Murugappa Holdings Limited

Instrument	Amount	Rating Action
	In Rs Crore	September 2016
Short-term, Commercial Paper Programme	30.00	[ICRA]A1+ Re-affirmed

ICRA has re-affirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 30.00 crore[^] commercial paper programme of Murugappa Holdings Limited ("MHL" / "the company")[†].

The rating reaffirmation considers the strong financial flexibility enjoyed by MHL as a key holding company of the reputed Murugappa Group, with the largest shareholding in 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 fertilizers, auto components, cycles and engineering products, and abrasives – and are listed entities with substantial market value and healthy credit profiles. The market value of MHL's investments stood at ~Rs. 7,346 crore (August 30, 2016) and remained considerably higher than its 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 a marginal growth of ~4.5% y-o-y in FY 2015–16 – despite a sharp reduction in dividend income from EPIL – owing to increased dividends from CUMI, additional dividend stream from CIFCL[±], and stable dividend from TIIL. ICRA, however, takes note of the susceptibility of MHL'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. The ratings also factor 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.

ICRA takes note of MHL's amalgamation (awaiting court order) with fellow subsidiary Ambadi Holdings Private Limited (AHPL) with effect from January 01, 2016. With this merger, AHPL's 4.62% shareholding in Cholamandalam Investment and Finance Company Limited (CIFCL; *rated [ICRA]AA (Positive)/ A1+*) has been vested with MHL, offering additional financial flexibility. ICRA also takes congnisance of MHL's plans to merge with its parent company – Ambadi Investments Private Limited (AIPL). However, timelines for the same are yet to be crystallised and ICRA would continue to monitor developments in this regard.

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

Company Profile

Murugappa Holdings Limited (formerly Parry Agro Industries Limited) is a key holding company of the Murugappa Group, and is the largest share holder in the three listed group companies – EID Parry (India) Limited (share holding of 33.41%), Tube Investments of India Limited (share holding of 34.23%), and Carborundum Universal Limited (share holding of 29.46%) – which have a presence across diverse sectors such as sugar, chemicals and fertilizers, auto components, cycles and engineering products, and abrasives. MHL also holds 4.62% stake in CIFCL – which operates as a non-banking finance company – following its merger with fellow subsidiary AHPL.

[^] 1 crore = 100 lakh = 10 million

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

[±] The FY 2015–16 financials include that of Ambadi Holdings Private Limited, pursuant to a scheme of amalgamation filed with the Madras High Court

MHL was engaged in the tea-plantation business (as Parry Agro Industries Limited) till FY 2010–11; however, subsequent to a restructuring exercise in FY 2011–12, 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, share holding of 79.61%), while the remaining shares are mainly held by promoters in their individual capacity.

For FY 2015–16, MHL provisionally reported a PAT of Rs. 18.25 crore on a net income of Rs. 32.52 crore as against a PAT of Rs. 16.92 crore on a net income of Rs. 32.11 crore in FY 2014–15.

The Murugappa Group

The Group traces its origins to the money-lending and banking business founded by Dewan Bahadur A. M. Murugappa Chettiar in the 1900s in Burma (now Myanmar). After moving its assets back to India in the 1930s, the Group recommenced operations and expanded into several sectors; and currently has footprints in diverse sectors such as engineering and metal-forming, bicycles, finance, general insurance, abrasives, fertilizers and farm inputs, sugar, bio-products, nutraceuticals, property development and plantations. The Group has ~28 businesses under its wing, including 11 listed companies. The major companies of the Group include Carborundum Universal Ltd., EID Parry (India) Ltd., Tube Investments of India Ltd., Cholamandalam Investment and Finance Company Ltd, Cholamandalam MS General Insurance Company Ltd, Coromandel International Ltd., Coromandel Engineering Company Ltd., Parry Agro Industries Ltd., Shanthi Gears Ltd. [*rated [ICRA] AA (Stable) / A1+*], and Wendt (India) Ltd. [*rated [ICRA]AA- (Stable)/ A1+*].

For FY 2015–16, the Group reported a Profit before Tax and Extra Ordinary Items (PBT excl EOI) of Rs. 1,880 crore on a turnover of Rs. 29,470 crore as against a PBT excl EOI of Rs. 1,780 crore on a turnover of Rs. 26,926 crore in FY 2014–15.

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