Investment Holding Companies Rating Criteria

Approach to Rating Entities within a Corporate Group Structure

Sector-Specific Criteria

The criteria set out in this report supplement and are applied in conjunction with Ind-Ra's Corporate Rating Methodology Master Criteria. This report aims to further elaborate key rating drivers mentioned in the Master Criteria that are being considered by Ind-Ra for rating holding companies.

Scope

These criteria specifies India Ratings and Research's (Ind-Ra) methodology for assigning and reviewing ratings of corporate entities whose main activity comprises holding a controlling interest in other companies only for the purpose of generating capital gains and dividend income on a long-term basis. Operational integration between various investee companies and their investment holding company (HoldCo) is generally moderate with limited group-level synergies and predominantly separate funding arrangements.

Issuers that share characteristics of both investment holdings and industrial conglomerates are analysed based on the present framework when the subsidiaries representing the majority of the value of the group are held by the holding company as investments rather than as integrated businesses. Otherwise, the Parent and Subsidiary Rating Linkage criteria would apply. Also, entities which are registered as core investment companies (CICs) with the Reserve Bank of India or those having several investee companies with ongoing rebalancing such as investment funds and alternative asset managers (such as private equity firms and hedge funds) would be excluded from this criterion. Sponsor entities of real estate investment trusts and infrastructure investment trusts can be assessed under this criterion. Please see Page 2 and Appendix-I for further details on how we distinguish between the entities.

Key Rating Drivers

Ind-Ra assesses the overall quality of dividend and non-dividend income streams of investment holding companies. The resultant blended assessment is then subordinated by up to one-notch. This subordinated outcome can be notched up by a maximum of three notches depending on the degree of diversification and supplemental rating factors. However, these factors could also drag the rating down (No Floor) when they are consistently weaker than the blended income stream assessment.

Quality of Blended Income Stream: This factor is most important in assessing investment holding companies. Investment holdings rely typically on dividends and other income streams such as fee income, for the servicing of their debt. As a result, the starting point of analysis is a blended income stream assessment, based on the weighted-average rating of dividend income streams from investments, less one notch for subordination. The blended income stream assessment also factors in the non-dividend income streams earned by holding companies, notching of which is dependent on its subordination characteristics.

Dividend Diversification: Diversified dividend flows from multiple entities, which are unlikely to cut their dividends at the same time because their main performance drivers or key decision-making policies about dividend payouts are largely unrelated, can provide up to a two-notch uplift to the blended income stream assessment.

Supplemental Rating Factors: Supplemental rating factors include financial metrics, asset liquidity profile and dividend control and stability.

- **Financial Metrics:** Interest coverage is the primary metric, as debt servicing should not rely on capital appreciation or asset sales, especially for investment-grade ratings. For leverage, the relative importance of dividend-based (e.g. net debt/EBITDA) and valuation-based metrics (e.g. loan-to-value ratio) will depend on how close the issuer is to a 'pure investment holding', i.e. with a portfolio of stakes in entities which could be disposed of in an orderly

