

Aditya Birla Capital Limited

September 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures Programme	-	800.00	[ICRA]AAA(stable); assigned
Commercial Paper Programme	2,700.00	2,700.00	[ICRA]A1+; outstanding
Total	2,700.00	3,500.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]AAA (pronounced as ICRA triple A) to the Rs. 800-crore¹ non-convertible debentures programme of Aditya Birla Capital Limited (ABCL)². The outlook on the long-term rating is stable.

ICRA also has the outstanding rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 2,700-crore commercial paper programme of ABCL.

Rationale

The rating factors in the company's parentage, with Grasim Industries Limited (GIL) holding 55.98% of the equity in ABCL, and the associated financial flexibility. ABCL is a core investment company (CIC) of Aditya Birla Group and is the parent company of the Group's financial services businesses, namely Aditya Birla Finance Limited (ABFL, assets under management (AUM) of Rs. 44,408 crore as on June 30, 2018) and Aditya Birla Housing Finance Limited (ABHFL, AUM of Rs. 9,176 crore as on June 30, 2018). ABCL also holds majority stakes in Aditya Birla Sun Life Asset Management Company Limited (ABSLAMC), Aditya Birla Sun Life Insurance Co. Limited (ABSLI), Aditya Birla Health Insurance Co. Ltd and Aditya Birla Money Limited. The rating also factors in the company's adequate liquidity position and its strategic holdings in Group financial services companies.

Outlook: Stable

In ICRA's opinion, ABCL will continue to enjoy strong parentage and financial flexibility by virtue of being a key holding company of Aditya Birla Group. The outlook may be revised to Negative in case of adverse change in the status of being a key holding company for the Group or in the value of investments or the debt levels of the company.

Key rating drivers

Credit strengths

Strong parentage of Grasim Industries – Following its merger with Aditya Birla Nuvo Limited (ABNL), GIL (rated [ICRA]AAA (Stable)/A1+), holds 55.98% of ABCL while other promoter group members and companies had a 16.76%

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

stake in ABCL as on June 30, 2018. Given its strategic significance to the Group, the company enjoys considerable financial flexibility. ICRA expects capital support from the parent/group to be forthcoming to ABCL, as and when required.

Strong investment portfolio of financial services entities in the Group – ABCL is the Group’s holding company for its financial services businesses. Long-term investments formed around 98% of ABCL’s total assets, as on March 31, 2018, with ABFL (rated [ICRA]AAA(Stable)/A1+), ABSLI and ABHFL (rated [ICRA]AAA(Stable)/A1+) constituting 66%, 15% and 10%, respectively, of the long-term investments. ABFL reported a net profit of Rs. 730.8 crore and a return on average equity (ROE) of 12.9% in FY2018 compared to a net profit of Rs. 585.3 crore and ROE of 13.5% in FY2017, while ABHFL turned profitable in FY2018 with a net profit of Rs. 32.58 crore compared to a net loss of Rs. 15.5 crore in FY2017. ABSLI reported a profit before tax of Rs. 167 crore in FY2018 compared to Rs. 123 crore in FY2017.

Comfortable capitalisation levels - ABCL received a CIC licence from the Reserve Bank of India in October 2015. As per regulatory guidelines, a CIC should maintain a minimum capital ratio, whereby its adjusted net worth shall not be less than 30% of its aggregate risk-weighted assets. It is also not permitted to have a gearing of more than 2.5 times of its adjusted net worth³. ABCL maintained the CIC ratios with a strong cushion as on March 31, 2018. It reported a capital ratio of 89.86% and a leverage ratio⁴ of 0.11 times as on March 31, 2018.

Credit challenges

Cash flow entirely dependent on dividends from investee companies – The company’s revenues are dominated by dividend income earned on its investments, which accounted for 96% and 63% of total revenues in FY2017 and FY2018, respectively. The company’s dividend income has been growing over the past two years (Rs. 111.3 crore in FY2018 from Rs. 33.5 crore in FY2017 and Rs. 6.6 crore in FY2016). Historically, the only source of ABCL’s dividend income was the general insurance broking subsidiary. However, from FY2017, the company started receiving dividend income from ABSLAMC. During FY2018, it received dividend income of Rs. 102 crore (Rs. 25 crore in FY2017) from ABSLAMC and Rs. 9 crore (Rs. 8 crore in FY2017) from the general insurance broking subsidiary. The other large subsidiaries (ABFL and ABHFL) are in the fast-growing phase, at present, and have not started distributing dividends yet.

Refinancing risk with most of the borrowings being short term; however, Group financial strength largely alleviates risk – ABCL’s borrowings, as on March 31, 2018, were in the form of commercial papers facing the risk of refinancing at maturity. However, the underlying value of investments and fund-raising options available for ABCL provide comfort. Besides, the asset management unit has surplus investments of over Rs. 1,000 crore on its balance sheet, which provides liquidity comfort. Further, ICRA expects the Group to extend capital support to ABCL, as and when required.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA’s Credit Rating Methodology for Non-Banking Finance Companies](#)

³Adjusted net worth means aggregate net worth, as appearing in the balance sheet, increased by 50% of the unrealised appreciation in the book value of quoted investments (such appreciation being calculated as the excess of the aggregate market value of such investments over the book value of such investments)

⁴Total outside liabilities/Adjusted net worth

About the company

ABCL is a non-deposit taking systemically important core investment company (CIC-ND-SI) registered with the Reserve Bank of India. It is the holding company of the financial services businesses of Aditya Birla Group. Pursuant to the merger of ABNL and GIL, ABCL got listed on the Bombay Stock Exchange and the National Stock Exchange in September 2017. As on June 30, 2018, the promoter group held a 72.74% stake (of which GIL holds 55.98%) in ABCL.

ABCL reported a net profit of Rs. 61.5 crore in FY2018 on an asset base of Rs. 8,011 crore compared to net profit of Rs. 4.2 crore in FY2017 on an asset base of Rs. 5,155 crore. During Q1FY2019, it reported loss after tax of Rs. 17.45 crore compared to profit after tax (PAT) of Rs.9.69 crore in Q1FY2018.

Key financial indicators – (audited; standalone)

(Rs. crore)	FY2017	FY2018
Net Worth	4,610.9	7,144.1
Total debt	493.0	675.0
Investments	5,084.0	7,855.9
Dividend Income	33.5	111.3
Net Profit on Sale of Investments	1.5	57.2
Total Income	35.0	175.3
Finance Cost	0.53	25.38
Profit Before Tax	4.2	61.5
Profit After Tax	4.2	61.5
Interest Coverage Ratio (times)	8.9	3.4
Total Debt/TNW (times)	0.11	0.09

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2019)			FY2018	FY2017	FY2016
				Sep 2018	Aug 2018	June 2018	June 2017	March 2017	-
1	Commercial Paper	2,700.00	900.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Non-Convertible Debentures	800.00	-	[ICRA]AAA (stable)	-	-	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	2,700.00	[ICRA]A1+
NA	Non-Convertible Debentures	Proposed	NA	NA	800.00	[ICRA]AAA(stable)

Source: Aditya Birla Capital Limited

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