Grasim Industries Limited

July 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Fund Based-ST-LC/BG	3350.00 (enhanced from 1100.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Fund Based-LT-Term Loan	606.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	
Fund Based- LT-CC/ EPC/PCFC	900.00		
Total	**4,856.00 (Rs. Four thousand eight hundred fifty six only)**		

Details of instruments/facilities in Annexure-1

Other rated facilities and instruments

Facilities	Amount (Rs. crore)	Rating
Proposed Commercial Paper Issue*	1500.00	**CARE A1+ (A One Plus)**
Proposed NCD Issue (Long-term umbrella rating)	1000.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**

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

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 cyclicality in the VSF business and subdued ROCE owing to large investment made in strategic business generating low returns.

The ratings also takes into consideration disruption in operations due to lockdown enforced by the governing authorities to contain the COVID19 outbreak. As of June, most of the company's plants have resumed operations albeit at sub-optimal level. The lockdown is expected to impact the cash flows over the near to medium term. CARE expects the stabilisation of operations to be slow and gradual once the COVID19 related restrictions are eased. The company over the medium term has sufficient liquidity in form of undrawn working capital limits and cash & cash equivalents to cover fixed costs and debt repayments in near term.

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.

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

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 Ltd (57.28%) and Aditya Birla Capital Limited (54.24%). These businesses are substantial and remain strategic to the group thereby making Grasim a significant entity within the group.

Muted 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. FY20, on account of outbreak of COVID19 pandemic, subdued demand and lower realisations saw fall in operational performance.
VSF Segment**:** Revenue from the VSF segment declined by 10.54% to Rs. 9,236 crore in FY20 lower volumes due to the outbreak of COVID19 and fall in realisations and subdued demand. Consequently, PBLIDT margins in its viscose segment contracted by 537 bps to 14.51%. Global VSF prices continued its slump due to capacity overhang and inventory pile up.
Chemical Segment**:** During FY20, the chemicals segment reported a sharper fall of 14.52%. Chemicals segment also witnessed deteriorating performance as lower demand from user industry, rise in the imports, weak global prices and ramping up of new domestic capacities of ~620KT resulted in weaker off take as well as realisations. Chlorine realisations were negative in Q4FY20 due to excess supply. Due to COVID19, the demand for value added chlorine products has improved due to increased usage in the health and sanitation segment.

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 in FY19 and FY20 predominantly on account of loss in investment value of Vodafone Idea Limited.

Capacity expansion projects
The company in FY20 has incurred Rs. 2,828 crore towards capacity expansion and routine capex. The balance capex to be spent is Rs. 4,947 crore. However, the same has been put on hold and is being reassessed given the current scenario.

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. ~69% of tangible net worth as on March 31, 2020 which has declined the overall RoCE. 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 FY20 has invested Rs. 3,826 crore in its subsidiaries/associates/group companies. Of this Rs. 2886.34 crore pertains to investment in Vodafone Idea Limited and 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 and Penalty levied by CCI
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 under law.
Competition Commission of India (CCI) has passed an order under section 4 of the Competition Act 2002 dated 16 March 2020, imposing a penalty of Rs. 301.61 Crore on Grasim Industries Limited in respect of its domestic Man-Made Fibre turnover.
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 cyclicality 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. The company is the holding company of Ultratech Cement Limited and Aditya Birla Capital Limited (Stake value as on Mar 31, 2020 for both companies' combined was more than Rs. 59,000 crore).
GIL has strong liquidity in the form of undrawn working capital lines. Low average utilisation of less than 10% for trailing 12 months May 2020 for fund based limits under consortium and cash & cash equivalents of more than Rs. 2,000 crore (as on May 31, 2020) is sufficient to service scheduled debt repayments of Rs. 124 crore in FY21. Apart from the investments in subsidiaries/associate companies, the company has current investments of Rs. 1,770 crore as on Mar 31, 2020.

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 Mar 31, 2020).
On consolidated basis, Grasim has presence in other businesses such as cement and financial services. In cement, through its subsidiary UltraTech Cement Limited (UltraTech; 57.28% stake as on March 31, 2020), 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 Mar 31, 2020). In financial services, the company has presence through its subsidiary Aditya Birla Capital Limited (ABCL, 54.24% stake as on March 31, 2020).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Income from operations	20,346	19,135
PBILDT	4,571	2,836
PAT	515	1,270
Overall gearing (times)	0.08	0.14
Interest coverage (times)	23.06	9.33

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	3350.00	CARE A1+
Fund-based-Long Term	-	-	-	900.00	CARE AAA; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)
2.	Fund-based - LT-Term Loan	LT	606.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)
3.	Non-fund-based - ST-BG/LC	ST	3350.00	CARE A1+	-	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (10-Oct-17)
4.	Short Term Instruments-CP/ Short Term loan	ST	1500.00	CARE A1+	-	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (19-Dec-18)	1)CARE A1+ (18-Jan-18) 2)CARE A1+ (10-Oct-17)
5.	Fund-based-Long Term	LT	900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (19-Dec-18)	1)CARE AAA; Stable (18-Jan-18) 2)CARE AAA; Stable (10-Oct-17)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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