

Pilani Investment and Industries Corporation Limited (Revised)

May 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	1000.00	CARE A1+ (A One Plus)	Assigned
Total Facilities	1000.00 (Rs. One thousand crore only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial Paper issue of Pilani Investment and Industries Corporation Limited (PIICL) factors in the strong financial flexibility emanating from the equity ownership in Birla group entities including Grasim Industries Limited (*rated CARE AAA; Stable/ CARE A1+*), Hindalco Industries Limited (*rated CARE AA+; Stable/ CARE A1+*), Ultratech Cement Limited (*rated CARE AAA; Stable/ CARE A1+*), Century Textiles and Industries Limited (*rated CARE A1+*) among others.

The rating also derives strength from the strong reputation of Birla group and healthy credit risk profile of the operating entities with diversified presence across sectors and exhibited track record of dividend payment. Further, the rating factors in the strong liquidity position backed by the market value of its holdings in Birla group entities which provides a healthy debt cover against the existing and any proposed debt borrowings. CARE notes that the management intends to maintain overall external consolidated debt (*including contingent liability*) at around Rs.1000 crore in near to medium term.

The above rating strengths are however tempered by the exposure to fluctuation in the market value of investment in Birla group entities as well as dependence on the interest and dividend income from group entities

Rating Sensitivities

Positive Factors: not applicable

Negative Factors

- Fall in cover of market value of investments in Birla group entities over the external outstanding debt exposure (*including contingent liabilities*) of PIICL including those of its subsidiaries below **3.00x** times owing to decline in the share price of investee companies, or rise in debt levels of PIICL
- Deterioration in credit profile of group entities of Birla group in which PIICL has equity holdings impacting PIICL's credit profile
- Borrowings exceeding 20% of the net worth of PIICL (*Rs.4416.17 crore as on March 31, 2019*) by way of pledge of shares
- Change in stance of support by the Birla group

Detailed description of the key rating drivers
Key Rating Strengths
Diversified business investments with strong parentage

Birla group has demonstrated and well-established management track record. With a simplified holding structure, PIICL has greater diversity in terms of investments in group companies. PIICL holds equity shares in a number of group companies including Hindalco Industries Limited (*CARE AA+; Stable/ CARE A1+*), Grasim Industries Limited (*CARE AAA; Stable/ CARE A1+*), Ultratech Cement Limited (*rated CARE AAA; Stable/ CARE A1+*), Century Textiles and Industries Limited (*CARE A1+*), Aditya Birla Capital Limited, (ABCL) Aditya Birla Fashion Retail Limited (ABFRL). Apart from above, the company also holds shares in some unlisted companies of the group. Strong credit risk profile of Birla group companies will ensure steady dividend inflows for PIICL and is a key rating monitorable.

Strong financial flexibility with healthy capital structure driven by the investments in Birla group companies

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

PIICL derives strong flexibility from stake in various listed as well as unlisted group companies of Birla group. The investment in listed companies translates into market value of Rs.4213 crore (*as on April 24, 2020*). Being an investment holding company, PIICL extends support to its group companies via investments, loans and advances. Adequate cover maintained by PIICL provides it with strong flexibility to refinance existing and prospective debt exposure, if any. Any significant rise in the debt levels or substantial decline in the market capitalization will remain a key rating monitorable.

Expected sustenance of comfortable cover and likely support from Birla group

PIICL has stated to maintain the overall consolidated external debt level capped to Rs.1000 crore which provides adequate cover based on market value of investments as on April 24, 2020. The cover is supported by the strong financial flexibility in the form of investments in listed companies of the Birla group.

Comfortable financial risk profile with low overall gearing

The financial risk profile of the PIICL is marked by steady dividend income and comfortable capital structure. The holding company derive income either through dividend income, interest income or sale of investments given the predominance of investments (*Equity and Mutual funds*) in their asset base. The overall gearing (*including contingent liabilities*) was comfortable at 0.06x as on March 31, 2019.

Key Rating Weaknesses

Exposure to fluctuation in market value of investments

PIICL's investment value in Birla group companies remains susceptible to the economic downturn as well as deterioration in the performance of key operating entities of the group. The financial flexibility in terms of cover available would depend to a large extent on the market sentiments and share price of listed entities. Any increase in market-related risks leading to a sharp fall in the share prices of its investments will be a key rating sensitivity factor. In case of substantial diminution in the value of investments, financial flexibility of PIICL will also be impacted.

Low standalone revenue generation and dependence on group companies for growth

PIICL's major income source includes dividend and interest income. The company has received a dividend income of Rs.44.29 crore in FY19 (*PY: Rs.39.21 crore*). As on March 31, 2020, the company's borrowing is in the form of term loan from financial institutions. For its repayment obligations, PIICL may have to rely on refinancing, in addition to dividend and interest income. PIICL has indicated a complete repayment/refinancing of term loan by either receivable from loan extended to group companies or raising commercial paper to the tune of Rs.1000 crore. As the dividend income is not sufficient to cover the principal repayments, the company is highly exposed to the refinancing risk. However, the high market value (*as on April 24, 2020*) of its holdings in listed group entities vis-à-vis the debt provides a mitigant against refinancing risk.

Liquidity: Strong

Liquidity is marked by strong financial flexibility derived from its stake in various group companies of Birla group (*Rs.4213 crore as on April 24, 2020*) leading to a cover of 17.11x times over its outstanding debt exposure. CARE notes that the management intends to maintain debt at around Rs.1000 crore over the near-medium term which at current value of the shareholdings shall help maintaining the cover and the same is expected to sustain over medium term. With no capex plans and working capital requirements, the cover gives sufficient financial flexibility to refinance the maturing repayment obligation.

Analytical approach:

Standalone. PIICL has been assessed based on investment holding company criteria basis of its investment holdings in Birla group entities. Furthermore, for the purpose of analysis, CARE has included the consolidated debt of PIICL and its standalone contingent liability. For calculation of the debt-cover over outstanding as well as any proposed borrowings, PIICL's stake in various group companies of Birla group entities has been considered.

Applicable Criteria

Criteria on assigning outlook and credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Rating Methodology – consolidation and factoring Linkages in Ratings

Rating of loans by investment holding company

About the Company

Pillani Investment and Industries Corporation Limited (PIICL) is an investment holding company of Birla group with key investments in group companies including Hindalco Industries Limited (CARE AA+; Stable/ CARE A1+), Grasim Industries Limited (CARE AAA; Stable/ CARE A1+), Century Textiles and Industries Limited (CARE A1+), Aditya Birla Capital Limited, Aditya Birla Fashion and Retail Limited. PIICL also holds stakes in a number of unlisted companies of the group. By virtue of its strategic significance to the group and the market value of its listed holdings, the company enjoys considerable financial flexibility. The company is registered as systematically important non-deposit taking NBFC (Non-banking finance company) with the Reserve Bank of India (RBI). The company functions as a core investment company (CIC). As a CIC, the company is holding investments in its subsidiaries, other Birla group companies and mutual funds.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	48.47	48.52
PBILDT	44.49	45.30
PAT	41.10	33.39
Overall gearing (times)	-	0.06
Interest coverage (times)	-	2.40

A: Audited

Status of non-cooperation with previous CRA: None

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
Commercial Paper	-	-	7-364 days	1000.00	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 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.	Commercial Paper	ST	1000.00	CARE A1+	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument: Not Applicable

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.

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name – Ms. Sharmila Jain
Contact no.- 022-6754 3638
Email ID- sharmila.jain@careratings.com

Relationship Contact

Name: Mr. Saikat Roy
Contact no.- 022-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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