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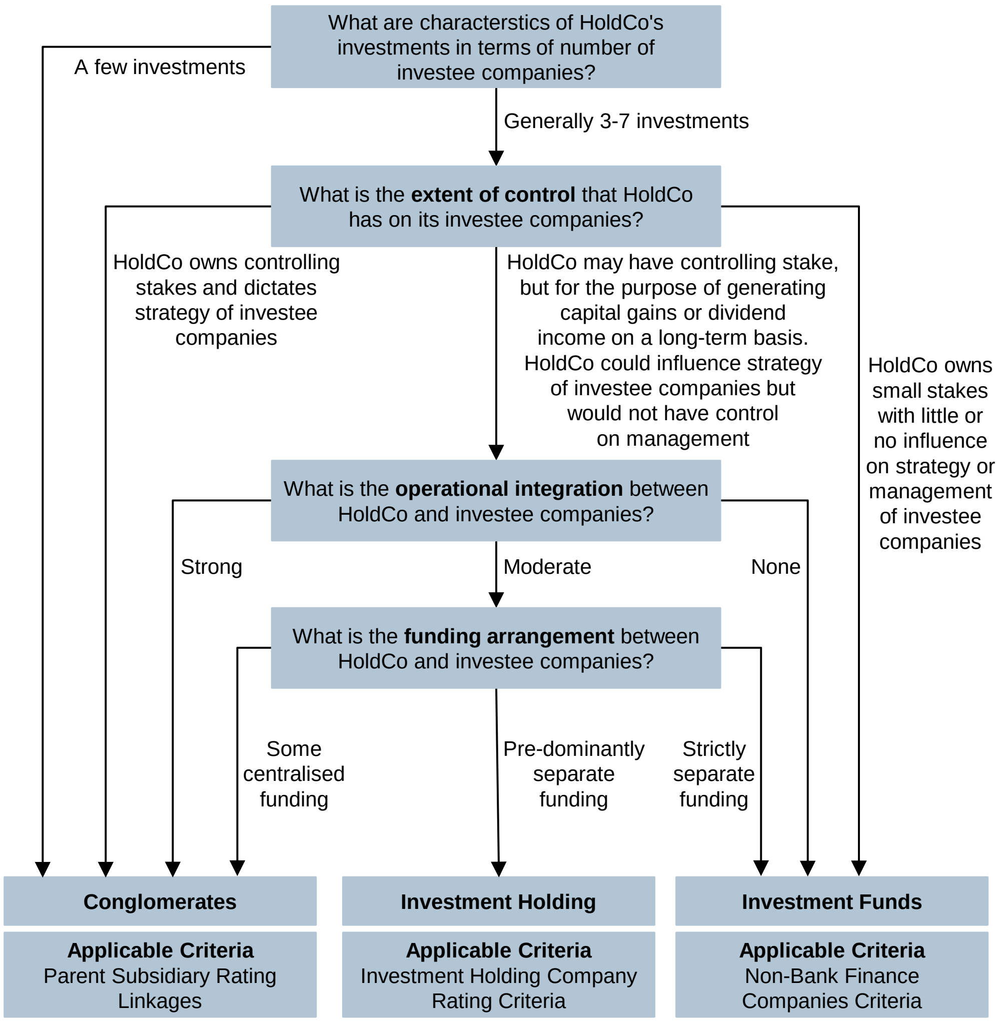
manner over a period of a few months. In case of holding company relying predominantly on short-term capital market instruments, the track record of timely roll-over/ refinancing also needs to be evaluated.

- **Asset Liquidity Profile:** The ability to dispose assets easily is a source of financial flexibility. Portfolio diversification helps preserve the ability to sell assets at all times. By contrast, being concentrated on stocks from one single sector, for example, could be an issue from the market liquidity perspective. Whether investee companies are listed, and/or traded and valuation headroom available would also be a key consideration here. However, selling stakes and refinancing debt may be difficult in periods of market disruption when dividends received could also be under stress. Holding companies, therefore, need a liquidity buffer to cover these periods and avoid clustering debt repayments in a short period.
- **Dividend Control and Stability:** The ability to influence dividends and a track record of stable cashflow generation and distributions are positive factors. Conversely, a restriction on distributions or a history of volatile dividends could lead to low ratings. High visibility on dividend distribution through (a) a board-approved quantitative dividend policy accompanied with stable dividend payouts, or (b) regulation (in case of REIT/InvIT) will be a positive factor.

Criteria Application

Key differentiating factors between HoldCos, industrial conglomerates and investment funds are the extent of control, operational integration and funding arrangement. The criterion is also applicable in case one sector dominates in a HoldCo's investment profile (e.g. REITs/InvITs) as long as sufficient diversification is available geography-wise, entity-wise and underlying business driver-wise, thereby ensuring a certain level of stability and cushion in income stream.

Figure 1
Flowchart to Access Applicability of Criteria



Source: Ind-Ra

The extent of control that a HoldCo has on its investee companies is assessed on a case-to-case basis. Typically, controlling interest could mean (a) holding majority stake with equivalent voting rights, or (b) exerting significant control even if the holding is less than 50%, or (c) in case of 50:50 JVs, the HoldCo is most likely to have meaningful representation on the operations and board, leading to the HoldCo having a meaningful say in dividend distribution policies. Nevertheless, even having majority stake in publicly listed companies with an independently functioning board can significantly reduce the extent of control, and can be accessed under this criterion.

