

September 23, 2019

Azim Premji Trust: Rating of [ICRA]A1+ reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	2000.00	2000.00	[ICRA]A1+ / Reaffirmed
Total	2000.00	2000.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the rating, ICRA has taken a combined view of Azim Premji Trust (APT, the Trust) and its wholly owned companies including – Hasham Investment & Trading Company Private Limited (HITCPL; rated [ICRA]A1+) and Tarish Investment & Trading Company Private Limited (TITCPL; rated [ICRA]A1+) - collectively referred to as ‘the group’; given the significant business and financial interlinkages between the entities in the Azim Premji Trust group.

The rating factors in the strong profile of the Trustee¹ and APT’s status as the core investment vehicle of Mr. Azim Premji’s Family. APT’s beneficiaries are Azim Premji Philanthropic Initiatives Private Limited (APPIPL) and Azim Premji Foundation for Development (APFD), which undertake philanthropic activities on behalf of Mr. Azim Premji (Sponsor). The importance of the activities undertaken by APPIPL and APFD to the sponsor underscores the importance of APT and is a key credit strength. The rating continues to factor in the Trust’s fairly diversified and liquid investment book across quoted equity shares, bonds and liquid mutual funds and sizeable shareholding in Wipro Limited (Wipro, rated [ICRA]AAA (stable) / [ICRA]A1+). As on September 09, 2019, market value of the investments managed by the group stood at Rs.48,643.5 crore (excluding the value of shareholding in Wipro Limited).

The rating also takes into consideration the trust’s revenue profile supported by regular interest and dividend inflow from Wipro Limited and other investments, and modest leveraging plans over the medium to long term. As per unaudited financials, the Trust’s gearing stood at 0.05x as on March 31, 2019 (0.07x as on March 31, 2018). On a combined basis, the total debt of APT, HITCPL and TITCPL stood at Rs.1,377 crore as on March 31, 2019 against market value of the investments of the group stood at Rs.48,643.5 crore (excluding the value of shareholding in Wipro Limited). The underlying business of APT of undertaking equity investments remains vulnerable to the volatilities in capital markets; however, ICRA draws comfort from the sizeable liquid investments holdings by the trust and its strong investment management team comprising experienced personnel and low leverage.

¹ Azim Premji Trustee Company Private Limited - promoted by Mr. Azim Premji who is also the promoter and majority shareholder (direct and indirect shareholding combined) of Wipro Limited (rated [ICRA]AAA (Stable) / [ICRA]A1+)

Credit strengths

Strong investment management team with considerable experience of investing in the domestic and foreign equity markets: APT, along with HITCPL (including subsidiaries) and the partnership firms under the Apex Trust² (namely M/S Hasham Traders, M/S Prazim Traders and M/S Zash Traders) houses the investment portfolio of the Premji family. These entities together also hold the Premji family's stake in Wipro Limited to the extent of 69.59% shareholding as on June 30, 2019. The entire corpus of investment is managed by the investment team of APT. The investment team comprises of individuals with considerable experience of investing both in the domestic and foreign equity markets (mainly in the US markets).

Fairly diversified and liquid investment book: APT's investments are across quoted and unquoted equity shares, listed and unlisted bonds, mutual funds, alternate investment funds (AIFs) and real estate. Investments in bonds were predominately towards highly rated public-sector undertakings (PSUs) where the credit risk is low. Investments in bonds and NCDs constituted 27.7% of the investment book of APT as on March 31, 2019 (book value). The interest income on these investments has been stable over the years. APT group's investment book is fairly liquid with investments in quoted equity at about Rs.46,063.0 crore as on September 09, 2019 out of the total investment book of Rs.48,643.5 crore (excluding the value of shareholding in Wipro Limited).

Financial flexibility arising from significant direct shareholding in and indirect beneficiary of Wipro shares: APT held 13.22% of Wipro shares as on June 30, 2019. Further APT, along with HITCPL is also beneficiary of the Apex Trust which has a 35% stake in three partnership firms namely, M/S Hasham Traders, M/S Zash Traders and M/S Prazim Traders which in turn collectively held 56.02% stake in Wipro as on June 30, 2019. Apex Trust, and consequently APT, has access to stable revenue stream supported by the regular dividend inflow from Wipro. In the past, Wipro had a dividend payout ratio of 15.4% in FY2019, 6.8% in FY2018, 10.3% in FY2017, 39.6% in FY2016 and 40.6% in FY2015. APT thus has access to significant cash flows through dividends which supplements the income up-streamed by its subsidiary, HITCPL, and by the Apex Trust. Further, APT's leverage remains comfortable with gearing of 0.05 times as on March 31, 2019. Given the conservative capital structure policy with the trust's intent to restrict borrowings below 15% of the market value of its investments ICRA expects the gearing to remain low going forward. The group's profitability is expected to be maintained supported by regular dividend income as well as profit from sale of investments.

