

India Ratings Affirms Cholamandalam Financial Holding's NCDs at 'IND AA+' / Stable

Mar 20, 2023 | Holding Company

India Ratings and Research (Ind-Ra) has affirmed Cholamandalam Financial Holdings Ltd's (CFHL) non-convertible debentures (NCDs) as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs*	-	-	-	INR2,000	IND AA+/Stable	Affirmed

* Details in Annexure

Analytical Approach: Ind-Ra continues to take a consolidated view of CFHL and its key subsidiaries - Cholamandalam Investment and Financial Company (45.4% - CIFIC, 'IND AA+' / Stable) and Chola MS General Insurance (CMSGI; 59.9%), to arrive at the rating. CFHL is the holding company of Murugappa group's financial services businesses. Therefore, the agency has factored in the importance of the financial service business to the group to arrive at the rating.

Key Rating Drivers

Diversified Board with Representatives at Subsidiary: CFHL has a six-member board, of which three members are independent. Although CFHL does not explicitly have nominee member seats reserved in its subsidiaries, it strives to share key member functionality at its key subsidiary. One of the three non-independent directors of CIFIC is from CFHL and two of the five non-independent directors of CMSGI are from CFHL.

Strong Credit Profile of Principal Operating Subsidiary: The ratings reflect the strong credit profile of CIFIC. CFHL is a pure investment company with CIFIC being its primary investment. CFHL's earnings depends on flows from CIFIC's dividend declaration and remains the primary source of servicing its debt, while a large value of its holding in CIFIC provides additional cushion in the event of dividend not being declared by CIFIC. The company could also raise equity as an additional option. CFHL has been set up to house the financial services business of the Murugappa group. CFHL, along with its group entities, controls CIFIC as it directly holds a 45.4% share and including this, Murugappa group holds a 51.6% share in CIFIC.

CFHL was formed following the scheme of arrangement (demerger) sanctioned by the National Company Law Tribunal. The manufacturing business of the company was transferred to a separate company, while CFHL retained the core financial services and operates them through its subsidiaries CIFIC and CMSGI.

CFHL has created a strong franchisee through CIFIC, which is among India's largest asset finance non-bank financing companies, with a geographically well-diversified vehicle finance portfolio (3QFY23: 64.3% of assets



under management, FY22: 68.8%). The company maintains a strong position in both new and used vehicle segments across multiple product lines such as light commercial vehicles, heavy commercial vehicles, cars and multi-utility vehicles. It is also a dominant player in the loan against property segment and has increased its focus on small ticket loans with control on loan-to-value ratios by penetrating Tier-3 to Tier-6 cities through its vast network of 1,166 branches spread across 29 states.

CMSGI is a joint venture between the Murugappa group and Mitsui Sumitomo Insurance Company Limited, Japan. CMSGI offers a wide range of insurance products including motor, health, property, accident, engineering, liability, marine, travel and crop insurance for individuals and corporates. CMSGI achieved a gross written premium of INR43,890 million in 9MFY23 (FY22: INR48,240 million). CMSGI has more than 153 branches and over 28,364 agents across the country. At end-December 2022, CMSGI had a solvency ratio of 2.06x, having sufficient cushion above the regulatory minimum.

Liquidity Indicator – Adequate: At end-February 2023, CFHL (on a standalone basis) maintained modest on-balance sheet liquidity, with cash and cash equivalent to debt repayment of 1.2x, which is adequate to pay its INR570 million of debt obligation in March 2023. CFHL holds cash and fixed deposit worth INR705.3 million at end-February 2023. Also, its sizeable holdings in CIFIC with a large market value on 10 March 2023 would fetch INR288,000 million, thus providing adequate cushion. Less than 1% dilution in its investment could cover the entire outstanding debt pay-out. In case of an exigency or the absence of dividend income, it could raise short-term borrowing to the extent which is serviceable from brand fee income (capped at INR100 million) from CMSGI. Also, CFHL could raise funds from the shareholders (Ambadi Investments Ltd, 37.7% holdings in CFHL), as and when required.

