August 21, 2017

Murugappa Holdings Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper	30.0	[ICRA]A1+; reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating outstanding on the Rs. 30.0 crore commercial paper programme of Murugappa Holdings Limited ("MHL" or "the company") [1].

Rationale

While reaffirming the rating, ICRA notes the scheme of amalgamation of MHL with its parent, Ambadi Investments Private Limited (AIPL), along with another group company, Presmet Private Limited (PPL); which has been approved by the National Company Law Tribunal (NCLT) in July 2017 and will be completed before the end of August 2017. ICRA has, therefore, taken a consolidated view of the above three entities to arrive at the rating.

The rating reaffirmation considers the strong financial flexibility enjoyed by MHL as a key holding company of the reputed Murugappa Group. It has the largest shareholding in the three group companies—EID Parry (India) Limited (EPIL), Tube Investments of India Limited (TIIL), and Carborundum Universal Limited (CUMI)—which have a presence across diverse sectors such as sugar, chemicals and fertilisers, auto components, cycles and engineering products, and abrasives. MHL also has a minor stake in companies like Coromandel Engineering Company Limited (CECL) and Cholamandalam Investment and Finance Company Limited (CIFCL), who are listed entities with substantial market value and healthy credit profiles. ICRA also notes that post-merger, the amalgamated entity will have higher shareholding in the above mentioned investee companies compared to the existing shareholding of MHL. The market value of MHL's investments stood at ~Rs. 9,253 crore (August 10, 2017) and that of standalone AIPL stood at ~Rs. 817 crore (August 10, 2017) and hence the amalgamated entity will also continue to benefit from the financial flexibility provided by the considerably high market value of investments compared to the book value. However, ICRA considers the susceptibility of the value of MHL's investments to market risk, with any large decline in share prices being a key risk factor.

MHL functions purely as a holding company with no independent operations, and derives its revenue majorly from the dividend income from its investee companies, in addition to minor interest income from other investments. MHL's revenues witnessed healthy growth during FY2017 aided by increased dividends from EIPL, TIIL and CIFCL, while the dividend flow from CUMI witnessed some moderation. ICRA, however, notes the susceptibility of MHL's (standalone) and the proposed amalgamated entity's dividend income to cyclicality in the underlying industries of its investee companies, although MHL's prudent liquidity management policy with flexible dividend pay-out in accordance with dividend inflows helps tide over any short-term financing shortfalls and remains a positive rating factor. The rating also factors MHL's dependence on refinancing for meeting principle repayment obligations; however, this risk is mitigated by the financial flexibility enjoyed by MHL. ICRA also notes that any material funding support extended to other Group companies by MHL may have a negative impact on its credit profile.

The adherence to covenants—(a) restricting overall debt to borrowing cap of the lower of Rs. 400.0 crore or 25% of market value of investments in the three investee companies during the tenor of rated debt;

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

(b) maintenance of shareholding in listed entities, except for the purpose of retiring the debt (current and proposed) up to the borrowing limit; and (c) restriction on pledging the shares in investee companies, except for raising debt up to the borrowing limits, will be the key monitorables.

ICRA further notes SEBI's investigations and subsequent penalties against some of the directors of the Murugappa Group, including the chairman, Mr. Vellayan, during FY2016 and the subsequent SEBI ruling in May 2016, indicating the need for reinvestigation in the case. While no major implication of the investigation is expected on the credit profile of MHL, ICRA will continue to monitor the developments.

Key rating drivers

Credit strengths

- **Part of the Murugappa Group, a reputed conglomerate based out of southern India –** MHL is a key holding company of the Murugappa Group, being the largest shareholder in EPIL (33.41%), TIIL (34.23%), and CUMI (29.46%). MHL also holds 7.52% stake in Coromandel Engineering Limited. MHL obtained its Systemically Important Core Investment Company (CIC-ND-SI) license from the Reserve Bank of India (RBI) in 2014, and functions purely as a holding company with no independent operations and derives its revenues solely from the dividend income from investee companies and interest income from other investments. The scheme of amalgamation for the merger of MHL with its ultimate holding company, AIPL, and group entity, PPL, has been approved by NCLT in July 2017 and the same will be completed before the end of August 2017. The amalgamation will be effective from April 2016.

- **Healthy market value of investments compared to book value provides strong financial flexibility, which is expected to continue post amalgamation with ultimate holding company -** The market value of MHL's investments stood at ~Rs. 9,253 crore (August 10, 2017) and that of standalone AIPL stood at ~Rs. 817 crore (August 10, 2017) and hence the amalgamated entity will also continue to benefit from the financial flexibility provided by considerably high market value of the investments compared to the book value.

