

January 23, 2023

Prabhudas Lilladher Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank guarantee	195.00	230.0	[ICRA]A2; reaffirmed
Short-term fund-based overdraft facility	32.00	25.0	[ICRA]A2; reaffirmed
Short-term fund/non-fund based bank lines (un-allocated)	173.00	145.0	[ICRA]A2; reaffirmed
Total	400.00	400.00	

*Instrument details are provided in Annexure I

Rationale

While reaffirming the rating, ICRA has considered the consolidated financials of Prabhudas Lilladher Advisory Services Private Limited (PLAD) or the Group. It has taken a consolidated view of PLAD and its subsidiaries, including Prabhudas Lilladher Financial Services Private Limited (PLFS) and Prabhudas Lilladher Private Limited (PLPL), given the operational and business synergies in addition to the shared name and management oversight. PLPL is primarily engaged in securities broking while PLFS serves as the lending arm and offers loan against shares (LAS) facilities to PLPL's retail clientele.

The rating factors in the Group's long track record in the capital markets related businesses, with long track record in the broking business, and the operational synergies arising out of the complementary offerings of various Group entities. However, the rating remains constrained by the modest scale of operations, high loan portfolio concentration, low profitability, and relatively low diversification in the liability profile.

While ICRA notes that the Group reported a strong growth in its operating profit of Rs. 29.1 crore in FY2022 supported by the traction in the core broking operations, it reported a net loss of Rs. 5.9 crore because of accelerated write-offs related to legacy receivables and non-performing loans. Further, with the moderation in the net operating income (NOI) growth on account of the dampening investor sentiments in the current fiscal, elevated operating expenses primarily due to bonus pay outs related to the previous year's strong operating performance (particularly in PLPL), and the continued accelerated write-off of non-performing loans, the Group's performance remained weak at a consolidated level. The Group reported a net profit of Rs. 2.1 crore, profit after tax (PAT)/NOI of 3.7% and a return on equity (RoE) of 2.5% in H1 FY2023. While the Group's legacy asset quality issues pertaining to sticky debtors and non-performing loans have largely been cleaned up with the significant write-off of stressed exposures in recent fiscals, its investment book (largely held in PLAD and PLCLM) could be a source of incremental stress, given the weak financial profile of the investee companies.

The rating also remains constrained by the high share of un-secured exposures in PLFS, which accounted for 10% of the overall loan book and 12% of the net worth as of September 30, 2022. The rating also factors in the credit and market risks associated with LAS and margin trading facilities (MTF), given the nature of the underlying assets, the concentrated borrower profile and the limited diversification in the liability profile of the lending business. Going forward, the Group's ability to scale up its operations and improve its profitability would remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Long track-record in capital markets – The Group has been engaged in the capital markets space for over seven decades and is a prominent name in the securities broking business. As of November 30, 2022, it was catering to ~40,790 active National

Stock Exchange (NSE) clients through a network of 14 branches and 1,244 active franchises. PLPL has been ramping up its broking team across locations for servicing the mass affluent customer category while digital initiatives are being leveraged to cater to the needs of the larger retail clientele. Further, PLPL has an established institutional desk, catering to 128 active institutional clients as of November 2022, comprising mutual fund houses, insurance companies, domestic institutional investors and foreign portfolio investors. In addition to securities broking, the Group, through its various subsidiaries, offers a diversified portfolio of services such as equity & commodity broking, lending, distribution of financial products, portfolio management services, wealth management, and merchant banking services.

ICRA has noted the change in the ownership of PLAD. On November 15, 2022, Ms. Amisha Vora, a co-owner and the Joint Managing Director of the Group, increased her holding in PLAD to 96% from 24% through the acquisition of a stake of 24.0% from Mr. Dilip Bhat, 26.4% from Mr. Arun P. Sheth and 21.6% from Mr. Dhiren P. Sheth. Currently, Ms. Vora is serving as the Chairperson and Managing Director of the Group. She has been associated with the Group for over two decades and is actively involved in the business.

Credit challenges

Modest scale of operations – The Group primarily offers broking services to retail clients, which this segment accounting for over 67% of its broking volume in FY2022. Supported by industry tailwinds, the Group's average daily turnover (ADTO) increased at a compound annual growth rate (CAGR) of 39% in the past two years to Rs. 1,022 crore in FY2022. However, the its derivative ADTO lagged the industry growth, resulting in a shrinkage of its overall adjusted¹ market share in turnover to 0.014% in FY2022 from 0.022% in FY2021. While the Group reported some improvement in the adjusted cash market share, it remained modest at 0.34% in FY2022 (0.26% in FY2021).