Figure 2

Extent of Control – General Guidelines

Type of entity	Characteristics	Extent of control
Wholly owned subsidiaries	100% owned; total management control	Very high
Majorly owned subsidiaries	Say 75% shareholding; ability to take decisions without any opposition	
Controlled subsidiaries-1	Majority shareholding (could be sub-50%), but minority shareholding is dispersed	
Controlled subsidiaries-2	Majority shareholding (could be sub-50%); presence of few large minority shareholders	Reducing extent of control
Joint ventures	Presence of equal partner	
Minority shareholding		
Special purpose vehicles (SPVs)	Ring-fenced; Possibly default-remote	
Finance subsidiaries	Very strong regulatory oversight/ ring-fencing/ regulations	Very low

Source: Ind-Ra

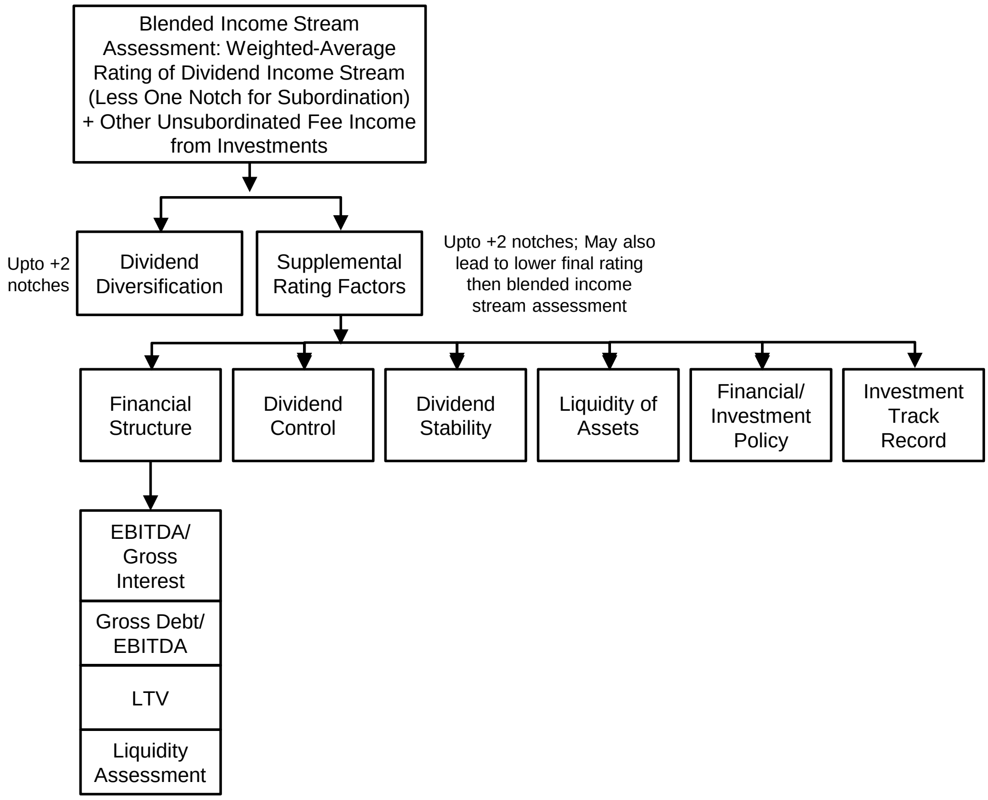
Analytical Approach

Ind-Ra shall follow the following three-step process for arriving at the rating of a holding company.