Credit weaknesses

- **Revenues are mainly driven by dividend income from investee companies, which are susceptible to cyclicality in the underlying industry segment -** The company's revenue are mainly driven by dividends from the investee companies, which witnessed healthy growth during FY2017. However, the dividend flow remains susceptible to cyclicality in the underlying industry segments like sugar, auto ancillaries, fertilisers and the financial sector. However, diversified industry segments and high credit profile of the investee companies, mitigates the impact.
- **Dependent on periodic refinancing for principal repayments; however, financial flexibility enjoyed as part of the Murugappa Group and prudent liquidity management mitigates the risk -** The company's net cash accruals are not sufficient to repay the short-term loans and hence the company is dependent on periodic refinancing, which it does by mainly issuing short-term commercial paper at competitive rates. While this exposes the company to refinancing risks, financial flexibility enjoyed as part of the Murugappa Group, high market value of investments compared to book value, additional potential collateral from plantation assets under other group entities and strong financial flexibility of the promoters to support MHL in case of exigencies mitigate the risk. Further, the company also follows prudent liquidity management plan, wherein for considering the dividend to be paid by MHL, the board takes into account the cash required for servicing interest obligations, and to effect some repayment of loans for which the company maintains sufficient liquidity in the form of cash and short-term investments. MHL typically prepares a one to three year plan, which is monitored quarterly to assess its actual v/s targeted performance.

- **Value of investments in listed companies is susceptible to market risks, with any substantial erosion in market value being a rating sensitivity –** While the company's investments in listed companies are susceptible to market risks, considerably high market value compared to book value of investments mitigates the risk to a large extent. Nonetheless, any substantial erosion in market value of investments remains a rating sensitivity.

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

Links to applicable criteria:
[Corporate Credit Rating Methodology]
[Icra's Approach For Rating Commercial Papers]

About the company:
Murugappa Holdings Limited (formerly Parry Agro Industries Limited) is a key holding company of the Murugappa Group. It is the largest shareholder in the three listed group companies of EID Parry (India) Limited (shareholding of 33.21%), Tube Investments of India Limited (34.95%), and Carborundum Universal Limited (29.38%), who are present across diverse sectors such as sugar, chemicals and fertilisers, auto components, cycles and engineering products, and abrasives. MHL also holds 4.62% stake in Cholamandalam Investment and Finance Company Limited, which operates as a non-banking finance company, following MHL's merger with fellow subsidiary, Ambadi Holdings Private Limited, during FY2016.

MHL was engaged in the tea-plantation business (as Parry Agro Industries Limited) till FY2011; however, subsequent to a restructuring exercise in FY2012, it has operated purely as a holding company with no independent operations. MHL obtained its Systemically Important Core Investment Company (CIC-ND-SI) license from RBI in 2014. Majority of the shares in MHL is currently held by the Murugappa family's investment vehicle—Ambadi Investments Pvt. Ltd. (AIPL, shareholding of 79.61%)—while the remaining shares are mainly held by promoters in their individual capacities. AIPL is the ultimate holding company of the Murugappa Group and held by promoters.

Currently, MHL is in the process of being amalgamated with AIPL and another group entity PPL. The scheme of amalgamation has been approved by NCLT in July 2017 and the merger is expected to be completed by end of August 2017. The amalgamation will be effective from April 1, 2016.

Key Financial Indicators (Audited)

	MHL - Standalone		AIPL - Standalone	
	FY2015	FY2016	FY2015	FY2016
Operating Income (Rs. crore)	32.1	32.5	10.8	17.7
PAT (Rs. crore)	16.9	18.3	8.7	16.2
OPBDIT/ OI (%)	99.0%	99.3%	99.1%	99.5%
RoCE (%)	8.2%	5.4%	3.6%	5.9%
Total Debt/ TNW (times)	0.73	0.24	0.06	0.05
Total Debt/ OPBDIT (times)	5.4	4.6	1.6	0.7
Interest coverage (times)	2.1	2.3	5.4	12.4
NWC/ OI (%)	NA	NA	NA	NA

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					August 2017	September 2016	September 2015	September 2014
1	Commercial paper	Short Term	30.0	30.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

<u>Instrument Details</u>

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper	NA	NA-	NA-	30.0	[ICRA]A1+

Source: the company

Contact Details

Analyst Contacts

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Vuda Anurag Naveen Theja
+91 44 42974335
vuda.theja@icraindia.com

Sai Krishna
+91 44 4596 4304
sai.krishna@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	