Upstreaming of Cash Flow from CIFIC Remains Primary Source of Debt Servicing: As CFHL does not have operations of its own, it relies on the dividend income mainly from its key subsidiary. CFHL also earns a brand fee from CMSGI with a cap of INR100 million and modest interest income from the cash in bank and investments. It does not have major operating expenses, as expenses mainly comprise salaries to two employees and director fees. Thus, dividend income is an important driver for profitability. At 9MFYE23, CFHL reported a profit of INR220 million (FY22: INR555 million) led by the receipt of interim dividends from CIFIC. Ind-Ra expects CFHL's profit to improve further in FY23 with CIFIC declaring dividends in February 2023.

CFHL received final and interim dividends of INR480 million from CIFIC by end-February 2023, which would be used towards principal repayment of INR500 million due at end-March 2023. In case of a temporary disability of its key subsidiary, CIFIC, in upstreaming of the cash flow, the company would raise short-term borrowings or funds from shareholders for its principal repayment. In case of a permanent disability, CFHL plans to sell a fraction of its holding to repay the principal amount due.

Moderate Double Leverage: Its double leverage (equity investment in subsidiary/net worth) stood at 106.7% in 9MFY23 (FY22: 107.8%). While CFHL is likely to participate in equity infusion rounds at CIFIC, Ind-Ra expects the double leverage to remain within the prescribed limits.

Rating Sensitivities

Negative: Future developments that could lead to negative rating action include:

- a downgrade of CIFIC's rating owing to a weakening credit profile among other factors,
- a significant decline in its CIFIC's ownership
- a delay or non-receipt or significant lower dividend declared from its subsidiary,
- double leverage exceeding 120% on a sustained basis.

ESG Issues



ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CFHL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

CFHL (formerly TI financial holding) is the holding company of financial service of the Murugappa group. CFHL is registered as non-deposit taking, systematically important core investment non-banking financial institutions. CFHL does not have any operations of its own, but the group financial services are operated through its subsidiaries namely CIFC and CMSGI.

At end-December 2022, the promoters held a 48.6% equity stake in CFHL, majority through Ambadi Investments Ltd (37.7%).

FINANCIAL SUMMARY (Standalone)

Particulars	FY22	FY21
Total assets (INR million)	12,909	13,029
Total equity (INR million)	11,872	11,407
Net income (INR million)	555	218
Return on average total assets (%)	4.3	1.7
Equity/assets (%)	91.9	87.6
Source: CFHL, Ind-Ra, Figures have been calculated as per Ind-Ra's methodology		

FINANCIAL SUMMARY (Consolidated)

Particulars	FY22	FY21
Total assets (INR million)	9,68,669	8,75,506
Total equity (INR million)	55,403	43,210
Net income (INR million)	22,422.3	17,639
Return on average total assets (%)	2.43	2.17
Equity/assets (%)	5.7	4.94
Source: CFHL, Ind-Ra, Figures have been calculated as per Ind-Ra's methodology		



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APPLICABLE CRITERIA

Financial
Institutions Rating
Criteria

Rating FI
Subsidiaries and

Holding Companies

Non-Bank Finance
Companies Criteria

The Rating Process

Evaluating
Corporate
Governance

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating/Outlook	22 March 2022	23 March 2021
NCDs	Long-term	INR2,000	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable

Annexure

NCDs

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE149A08145	30 March 2021	6.20	31 March 2022	INR500	WD (Paid in full)
INE149A08152	30 March 2021	6.75	30 March 2023	INR500	IND AA+/Stable
INE149A08160	30 March 2021	7.26	30 March 2024	INR500	IND AA+/Stable
Utilised				INR1,000	
Unutilised				INR1,000	
Total				INR2,000	



Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact

Primary Analyst

Vani Girotra

Research Associate

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

022 40356118

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Jinay Gala

Associate Director

+91 22 40356138

Chairperson

Karan Gupta

Director

+91 22 40001744

Media Relation

Ankur Dahiya

Senior Manager – Corporate Communication

+91 22 40356121

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