

**Grasim Industries Limited**

December 19, 2018

**Rating**

| Facilities                                                             | Amount<br>(Rs. crore)                                                              | Rating <sup>1</sup>                             | Remarks    |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------|------------|
| Long term Bank Facilities                                              | 1,506                                                                              | CARE AAA; Stable<br>(Triple A; Outlook: Stable) | Reaffirmed |
| Short term Bank Facilities                                             | 1,100                                                                              | CARE A1+<br>(A One Plus)                        | Reaffirmed |
| <b>Total</b>                                                           | <b>2,606</b><br><b>(Rs. Two Thousand Six</b><br><b>Hundred and Six Crore only)</b> |                                                 |            |
| Non-Convertible Debenture Issue (long term umbrella rating) (Proposed) | 1,000                                                                              | CARE AAA; Stable<br>(Triple A; Outlook: Stable) | Reaffirmed |
| Commercial Paper (CP) Issue Proposed*                                  | 1500                                                                               | CARE A1+<br>(A One Plus)                        | Reaffirmed |

\*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**

The reaffirmation of ratings assigned to the bank facilities and various instruments issued by Grasim Industries Limited (Grasim) continue to derive strength from its leadership position in the viscose staple fibre (VSF) business and number one 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. 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. Financial risk profile continues to remain healthy albeit marginal moderation post the merger with ABNL effective July 01, 2017.

These rating strengths are tempered by susceptibility to fluctuation in prices and exposure to risks associated to cyclicalities in the VSF business and subdued ROCE owing to large investment made in strategic business generating low returns.

Any change in management's stance with regards to leveraging of Grasim's balance sheet for supporting group companies or significant debt funded capex/merger/acquisition impacting its financial risk profile remains key rating sensitivities.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Leadership position in the VSF business**

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. VSF operations are largely integrated with pulp plant, caustic soda plants in India along with captive thermal power plants and strong product mix (specialty fibre contributes 36% to the total revenue) 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) comprises 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 with capacity of 1,140 ktpa. Post-merger with ABNL (Aditya Birla Nuvo Limited), Grasim has a more diversified business profile through addition of viscose Filament yarn (VFY a.k.a. Rayon), textiles, agriculture, and insulator businesses, though size of these businesses is not material. Apart from a strong market position and economies of scale, core businesses have healthy operating efficiencies, resulting in a robust return on capital employed.

On consolidated basis, Grasim through its subsidiary, Ultratech Cement Ltd (Ultratech), is the market leader in cement in India with a total aggregate capacity of 93 million TPA (tonnes per annum) as on September 30, 2018 (accounting for about 21% total installed capacity of 450 million TPA in India as on September 30, 2018).

**Strong financial flexibility**

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 (60.21%), Aditya Birla Capital Limited (55.99%)

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

and associate i.e. Vodafone Idea Limited (11.55%), amongst others. These businesses are substantial and remain strategic to the group thereby making Grasim a significant entity within the group.

#### **Healthy financial risk profile**

Healthy financial risk profile is supported by robust overall gearing and strong gross cash accruals resulting into healthy debt coverage metrics. Overall gearing stood at 0.07x as on March 31, 2018, however it has liquid investments aggregating Rs.2,695 crore as on March 31, 2018 (against total debt of Rs.2,385 crore as on March 31, 2017) consequent into net cash surplus as on March 31, 2018. However, overall gearing witnessed transient moderation in FY18 (refers to period from April 01 to March 31) vis-à-vis FY17 on account of merger with ABNL. Also total debt/PBILDT marginally declined in FY18 vis-à-vis FY17, though it continues to remain strong at below unity driven by 35% growth in PBILDT.

#### **Capacity expansion projects**

The company on a standalone basis is planning to invest about Rs.7,541 crore up to FY2020-21 towards i) Expansion of its VSF capacity to (Brown field as well as debottlenecking) to 7.88 Lac tonnes per annum by FY21, ii) Enhancement of caustic soda capacity by 200 tpd and iii) Normal capex. As on September 30, 2018 the company has incurred about 758 crore towards the said expansion and envisages to invest about Rs.2,314 crore in H2FY19.

As per management, the company will fund the planned capex through internal accruals. Furthermore, the company may also use its liquid investments as discussed above to fund capital expansion plans. As far as Vilayat brownfield expansion (VSF) the construction work is expected to commence shortly.

#### **Robust liquidity**

Liquidity comfort is derived through liquid investments aggregating Rs.2,695 crore as on March 31, 2018 (against total debt of Rs.2,385 crore as on March 31, 2017) and Rs.2642 crore (including investment in mutual fund of Rs.742.81 crore) as on September 30, 2018 (against total debt of Rs.2,022 crore as on Sept 30, 2018) consequent into net cash surplus of Rs.620 crore. Also, on consolidated basis, Grasim had liquid investments balance of Rs.8,189 crore and GCA of Rs.6,627 crore for FY2017-18. Besides, average fund based limit utilization was less than 5% for last 12 months ended October 2018 signifying adequate cushion. Liquidity is further strengthened by the fact that Grasim being the holding company of the group having substantial market value of its strategic investments especially Ultratech and robust fund raising ability. Additionally, Grasim's gross cash accruals remained strong at Rs.2,436 crore in FY18 (vis-à-vis Rs.2,042 crore FY17) consequent into healthy operating cash-flows and operating free cash-flows.

