

February 07, 2022

Aditya Birla Capital Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	200.00	200.00	[ICRA]AAA (Stable); reaffirmed
Commercial Paper Programme	300.00	300.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has used the consolidated financials of Aditya Birla Capital Limited (collectively referred to as ABCL) as the basis for the ratings.

The ratings factor in the strong ultimate parentage in the form of Grasim Industries Limited (Grasim; rated [ICRA]AAA (Stable)/[ICRA]A1+) and the strategic fit and importance of the ABCL Group, which houses all the financial services entities (lending, asset management and insurance), to the Aditya Birla Group. The support from the promoter group is demonstrated by the strong capital and managerial support and the stated intent of the parent to ensure adequate capitalisation and liquidity of the ABCL Group. The ratings also consider the improving diversity in ABCL's revenue profile and the management's vast experience in the financial services domain. The ABCL Group has a diversified presence in the financial services space with a presence in various segments such as lending, life insurance, health insurance, asset management, asset reconstruction and securities broking among others. The ratings factor in the company's diversified funding profile and improving capitalisation for the current scale of operations. ABCL's capitalisation profile has been supported by internal capital generation and regular capital infusions from the parent.

The ABCL Group reported an increase in gross and net stage 3 to 3.3% and 1.9%, respectively, as on September 30, 2021 (2.5% and 1.4%, respectively, as on March 31, 2021), with the impact of the second wave of the Covid-19 pandemic. The outstanding restructured book increased to 4.6% of the assets under management (AUM) as on September 30, 2021 (2.6% as on March 31, 2021). The performance of the restructured book and the ABCL Group's ability to control slippages across segments in the current relatively subdued operating environment remain key monitorables.

Further, some of the company's business lines, like unsecured retail lending and affordable housing finance, have limited vintage. The ability to manage the asset quality in these segments, as the book seasons, is to be seen. ICRA also notes that the reported headline gross non-performing advances (NPAs) of the company could increase following the recent clarification by the Reserve Bank of India (RBI) on Income Recognition, Asset Classification (IRAC) norms, though the credit costs are likely to remain under control given the additional provisions carried by the company.

ICRA also notes the ABCL Group's moderate profitability (though improving), which has been impacted by the loss in the health insurance business that is in the growth phase. However, ICRA notes the diversification of the ABCL Group's revenue profile with income from lending, asset management, insurance and other businesses. Going forward, the company's ability to manage its asset quality indicators while maintaining its solvency, with further growth in the business in the current business environment, will remain a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Strong ultimate parentage of Grasim; key management personnel with vast experience in financial services domain – ABCL is a subsidiary of Grasim, which held 54.19% as of December 31, 2021 while the other promoters had a 16.84% stake. It is the holding company of all the financial services entities of the Aditya Birla Group and is a prominent growth driver for the Group. Its strategic significance to the ABCL Group is reflected in the regular capital support from the parent (latest being Rs. 1,000 crore in FY2020). The ABCL Group enjoys strong financial flexibility by virtue of being a part of the Aditya Birla Group. ICRA expects Grasim to maintain a shareholding of more than 51% in the company. ICRA also takes into consideration the vast experience of ABCL's key management personnel in the financial services domain.

Diversified financial services entity – The ABCL Group is a diversified financial services entity with a presence in various segments such as lending, life insurance, health insurance, asset management, asset reconstruction and securities broking among others. ABCL's lending business is through two entities – Aditya Birla Finance Limited (ABFL; with a non-banking financial company (NBFC) licence) and Aditya Birla Housing Finance Limited (ABHFL; with a housing finance company (HFC) licence). Its consolidated lending book stood at Rs. 59,060 crore as on September 30, 2021, with corporate lending (large & mid-corporate) contributing 33%, small and medium enterprise (SME) lending contributing 24%, retail (40%) and high net worth individuals (HNI) and treasury investments accounting for the balance.

The AUM increased by 2.5% YoY as on September 30, 2021 driven by the growth in the retail and SME segments. The mix of retail loans continues to improve (40% as on September 30, 2021 compared to 34% as on March 31, 2020 and 27% as on March 31, 2019) with increased focus on loans like loan against property, unsecured loans, digital, and housing loans. Further, the concentration of the top 20 groups declined to 13% of the portfolio (60% of the adjusted net worth) as of September 30, 2021 (~16% of the loan book and 79% of the adjusted net worth as on September 30, 2020). ICRA also notes that most of the portfolio is secured (~80% of ABFL's portfolio and 100% of ABHFL's portfolio), which helps reduce losses in the event of defaults.

Apart from lending, the ABCL Group has a prominent presence in the asset management business through Aditya Birla Sun Life Asset Management Company Limited, which is the fourth largest asset management company (AMC) in terms of the average AUM. The ABCL Group has a presence in both life insurance (through Aditya Birla Sun Life Insurance Limited) and health insurance (through Aditya Birla Health Insurance Limited). While the health insurance entity is in the initial years (albeit growing at a fast pace), the life insurance company has a market share of 4.9% (for 7M FY2022) among private life insurers (1.8% of the overall life insurance industry).