- **Step-A: Blended Income Stream Assessment:** The weighted-average rating of the investment entities contributing to dividend income streams is to be notched down by one notch for their subordination. The blended income stream assessment will also factor in the non-dividend paying income stream (not discounted for subordination) as explained in detail in subsequent sections.
- **Step-B: Diversification of Income Streams:** The diversification of income streams (dividend and non-dividend) shall be assessed based on the number of entities providing an income stream, their proportionate share and linkages among them. Objective of this exercise is to understand if various income streams are sufficiently uncorrelated in terms of payout ratios and performance factors. This can yield up to a two-notch uplift above the blended income stream assessment.
- **Step-C: Supplemental Rating Factors:** Ind-Ra will combine the blended income stream assessment (including other unsubordinated income streams) with the key financial metrics, primarily cash coverage of interest and asset liquidity. Leverage measured by both loan-to-value (LTV) and cash flows-based metrics is used as an additional measure to assess the risk of refinancing. This can yield up to a two-notch uplift over and above the blended income stream assessment and diversification of income streams, subject to the total notching not exceeding three notches above the blended income stream assessment.

It may be noted that Step-B and Step-C do not necessarily result in notching up the rating above the blended income stream assessment. Supplemental factors could also drag the rating down (No Floor) when they are weaker than the blended income stream assessment. The rating committee will assess the extent to which these different factors strengthen or weaken the rating of the investment holding company.

Figure 3
Structure Diagram



Upnotching is restricted to a maximum 3 notches above the Blended Income Stream Assessment

Source: Ind-Ra

Blended Income Stream Assessment

Step-A: Blended Income Stream Assessment

Typically, a holding company does not have the capability to generate income. Hence, its ability to service debt obligations depends on the quantum and timing of the income stream (dividend and non-dividend) received from its investee companies. Non-dividend income stream includes, but not limited to, trading income, fees charged to subsidiaries for management support, services rendered, patents, royalties, copyrights, branding etc. Ind-Ra shall consider the total expected income stream available over the longest remaining tenure of the debt instrument for the assessment purpose.

A1: Weighted-Average Credit Quality of Dividend Income from Subsidiaries or Investee Companies

Dividends are by nature subordinated to operating cash flows as debt needs to be serviced first. Moreover, dividend distribution policies by operating companies typically stipulate dividend payouts as a proportion of profit after tax or net surplus free cash flow (FCF). This makes dividend stream inherently volatile, given the presence of additional expenses between operating cash flows and dividends.

As the ability to pay dividends and their stability is linked to the credit quality of the source of dividends, the average credit quality of subordinated dividend income streams is linked to the credit rating of subsidiaries, which is set one notch lower to reflect the subordination.

The weighted average rating of dividend flows from multiple subsidiaries is arrived by at by taking weighted average of dividend flows over the tenure of the instrument with rating category-wise factors, which are derived by Ind-Ra based on a mix of observed default frequencies and regulatory benchmarks.

Ind-Ra retains the flexibility to exclude some of the low-rated entities from the weighted-average rating computation, which either do not have the ability to pay dividends or historically have not paid dividends to holding company. Rationale for such exclusions needs to be explained in the rating action commentary.

Holding companies earning interest income from the inter-corporate deposits (ICDs) extended to investee / subsidiary companies is a rare sight, but possible. Typically, financing agreements of investee/ subsidiary companies have restrictions in terms of servicing of ICDs from related parties (i.e. holding company). These restrictions include subordinated nature of ICDs, moratorium on ICD servicing before senior debt is completely repaid, presence of specific covenants restricting ICD servicing and lack of flexibility with holding companies to invoke default proceedings. Hence, interest income also exhibits similar subordinated characteristics as that of dividend streams, and shall be treated at par with dividend income while using the blended income stream assessment.

A2: Weighted-Average Credit Quality of Non-Dividend Income Streams from Subsidiaries or Investee Companies

Sometimes, holding companies also receive non-dividend income streams from their subsidiaries, such as trading income, interest income from treasury operations, fees charged to subsidiaries for management support, services rendered, patents, royalties, copyrights, branding etc. Such charges form part of operating expenses of investee companies and hence, are not discounted for subordination. This because such services remain critically important for investee companies to maintain their normal business operations. Many a times, quantum and timing of such income streams are determined based on firm agreements signed between holding and investee companies. However, holding companies often do have the flexibility to defer or accumulate receivables from the operating companies or the income streams can itself be quite volatile (for instance interest income from treasury operations). Hence, Ind-Ra shall assess the visibility, stability and track record of receipt of such income streams on projected basis over the rating horizon and retains the flexibility to provide a one-notch discount to such income streams.