Credit challenges

Inherent cyclicity and volatility associated with investment in equity capital markets: Notwithstanding the strong investment management team, the underlying business of APT of undertaking long term investments, remains vulnerable to the vagaries of the capital markets. The cash flows of the company are thus expected to remain volatile with the concern being mitigated to some extent by the presence of liquid investments and mutual funds held by the company.

Investment performance and cashflows vulnerable to performance of Wipro: 41.6% of APT's dividend income for FY2019 (47.12% in FY2018) were concentrated on Wipro Limited thereby making it vulnerable to performance of Wipro Limited and the overall information technology (IT) sector. Wipro's performance over the last few quarters has been muted on account of subdued performance in segments like healthcare, manufacturing and technology. While the manufacturing & technology vertical de-grew on account of delays in deal renewals, the healthcare segment remained

² APT is a direct beneficiary of Apex Trust to the extent of the latter's share in profits generated by the partnership firms
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affected by regulatory restrictions in end markets. Further, with more than 80% of revenues derived internationally, Wipro is exposed to foreign currency fluctuations. Given the sizeable shareholding of APT Group's in Wipro, its returns and cashflows would remain vulnerable to any weakness in the latter's performance.

Liquidity position: Superior

APT group's investments are characterized by substantial marketable instruments providing liquidity cushion. This is further supported by low debt levels with combined borrowings of APT, HITCPL and TITCPL at Rs.1,377 crore as on March 31, 2019 resulting in low repayment obligations in comparison to the group's investments with market value of Rs.48,643.5 crore (excluding the value of shareholding in Wipro Limited) as on September 09, 2019. Given the conservative capital structure policy of the group, ICRA expects the borrowings of the group to remain modest in relation to market value of investments.

Rating sensitivities

Negative triggers – Pressure on APT's, rating could arise if there is a material deterioration in liquidity profile or if the group's or APT's leverage exceeds 15% of the market value of investments (excluding share-holding in Wipro Limited) or if there is a sizeable weakening in the business profile of Wipro Limited impacting the earnings of the group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	Combined view of Azim Premji Trust and group entities given the strong interlinkages and the common investment and management team for these entities.

About the company

Azim Premji Trust is a discretionary trust with Azim Premji Philanthropic Initiatives Private Limited and Azim Premji Foundation for Development as its beneficiaries. The trustee for APT is Azim Premji Trustee Company Private Limited. APT is the endowment vehicle for the Premji Family's philanthropic initiatives and holds direct stake (13.22% as on June 30, 2019) in and is an indirect beneficiary of Wipro Limited shares held by other group entities.

During FY2019, the trust reported net profit of Rs.1,528 crore on total income of Rs.1,817 crore as compared to a net profit of Rs.6583 crore on a total income of Rs.6857 crore in FY2018.

Key financial indicators

	FY2018	FY2019 (unaudited)
Total Income (Rs. Crore)	6857.5	1817.1
Profit after Tax (Rs. Crore)	6583.7	1527.7
Net worth (Rs. Crore)	12986.8	15574.4
Total Managed Portfolio (Rs. Crore)	0.0	0.0
Total Managed Assets (Rs. Crore)	14200.2	16,977.9
Return on Managed Assets (%)	66.5%	9.8%
Return on Net worth (%)	75.0%	10.7%
Gearing (times)	0.1	0.05
Gross NPA (%)	0.0	0.0
Net NPA (%)	0.0	0.0
Capital Adequacy Ratio (%)	-	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	FY2020				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	FY2020 23-Sep 2019	FY2019 06-Nov 2018	FY2018 09-Oct 2017	FY2016
1	Commercial Paper	ST	2,000.0	2,000.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore

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

ISI	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	2,000.00	[ICRA]A1+

Source: APT

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

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