Capitalisation supported by demonstrated ability to raise equity – ABCL's capitalisation improved following a capital infusion of Rs. 2,100 crore in FY2020 from the promoters/promoter group and external investors. The leverage has moderated with an adjusted gearing (borrowings divided by adjusted net worth) of 3.9 times as on September 30, 2021 (4.3 times as on March 31, 2021 and 4.9 times as on March 31, 2020), given the reduction in borrowings (in line with the decline in the portfolio). ICRA takes note of the historical support through equity infusions by the parent.

Diversified funding profile with access to market-based instruments – As a part of the Aditya Birla Group, ABCL enjoys good financial flexibility in raising funds at competitive rates. ABCL's (lending businesses) borrowing profile remains diversified with bank term loans, debentures, commercial paper, and external commercial borrowings forming 51%, 34%, 6% and 6%, respectively, of the total borrowings as on September 30, 2021. The ABCL Group maintains adequate unutilised bank lines and has a board-approved inter-corporate deposit (ICD) line from Grasim, which can be utilised in case of a liquidity crunch.

Credit challenges

Asset quality remains moderate – ABCL’s reported consolidated gross and net stage 3 assets for the lending businesses stood at 3.3% and 1.9%, respectively, as on September 30, 2021 (2.5% and 1.4%, respectively, as on March 31, 2021 and 3.1% and 2.1%, respectively, as on March 31, 2020). With the second wave of the pandemic, the company witnessed an increase in delinquencies across the corporate, SME and retail segments. The ABCL Group has restructured 4.6% of its loan book under the one-time restructuring allowed by the RBI (2.6% as on March 31, 2021). The performance of the restructured book and the ABCL Group’s ability to control slippages across segments in the current environment remain key monitorables. ICRA notes the reduction in the concentration of the top group exposures and in ticket sizes across segments. However, with the significant ramp-up in its retail loan book over the last few years, the company has sizeable unseasoned long-term loan assets like housing finance and retail mortgage loans. Its ability to maintain the asset quality in these segments through business cycles is to be seen.

High share of non-retail lending in portfolio – While the mix of retail loans continues to improve, the share of corporate lending {large & mid-corporate (33%) and SME lending (24%)} remained high at 56% as on September 30, 2021 (57% as on September 30, 2020). Higher growth in retail and SME lending and cautious lending to large and mid-corporates are expected to further improve the granularity of the portfolio in the long term.

Moderate profitability indicators with insurance in initial stage of operations – ABCL reported profit after tax (PAT; excluding minority interest)/average net worth of 8.56% in FY2021 (8.33% in FY2020), which is relatively lower compared to peers of a similar size. The muted profits from the life insurance subsidiary and losses from the health insurance subsidiary impacted the overall profitability. For H1 FY2022, the company reported a PAT of Rs. 627 crore (return on equity (RoE) of 9.64%) compared to Rs. 439 crore in H1 FY2021 (RoE of 7.22%) supported by the improvement in profitability in the lending and asset management businesses, partially offset by the impact of the second wave on the insurance business. ICRA notes the ABCL Group’s diverse revenue stream with income from the lending companies, asset management business, life insurance business, etc. This will help the company tide over weak economic cycles in a better way in the long term.

Liquidity position: Strong

The ABCL Group had cash and liquid investments of Rs. 1,505 crore and unutilised bank lines of Rs. 7,877 crore as on December 31, 2021 against debt repayments of Rs. 9,163 crore due in the next six months. The liquidity profile is also supported by a board-approved ICD line from Grasim.

At the standalone level, ABCL had cash and liquid investments worth Rs. 352 crore with no borrowings as on December 31, 2021.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material change in the expected level of support or a material deterioration in the credit risk profile of ABCL’s parent (i.e. Grasim) could warrant a rating downgrade. Pressure on the ratings could also arise if there is a deterioration in the ABCL Group’s solvency levels (net stage 3 assets divided by net worth adjusted for net worth of insurance companies) to more than 20% on a sustained basis or if the adjusted gearing remains above 7.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Implicit Support from Parent or Group
Parent/Group Support	Ultimate Parent/Investor: Grasim Industries Limited (Grasim; rated [ICRA]AAA (Stable)/[ICRA]A1+) ICRA factors in the strategic fit and importance of ABCL to the Aditya Birla Group, which is demonstrated in the strong capital, operational and managerial support from the parent.
Consolidation/Standalone	While arriving at the ratings for ABCL, ICRA has considered the consolidated performance of ABCL. <i>Details mentioned in Annexure-2.</i>

About the company

Aditya Birla Capital Limited (ABCL) is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the RBI. It is the holding company of the financial services businesses of the Aditya Birla Group. Pursuant to the merger of Aditya Birla Nuvo Limited (ABNL) and Grasim, ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on December 31, 2021, the promoter group held a stake of 71.03% (of which Grasim holds 54.19%) in ABCL.