Weighted average rating of non-dividend income stream is assessed using the same methodology as described in Section A1.

A3: Arriving at Final Rating for the Blended Income Stream

Weighted average credit quality of dividend income (factoring in one notch for subordination) and of non-dividend income (not discounted for subordination) is assessed using the approach described above.

While assigning ratings to an investment holding company, Ind-Ra will use its published credit rating for the entities used to take view on the blended income stream assessment. Ind-Ra shall also take an internal view on the credit rating of any individual entity/s if the agency does not an already have published credit rating on the company.

Notches Impact from Diversification and Supplemental Rating Factors

Figure 4

Maximum Notching Above Blended Income Stream Assessment

	Diversification	Supplemental rating factors	Maximum up notching above blended income stream assessment
Blended income stream assessment	Up to '+2'	Up to '+2'	= Up to '+3'

Source: Ind-Ra

The diversification of dividend flows and consistently strong characteristics in the supplemental rating factors can each yield a two-notch uplift above the blended income stream assessment. However, a maximum uplift of three notches above the blended income stream assessment can be achieved when arriving at an investment holding company's credit rating.

For the combination of all the supplemental rating factors besides dividend diversification, a two-notch uplift would be applied only if all or almost all of the factors (see Summary Table for Supplemental Rating Factors) were consistently scored at least a rating category above the blended income stream assessment, with a maximum of one factor scoring below the blended income stream assessment by one rating category at most.

A one-notch uplift could be applied only if the majority of supplemental rating factors were scored at least a rating category above the blended income stream assessment.

Supplemental rating factors can also lead to a lower final rating than the blended income stream assessment when one or more of these factors are assessed as more consistent with lower rating categories. The rating committee will determine the significance of the negative impact, which would be disclosed in the rating action commentary.

Dividend Diversification

Dividend Diversification

Diversification of dividend flows (see table below) can yield up to a two-notch uplift above the blended income stream assessment, provided dividends are well-spread with no single entity representing over 25% of the total dividends, and there is little relationship between the sources of dividends. The relationship is assessed by looking at whether the entities are likely to cut dividends at the same time due to their performance being driven by the same/related factors.

Figure 5

Notches Uplift from Dividend Diversification

Number of assets/diversification	5 or more[a]	3 or 4[b]	Less than 3
High	2	1	0
Medium	1	0	0
Low	0	0	0

[a] With the largest stake weighing 25% or less of total dividends
[b] With the largest stake weighing 40% or less of total dividends
Source: Ind-Ra

Supplemental Rating Factors

Ind-Ra will access six supplemental rating factors, categorised as Financial Structure, Dividend Control, Dividend Stability, Liquidity of Assets, Financial/Investment Policy, and Investment Track Record.

Financial Structure

The strength of financial structure of a holding company is assessed based on the following characteristics:

- **Interest Coverage**: Measured as EBITDA to gross interest expense. The ratio becomes more important for high-rated entities as debt servicing should not rely only on capital appreciation of the sale of assets
- **Leverage Indicators**: Measured as either gross debt to total income (dividend and non-dividend) or LTV ratio. The ratio implies the refinancing ability of a holding company
- **Core Liquidity at Holding Company**: Liquidity assessment helps to ascertain the ability of investment holding company to survive a prolonged period of asset price weakness, and whether internal FCF is sufficient to service debt obligations

Ind-Ra retains the flexibility in terms of choosing from cash-flow-based and valuation-based leverage metrics depending upon how close the issuer is to the "pure investment holding" case. At one extreme, the leverage of a conglomerate-like holding company with large minority stakes (say above 25%) or with some level of control in a limited number of companies with some operational integration would be analysed mainly on the basis of the cash-flow-based ratios. Conversely, the leverage of an investment holding with a portfolio largely composed of stakes in operationally independent entities which could be credibly disposed of in an orderly manner over a period of a few months can be assessed on the basis of loan to value. For companies in between, Ind-Ra uses a combination of the two.