#### **Key Rating Weaknesses**

##### ***Exposure to risks related to cyclicalities in the VSF business***

The VSF demand may be 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. Hence, demand for VSF will be influenced by fluctuation in cotton prices. Grasim's strong market position aided by largely backward integration of operations should help it manage any downturn in the industry.

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

A large part of Grasim's assets (i.e. 60% as on March 31, 2018) are deployed in strategic investments which has limited the overall RoCE at 8.0% in FY2018. However, these assets have substantial market value especially Ultratech which can be unlocked at any point of time.

#### **Analytical approach:**

For arriving at the ratings, CARE has considered the audited standalone financial statements published in the FY18 annual report.

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

#### **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 fertilizer, textile, etc. however size of these businesses is not material. Grasim has an aggregate VSF capacity of 546 kilo tonnes per annum (ktpa) and rayon grade caustic soda capacity of 1,140 ktpa (as on September 30, 2018). During FY15, Grasim had launched the brand 'LIVA' for VSF based products intensifying the efforts for product awareness, market expansion and establishing connect with the end customer.

On consolidated basis, Grasim has presence in other businesses such as cement, financial services, telecom, etc. In cement, through its subsidiary UltraTech Cement Limited (60.21% stake), which is a leading cement player in India with a total capacity of 93 million tonnes per annum (mtpa).

The board of directors of Grasim on August 11, 2016 had approved a composite scheme of arrangement between Grasim, Aditya Birla Nuvo Limited (ABNL) and Aditya Birla Financial Services Limited (ABFSL) (now renamed ABCL) and their respective shareholders and creditors. The Scheme was completed on July 01, 2017. The financial services business was demerged w.e.f. July 04, 2017 and Aditya Birla Capital Limited (ABCL, 55.98% stake) was listed in September 2017.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income       | 10780.92 | 16223.12 |
| PBILDT                       | 2594.75  | 3503.05  |
| PAT                          | 1560.00  | 1768.66  |
| Overall gearing (times)      | 0.04     | 0.07     |
| Interest coverage (times)    | 45.03    | 27.34    |

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

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

**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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**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                        | -                | -           | September 2025* | 606.00                        | CARE AAA; Stable                          |
| Non-fund-based - ST-BG/LC                        | -                | -           | -               | 1100.00                       | CARE A1+                                  |
| Fund-based-Long Term                             | -                | -           | -               | 900.00                        | CARE AAA; Stable                          |
| Debentures-Non Convertible Debentures (Proposed) | -                | -           | -               | 1000.00                       | CARE AAA; Stable                          |
| Short Term Instruments-CP/ Short Term loan       | -                | -           | -               | 1500.00                       | CARE A1+                                  |

\*refers to various loans with varying maturity date but not beyond September 2025 for the rated loans

**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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018                        | Date(s) & Rating(s) assigned in 2016-2017        | Date(s) & Rating(s) assigned in 2015-2016                                  |
| 1.      | Debentures-Non Convertible Debentures (Proposed) | LT              | 1000.00                        | CARE AAA; Stable | -                                         | 1)CARE AAA; Stable (18-Jan-18)<br>2)CARE AAA; Stable (10-Oct-17) | 1)CARE AAA (26-Oct-16)<br>2)CARE AAA (19-Aug-16) | 1)CARE AAA (20-Oct-15)                                                     |
| 2.      | Fund-based - LT-Term Loan                        | LT              | 606.00                         | CARE AAA; Stable | -                                         | 1)CARE AAA; Stable (18-Jan-18)<br>2)CARE AAA; Stable (10-Oct-17) | 1)CARE AAA (26-Oct-16)<br>2)CARE AAA (19-Aug-16) | 1)CARE AAA (20-Oct-15)                                                     |
| 3.      | Non-fund-based - ST-BG/LC                        | ST              | 1100.00                        | CARE A1+         | -                                         | 1)CARE A1+ (18-Jan-18)<br>2)CARE A1+ (10-Oct-17)                 | 1)CARE A1+ (26-Oct-16)<br>2)CARE A1+ (19-Aug-16) | 1)CARE A1+ (20-Oct-15)                                                     |
| 4.      | Short Term Instruments-CP/ Short Term loan       | ST              | 1500.00                        | CARE A1+         | -                                         | 1)CARE A1+ (18-Jan-18)<br>2)CARE A1+ (10-Oct-17)                 | 1)CARE A1+ (26-Oct-16)                           | 1)CARE A1+ (31-Mar-16)<br>2)CARE A1+ (10-Mar-16)<br>3)CARE A1+ (20-Oct-15) |
| 5.      | Fund-based-Long Term                             | LT              | 900.00                         | CARE AAA; Stable | -                                         | 1)CARE AAA; Stable (18-Jan-18)<br>2)CARE AAA; Stable (10-Oct-17) | 1)CARE AAA (26-Oct-16)<br>2)CARE AAA (19-Aug-16) | 1)CARE AAA (20-Oct-15)                                                     |

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