

November 06, 2017

Ambadi Investments Private Limited

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the [ICRA]A1+ (pronounced ICRA A one plus) rating on the Rs. 30.0 crore commercial paper programme of Ambadi Investments Private Limited (“AIPL” or “the company”)¹.

Rationale

While assigning the rating, ICRA notes the conclusion of scheme of amalgamation of AIPL with its subsidiary Murugappa Holdings Limited (MHL), along with another group company, Presmet Private Limited (PPL); which has been approved by the National Company Law Tribunal (NCLT) on August 7, 2017 and was filed with Ministry of Corporate Affairs on August 28, 2017.

The rating considers the strong financial flexibility enjoyed by AIPL as a key holding company of the reputed Murugappa Group. It has the largest shareholding in the four group companies—EID Parry (India) Limited (EPIL), Tube Investments of India Limited (TIIL), TI Financial Holdings Limited (TIFHL) and Carborundum Universal Limited (CUMI)—which have a presence across diverse sectors such as sugar, chemicals and fertilisers, auto components, cycles and engineering products, financial services and abrasives. AIPL 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. The market value of AIPL’s investments stood at ~Rs.9377 crore (October 13, 2017) and will 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 AIPL’s investments to market risk, with any large decline in share prices being a key risk factor.

AIPL 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. AIPL’s revenues witnessed healthy growth during FY2017 aided by increased dividends from EIDL, TIIL and CIFCL, while the dividend flow from CUMI witnessed some moderation. ICRA, however, notes the susceptibility of AIPL’s dividend income to cyclicalities in the underlying industries of its investee companies, although AIPL’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 AIPL’s dependence on refinancing for meeting principle repayment obligations; however, this risk is mitigated by the financial flexibility enjoyed by AIPL. ICRA also notes that any material funding support extended to other Group companies by AIPL may have a negative impact on its credit profile.

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

The adherence to covenants—(a) restricting overall debt to borrowing cap of the lower of Rs. 600.0 crore or 30% of market value of investments in the four listed investee companies during tenor of rated debt; (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 AIPL, 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** – AIPL is a key holding company of the Murugappa Group, being the largest shareholder in EPIL (38.4%), TIIL (38.23%), TIFHL (38.23%) and CUMI (29.46%). AIPL also holds 9.42% stake in CECL and 4.62% stake in CIFCL. AIPL 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 AIPL with its subsidiary MHL, and group entity, PPL, has been approved by NCLT on August 7, 2017 and is filed with Ministry of Corporate Affairs on August 28, 2017. The amalgamation is effective from 1st April 2016.
- **Healthy market value of investments compared to book value provides strong financial flexibility** - The market value of AIPL's investments stood at ~Rs. 9,377 crore (October 13, 2017) and hence will 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 cyclicity in the underlying industry segment** - The company's revenues are mainly driven by dividends from the investee companies, which witnessed healthy growth during FY2017. However, the dividend flow remains susceptible to cyclicity 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 AIPL 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 AIPL, 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. AIPL 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 analysed the combined standalone business and financial profiles of AIPL and MHL. ICRA has also taken into account the market value of the quoted equity investments along with its portfolio of unlisted investments, which accord high financial flexibility

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Icra's Approach For Rating Commercial Papers](#)

Link to previous MHL rationale:

[Murugappa Holdings Limited Rationale dated 21 August 2017](#)

About the company:

Incorporated on 06 May 1942, Ambadi Investments Private Limited (AIPL) is a key holding company of the Murugappa Group based in Tamil Nadu. The company holds strategic, long-term investments in leading companies of the Murugappa Group – EID Parry India Ltd. (EPIL), Tube Investments of India Ltd. (TIIL), TI Financial Holdings Limited (TIFHL) and Carborundum Universal Ltd. (CUMI) - and derives its income mainly by way of dividend from these investments. The company also holds minor stake in Coromandel Engineering Company Limited (CECL) and Cholamanadalam Investment and Finance Company Limited (CIFCL). AIPL is a closely held entity with promoters of the group and family holding the entire stake.

Two subsidiary holding companies Murugappa Holdings Ltd (MHL) and Presmet Private Limited (PPL) amalgamated with Ambadi Investments Private Limited (AIPL) in FY2017. The scheme has been approved by National Company Law Tribunal (NCLT) on August 7, 2017 and is filed with Ministry of Corporate Affairs (MCA) on August 28, 2017. The appointed date of scheme is 1st April, 2016.

For FY 2017, AIPL (pre-amalgamation) provisionally reported a PAT of Rs. 36.6 crore on a net income of Rs. 37.9 crore as against a PAT of Rs. 16.2 crore on a net income of Rs. 17.7 crore in FY 2016. Also the now amalgamated entity provisionally reported a PAT of Rs. 58.8 crore on a net income of Rs. 72.4 crore in FY2017

Key Financial Indicators (Audited)

	AIPL [^]		AIPL [*]
	FY2016	FY2017 [@]	FY2017 [@]
Operating Income (Rs. crore)	17.7	37.9	72.4
PAT (Rs. crore)	16.2	37.7	72.0
OPBDIT/ OI (%)	99.5%	99.4%	99.4%
RoCE (%)	5.9%	12.5%	11.9%
Total Debt/ TNW (times)	0.05	0.04	0.22
Total Debt/ OPBDIT (times)	0.7	0.3	2.26
Interest coverage (times)	12.4	34.3	5.5
NWC/ OI (%)	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; [^] Pre-amalgamation; ^{} Post-amalgamation; [@] Provisional*

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
					Nov 2017			
1	Commercial paper	Short Term	30.0	30.0	[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
Instrument Details

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

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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.

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