Nevertheless, Ind-Ra's financial analysis would retain preference for cash flow measures of earnings, coverage and leverage, as sustainability of such cash flows provides an issuer with both internal debt servicing resources and a stronger likelihood of achieving and retaining access to external sources of funding, as compared to valuation-based metrics.

Financial Structure

Interest Coverage Metric

The underlying objective of accessing coverage of a holding company is to analyse whether visible cash inflows (dividend and non-dividend) are adequate to support non-discretionary cash outflows (interest or other mandatory scheduled operational payouts). Typically, holding companies do not undertake capex and principal debt repayment is mostly rolled-over/ refinanced. Hence, EBITDA interest coverage ratio effectively indicates the ongoing ability of a holding company to service its debt obligations. In the circumstances where the financing agreement provides a waterfall mechanism, wherein debt servicing is senior to holding company's operating expenses, Ind-Ra retains the flexibility to use total income (dividend and non-dividend) to interest as the coverage indicator.

Given the higher volatility of dividends than EBITDA, the ratios of holding companies should be more in line with industries with an above-average business risk profile. However, this is mitigated by the fact that investment holding companies do not need to incur capex, while the benefits of income diversification and liquidity of assets are still available. For these reasons, the cash-flow-based gross leverage and coverage guidelines for investment holding companies are in line with the average for each rating category.

Leverage Indicators (Loan to Value or Gross Leverage)

Investment holding companies inherently face asset-liability mismatches, wherein debt principal repayment will ultimately come from asset sales rather than operating cash flows. This justifies the use of valuation-based metrics for the assessment of leverage. In subsequent paragraphs, treatment of various building blocks is articulated.

Gross Debt/Loan: Gross debt includes (a) current financial debt, (b) likely increase in debt over the rating horizon (for instance using total commercial paper limits to be rated rather than outstanding commercial paper), (c) adjusted debt for hybrid instruments (in line with Ind-Ra's treatment for hybrid instruments), (d) lower of total financial guarantees extended to investee companies or outstanding debt against the guarantees, and (e) any other future mandatory commitments by investment holding company such as payout towards acquisition considerations as per their due dates.

Valuation Metrics: Ind-Ra uses market value of listed entities, which can be liquidated quickly by an investment holding company to repay its debt. However, given that valuations can be quite volatile, Ind-Ra applies stressed valuations to arrive at LTV ratio. In the case of listed stakes, Ind-Ra haircuts the current valuations by three times the standard deviation of the month-on-month percentage change in the average share price (calendar month basis) observed in the shorter of 10 years or the longest available period. However, Ind-Ra retains the flexibility to consider different time periods to arrive at valuations if there has been a meaningful change in the operating environment or business profile of the entities. For quoted liquid investments, book value as given in the financial statements can be used as it is likely to closely reflect the fair value of the instruments. Ind-Ra will exclude unquoted investments or holding company's stakes in unlisted entities due to lack of visibility on fair valuation and holding company's ability to monetise such instruments in a timely fashion. Ind-Ra observes that broad market weakness would have a more pronounced impact on valuations of such illiquid instruments. In exceptional circumstances, where the value of unquoted investments or stakes in unlisted companies are factored in the assessment, Ind-Ra shall disclose the same along with underlying rationale in Rating Analysis Commentary.

Core Liquidity Assessment of Holding Company: Ind-Ra's assessment of liquidity for a holding company broadly remains the same as that of its methodology for liquidity assessment for corporate entities. However**,** refinancing is a pronounced risk for investment holding companies as their leverage tends to be high and cannot be reduced significantly through internal cash generation. Sale of assets or refinancing is needed to repay maturing debt.

Moreover, during periods of market disruption, selling stakes and refinancing maturing debt may be difficult and dividends received could also be under stress. It is therefore important for investment holdings to keep a sufficient buffer of liquidity to cover these periods and avoid clustering of debt repayment in a short period of time. Liquidity buffers should therefore cover a longer period than for corporates in other sectors.

The core liquidity ratio estimation would include FCF generation, cash & liquid investments and undrawn/committed bank lines. Ind-Ra also retains the flexibility to include a committed fund infusion by the parent, and committed fund inflow from asset sales while estimating core liquidity of an investment holding company. Nonetheless, Ind-Ra's methodology for liquidity assessment of corporate entities remains driving document for holding company's liquidity assessment.

