26-Oct-16) 2)CARE AAA (19-Aug-16)
2.	Fund-based - LT-Term Loan	LT	606.00	CARE AAA; Stable	-	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)	1)CARE AAA (26-Oct-16) 2)CARE AAA (19-Aug-16)
3.	Non-fund-based - ST-BG/LC	ST	1100.00	CARE A1+	-	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (10-Oct-17)	1)CARE A1+ (26-Oct-16) 2)CARE A1+ (19-Aug-16)
4.	Short Term Instruments-CP/ Short Term loan	ST	1500.00	CARE A1+	-	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (10-Oct-17)	1)CARE A1+ (26-Oct-16)
5.	Fund-based-Long Term	LT	900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)	1)CARE AAA (26-Oct-16) 2)CARE AAA (19-Aug-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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