The Group is also engaged in capital market funding through MTF in PLPL and LAS in PLFS. Supported by the favourable market environment, the Group scaled up its capital market book to ~Rs. 204 crore (comprising MTF of 42%, LAS of 48% and unsecured loans of 10%) as of September 30, 2022, a growth of over 4.5 times from March 2020. However, it continues to be modest, leading to limited borrower diversification. While its consolidated gearing was at a comfortable level of 0.77 times as of September 30, 2022, the Group has limited funding arrangements, which could constrain its future growth plans. As of September 30, 2022, the Group's borrowings included 67% from banks and non-banking financial companies (NBFCs), 15% from related parties, and 19% from other corporates. Going forward, the Group's ability to scale up its operations further, diversify its asset and liabilities and improve its profitability would remain critical from a credit perspective.

Weak profitability – While the Group reported a 78% year-on-year (YoY) growth in its operating profit to Rs. 29.1 crore in FY2022 supported by the traction in the core broking operations, it reported a net loss of Rs. 5.9 crore because of accelerated write-offs related to legacy receivables and non-performing loans (write-offs aggregated Rs. 32.6 crore in FY2022 and Rs. 10.1 crore in FY2021). Further, with the moderation in the NOI growth on account of dampening investor sentiments in the current fiscal, elevated operating expenses primarily due to bonus pay outs related to the previous year's performance, and the continued accelerated write-off of non-performing loans, the Group's performance remained weak. The Group reported a net profit of Rs. 2.1 crore, PAT/NOI of 3.7% and RoE of 2.5% in H1 FY2023. Also, while the legacy asset quality issues pertaining to sticky debtors and non-performing loans have largely been addressed with the significant write-off of stressed exposures in recent fiscals, its investment book (~13% of consolidated net worth) remains weak due to the weak financial profile of the investee companies.

Dependence on capital markets, which are inherently volatile, cyclical and competitive in nature; exposure to market and concentration risks in the lending business – With the Group's revenues being linked to the inherently volatile capital markets, its revenue profile and profitability remain vulnerable to market performance. ICRA notes that any downturn in the capital

¹ Excluding proprietary turnover

markets may impact the Group's financial performance. Supported by higher share of delivery volumes through research and advisory services, while the Group has managed to earn healthy yields over the years ,however, with increasing competition in equity broking and the advent of discount brokerage houses, a pressure on yield is expected.

The Group's loan book in the NBFC business (PLFS) remains concentrated with the top 10 client groups accounting for more than ~80% of the loan book as of September 30, 2022. Further, with the MTF book at PLPL and PLFS's loan book primarily comprising of LAS facilities, the Group remains exposed to credit and market risks, given the nature of the underlying assets. Any adverse event in the capital markets could erode the value of the underlying collateral stocks.

Liquidity position: Adequate

PLPL's funding requirement is primarily for managing its working capital requirements and scaling the MTF book. Its margin utilisation ranged between 22% and 48% during the 10-month period ending October 2022, with the average margin placed on exchanges (basis month-end data, including client margin) aggregating Rs. 1,387 crore during this period. Further, as on September 30, 2022, it had an unencumbered cash and bank balance of ~Rs. 40 crore. Additionally, it has loan assets of Rs. 85 crore, which may be liquidated at short notice to generate liquidity, if required. The borrowings of ~Rs. 66 crore as of September 30, 2022 are largely in the form of intercorporate deposits (ICDs) from the directors and the parent company. The on-balance sheet liquidity, undrawn bank lines, and inflows from the short-term, callable MTF book cover the debt repayment obligations.

PLFS funds its loan book through a mix of own funds and short-term borrowings (overdraft (OD) facility, LAS and ICDs). As of September 30, 2022, PLFS had drawable but un-utilised bank lines of Rs. 3 crore and short-term LAS of Rs. 98 crore against external borrowings of Rs. 52 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group is able to scale up the operations while achieving healthy profitability and asset quality and comfortable capitalisation on a sustained basis.

Negative factors – ICRA could downgrade the rating in case of a deterioration in the asset quality of the lending business or a decline in the broking volumes, resulting in a deterioration in the financial profile at the consolidated level. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact the business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Broking Industry Consolidation and Rating Approach Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of Prabhudas Lilladher Advisory Services Private Limited (PLAD). It has taken a consolidated view of PLAD and its subsidiaries, including PLFS and PLPL, given the operational and business synergies in addition to the shared name and management oversight.