Liquidity Support Available by Way of Related Party Transactions or Inter-Corporate Deposits: An underlying objective of a holding company is to infuse funds in investee companies. However, sometimes investee/subsidiary or other entities within the group can also provide bridge funding support to the holding company in case of need. Such funding support could take form of ICDs, advances, credit substitutions (guarantees) etc, and is an important source of extra-ordinary liquidity support for holding companies being part of a large group. Ind-Ra shall assign the benefit of such extra-ordinary support based on the ability, willingness and timeliness of such support.

At the same time, the holding company may extend financial support (ongoing or extraordinary) to non-investee/subsidiary entities within the group. Ind-Ra shall incorporate such support requirement in its analysis.

Asset Liquidity

The ability to dispose of investments easily is an important source of financial flexibility. Reasonable portfolio diversification helps preserve the ability to sell assets at all times, whereas being concentrated on stocks in relatively illiquid companies, for example, could be viewed negatively because the liquidity of these stocks tends to be relatively limited.. The focus of the assessment is on the ability to sell reasonably quickly without triggering a significant decline in the value of the assets.

Unlisted assets, unquoted investments, listed assets with only a small free float, assets with significant practical restrictions on disposal (e.g. tax, shareholders agreement) are considered assets with poor liquidity. Also, having a controlling stake in an operating company with significant presence of other strategic shareholder may be considered illiquid, as the holding company may not prefer diluting its stake to maintain control. Also, legal restrictions (regulatory restrictions, covenants in financing agreements, pledge of shares/ investments) may reduce the holding company's ability to monetise its investments in timely fashion. Conversely, relatively small stakes (e.g. 5% or less) in otherwise widely distributed shareholdings of blue-chip companies can be considered very liquid.

To summarise, Ind-Ra shall access asset-level liquidity based on ability, willingness and timeliness for holding company to monetise its investments.

Dividend Control and Stability

Investment holding companies generally do not control the entities in which they hold their stakes. Exceptions exist however, and even minority stakes can be sufficient to significantly influence dividend policies in the absence of other reference shareholders. Conversely, there can be significant restrictions on dividend distributions, such as regulatory restrictions (especially in certain industries such as insurance or financial institutions), or project finance-type financing structures at subsidiary level with strict control of dividends.

A record of stable dividend distributions is an important factor that complements the average credit quality of dividend income streams, as companies at the same rating level can exhibit considerable variations in dividend distribution, generally due to volatility of their underlying business. When operating subsidiaries' capital structures include mechanisms or financial instruments that constrain dividend payments, Ind-Ra may adjust the credit rating level assumed and its dividend potential.

Investment and Financial Policy & Investment Track Record

The business profile of investment holdings can change more quickly than that of traditional corporates as asset rotation is part of the business model. The consistency, robustness and predictability of a firm's investments and financing decisions are therefore key factors, especially at the top of the rating range, as a change in the nature of the investments could easily precipitate a multi-notch downgrade.

Ind-Ra shall evaluate following broad indicators (not exhaustive) while assessing the investment and financial policy of holding companies.

- **Leverage & liquidity indicators:** Policies with a clearly articulated threshold for leverage levels would be considered prudent. Liquidity policies stipulating a long duration and evenly spread debt maturities are better than large bullet payments, which heightens the refinancing risk for holding companies.
- **Risk management:** Policies and processes clearly stipulating decision-making towards new investments or monitoring of existing investments shall be reviewed. Given the inherent volatility in the valuations of underlying assets, any firm policy that ensures availability of funds prior to debt due dates implies a better risk management policy by the holding company.
- **Track record of value creation:** The capacity of an issuer to generate strong and consistent profits from its investments is also an important factor. A record of poor (as seen in repeated material write-offs) or aggressive investment decisions would have a negative impact on the rating**.**