On a consolidated basis, the company posted a net profit of Rs. 1,106 crore in FY2021 on an asset base of Rs. 1,24,733 crore against a net profit of Rs. 866 crore in FY2019 on an asset base of Rs. 1,13,769 crore. For H1 FY2022, it reported a net profit of Rs. 627 crore.

Grasim Industries Limited

Incorporated in 1947, Grasim, the flagship company of the Aditya Birla Group, is a ~\$16.6-billion business conglomerate. On a standalone basis, its core businesses include chemical and textile manufacturing, apart from insulators. It is a leading global player in viscose staple fibre (with an installed production capacity of ~800 KTPA) and the largest chlor-alkali producer in India (installed production capacity of 1,147 KTPA). In January 2021, Grasim announced its foray into the decorative paints business, with an initial capital expenditure of Rs. 5,000 crore to be spent over the next three years. On a consolidated basis, Grasim has a strong presence in the cement, financial services, fashion retail, telecommunications, and renewable power generation industries. Its 57.28% subsidiary, UTCL, is the largest cement producer in India. In the financial services segment, Grasim has a presence through its subsidiary, ABCL, which is among the top 5 financial companies in India.

Key financial indicators (audited)

Aditya Birla Capital Limited (consolidated; Rs. crore)	FY2020	FY2021	H1 FY2021	H1 FY2022
Total income	16,810	19,274	8,632	9,906
Profit after tax	866	1,106	439	627
Net worth (excluding minority interest)	12,576	13,743	13,057	14,442
Total portfolio	58,073	60,557	57,592	59,060
Total assets	1,13,769	1,24,733	1,15,516	1,29,265
Return on average assets	0.78%	0.93%	0.77%	0.99%
Return on average equity	8.33%	8.56%	7.22%	9.64%
Adjusted gearing (times)	4.9	4.3	4.3	3.9
Gross stage 3/ Gross advances	3.12%	2.51%	3.00%	3.35%
Net stage 3 / Net advances	2.10%	1.43%	1.70%	1.94%

Aditya Birla Capital Limited (consolidated; Rs. crore)	FY2020	FY2021	H1 FY2021	H1 FY2022
Net stage 3/ Adjusted net worth	10.9%	6.9%	8.3%	8.7%

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding as of Dec-31-21 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
								Feb-07-22	Feb-23-21 Oct-06-20	Mar-16-20 Nov-22-19
1	Non-convertible Debentures	Long Term	200	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	
2	Commercial Paper Programme	Short Term	300	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures	Likely Very Simple/Simple
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper^	-	-	7-365 days	300.00	[ICRA]A1+
NA	Non-convertible debenture programme*	-	-	-	200.00	[ICRA]AAA (Stable)

Source: Company; *Yet to be placed ^Unutilised

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aditya Birla PE Advisors Private Limited	100%	Full consolidation
Aditya Birla Capital Technology Services Limited	100%	Full consolidation
Aditya Birla Trustee Company Private Limited	100%	Full consolidation
ABCAP Trustee Company Private Limited	100%	Full consolidation
Aditya Birla Money Limited	73.70%	Full consolidation
Aditya Birla Financial Shared Services Limited	100%	Full consolidation
Aditya Birla Finance Limited	100%	Full consolidation
Aditya Birla Housing Finance Limited	100%	Full consolidation
Aditya Birla Health Insurance Company Limited	51%	Full consolidation
Aditya Birla Sun Life Insurance Company Limited	51%	Full consolidation
Aditya Birla Sun Life Pension Management Limited	51%	Full consolidation
Aditya Birla Insurance Brokers Limited	50.002%	Full consolidation
Aditya Birla Money Mart Limited	100%	Full consolidation
Aditya Birla Money Insurance Advisory Services Limited	100%	Full consolidation
Aditya Birla ARC Limited	100%	Full consolidation
Aditya Birla Stressed Asset AMC Private Limited	100%	Full consolidation
Aditya Birla Special Situation Fund 01	100%	Full consolidation
ABARC-ARC-001-Trust	100%	Full consolidation
ABARC-ARC-008-Trust	100%	Full consolidation
Aditya Birla Sun Life Trustee Private Limited	50.85%	Equity method
Aditya Birla Wellness Private Limited	51%	Equity method
Aditya Birla Sun Life AMC Company Limited	50.01%	Equity method
Aditya Birla Sun Life AMC (Mauritius) Ltd.	50.01%	Equity method
Aditya Birla Sun Life Asset Management Company Ltd., Dubai	50.01%	Equity method
Aditya Birla Sun Life Asset Management Company Pte. Ltd., Singapore	50.01%	Equity method

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Branches



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