About the company

Incorporated in 1983, Prabhudas Lilladher Private Limited (PLPL) is a wholly-owned subsidiary of the Prabhudas Group's holding company – PLAD. PLPL offers retail and institutional broking, margin funding and wealth distribution services. As of September 30, 2022, it was catering to 41,073 active NSE clients through a network of 14 branches and 1,244 franchises. In FY2022, PLPL reported a net profit of Rs. 1.8 crore on net operating income of Rs. 105.9 crore and net worth of Rs. 74.7 crore.

ICRA has noted the change in the ownership of PLAD. On November 15, 2022, Ms. Amisha Vora, a co-owner and the Joint Managing Director of the Group, increased her holding in PLAD to 96% from 24% through the acquisition of a stake of 24.0% from Mr. Dilip Bhat, 26.4% from Mr. Arun P. Sheth and 21.6% from Mr. Dhiren P. Sheth. Currently, Ms. Vora is serving as the Chairperson and Managing Director of the Group. She has been associated with the Group for over two decades and is actively involved in the business.

Key financial indicators

PLPL	FY2021/Mar-21	FY2022/Mar-22	H1FY2023/Sep-22*
Net broking income	55.2	75.2	32.2
Net interest income	8.1	13.9	4.9
Other non-interest income	11.0	16.8	9.5
Net operating income	74.3	105.9	46.7
Total operating expenses	64.2	84.7	47.4
Net operating profit	10.1	21.2	-0.7
Non-operating income	1.2	1.6	0.4
Profit before tax	7.0	2.6	-0.3
Profit after tax	6.6	1.8	-0.3
Profit after tax/Net operating income	8.9%	1.7%	-0.6%
Cost-to-income ratio	86.4%	79.9%	101.6%
Net worth (ex-minority interest)	72.9	74.7	74.4
Gearing (times)	0.34	0.82	0.88

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional basis

PLAD (consolidated)	FY2021/Mar-21	FY2022/Mar-22	H1FY2023/Sep-22*
Net broking income	55.2	75.2	32.2
Net interest income	18.1	24.6	14.6
Other non-interest income	11.9	18.8	8.5
Net operating income	85.2	118.5	55.3
Total operating expenses	68.9	89.5	49.6
Net operating profit	16.3	29.1	5.7
Non-operating income	2.1	0.0	-0.3
Profit before tax	8.3	-3.5	1.8
Profit after tax	8.8	-5.9	2.1
Profit after tax/Net operating income	10.3%	-5.0%	3.7%
Cost-to-income ratio	80.9%	75.5%	89.6%
Net worth (ex-minority interest)	168.6	162.8	164.8
Gearing (times)	0.36	0.62	0.77

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *Provisional basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 23, 2023	Dec 21, 2021	-	-
1	Short-term non-fund based bank guarantee	Short term	230.0	200.0	[ICRA]A2	[ICRA]A2	-	-
2	Short-term fund-based overdraft facility	Short term	25.0	0.2	[ICRA]A2	[ICRA]A2	-	-
3	Short-term fund/non-fund based bank lines (unallocated)	Short term	145.0	-	[ICRA]A2	[ICRA]A2	-	-

Source: Company; *As of November 15, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term non-fund based bank guarantee	Very Simple
Short-term fund-based overdraft facility	Very Simple
Short-term fund/non-fund based bank lines (un-allocated)	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short term non-fund based bank guarantee	NA	NA	NA	230.0	[ICRA]A2
NA	Short term fund-based overdraft facility	NA	NA	NA	25.0	[ICRA]A2
NA	Short term fund/non-fund based bank lines (un-allocated)	NA	NA	NA	145.0	[ICRA]A2

Source: Company; As on September 30, 2022

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prabhudas Lilladher Advisory Services Private Limited	Parent	ICRA has considered the consolidated financials of Prabhudas Lilladher Advisory Services Private Limited (PLAD). It has taken a consolidated view of PLAD and its subsidiaries, including PLFS and PLPL, given the operational and business synergies in addition to the shared name and management oversight.
Prabhudas Lilladher Private Limited	PLAD, 100%	
Prabhudas Lilladher Financial Services Private Limited	PLAD, 100%	
Prabhudas Lilladher Commodity Markets Pvt. Ltd	PLAD, 100%	
Prabhudas Lilladher Capital Markets Pvt. Ltd	PLAD, 100%	
Prabhudas Lilladher Fund Advisors Pvt. Ltd.	PLAD, 100%	
Prabhudas Lilladher Insurance Broking Services Pvt. Ltd.	PLAD, 100%	
Prabhudas Lilladher Securities Singapore Pte Ltd	PLAD, 100%	
Prabhudas Lilladher IFSC Pvt. Ltd.	PLAD, 100%	

Source: Company

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