Figure 6

Summary of Supplemental Rating Factors

	Financial structure[a]								
	EBITDA/ gross interest (x)	Gross debt/ EBITDA (x)	LTV (%)	Liquidity assessment[b]	Asset liquidity	Dividend stability	Dividend control	Investment and financial policy	Investment record
IND AA	7.0	1.5	Below 25	Very comfortable liquidity with no need to use external funding in the next 24 months or more; Well-spread maturity schedule of debt; Diversified sources of funding; One year liquidity ratio above 1.25x	At least five different assets with excellent liquidity; Listed stakes accounting for 80% or more of valuation	Record of stability of dividends (indicative maximum one-year decline below 25%)	No restriction on dividend distribution, ability to influence dividend distribution policy	Clear public commitment to maintain a certain policy with only modest deviations allowed	Record of successful and conservative investments
IND A	3.5	3.0	Below 35	Very comfortable liquidity; Well-spread debt maturity schedule; Diversified sources of funding; One year liquidity ratio above 1.25x	At least five different assets with good liquidity; Listed stakes accounting for 50% or more of valuation	Some volatility of dividends (maximum one-year decline below 35%)	No particular ability to influence dividend distribution	Same as above but with greater tolerance for deviation. If internal policies only, strong track record of abiding by these	Track record of successful investments but with more risk appetite
IND BBB	2.5	3.5	Below 45	One-year liquidity ratio above 1.25x; Well-spread maturity schedule of debt but funding may be less diversified	At least three different assets with good liquidity	More volatility of dividends, (maximum one-year decline below 50%)	Minor restrictions on dividend distribution could kick in	Internal policies only with some liberties being taken	Less successful/ more aggressive investment record
IND BB	2.0	4.5	Below 55	Liquidity ratio around 1.0x; Less smooth debt maturity or concentrated funding	Questionable liquidity of assets	Volatile dividends	Material restrictions on dividend distributions	No stated policy; Largely opportunistic behaviour	Poor or aggressive investment record

[a] Given the higher volatility of dividends than EBITDA, the ratios of holding companies should be more in line with industries with an above-average business risk profile. However, this is mitigated by the fact that investment holding companies do not need to incur capex, avail the benefit of diversification and have charge on the liquidity of assets. For these reasons, the cash-flow-based gross leverage and coverage guidelines for investment holding companies are in line with the average for each rating category
[b] Liquidity score is defined as: available cash + undrawn portion of committed facilities + FCF (if positive)/debt maturities + FCF (if negative)
Source: Ind-Ra

Corporate Governance Assessment

Most of investment holding companies are private entities, which allows them an elongated time-frame for reporting financials statements and waiver from making certain timely disclosures that are mandatory for publicly listed companies. Hence, Ind-Ra relies on timely and transparent information sharing from the investment holding companies to assign and monitor credit ratings. Ind-Ra shall evaluate the corporate governance structure of holding companies in line with its existing corporate governance criteria.

Limitations

Please see the Limitations in the master criteria Corporate Rating Methodology.

Appendix I

Figure 7

Investment Holdings vs. Conglomerates and Investment Funds

	Investment holdings	Conglomerates	Investment funds
Operational integration	Moderate	Strong within each business line. More modest across business lines.	None.
Number of investments or business lines	Generally between three to seven investments account for the bulk of the value.	A few.	Large number.
Stability of portfolio	Long-term investments with holding periods typically extending over several years.	High.	Ongoing rebalancing of investments.
Control	Controlling interest only for the purpose of generating capital gains and dividend income on a long-term basis. Influence over strategy but no control.	Mostly controlling stakes. Strategy dictated by holding company.	Generally small stakes only. Usually little or no influence on strategy or management.
Funding	Pre-dominantly separate financing of holding company and the various investee operating companies.	Some centralised funding.	Strictly separate financing of the investment fund and the various operating companies.
Value creation	Capital gains and dividend income.	Improve cash flows from operations.	Capital gains and dividend income.
Source of debt repayment	Sale of investments or refinancing.	Cash flows.	Sale of investments.
Key risk	Liquidity of investments, value and dividend volatility.	Volatility of cash flows.	Liquidity of investments, value and dividend volatility, investor demand.
Applicable rating criteria	Holding company criteria	Parent subsidiary linkage criteria	NBFC criteria

Source: Ind-Ra