January 23, 2023

# Prabhudas Lilladher Financial Services Private Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Short-term fund-based overdraft facility | 20.02 | 20.02 | [ICRA]A2; reaffirmed |
| Short-term fund based bank lines (unallocated) | 14.98 | 14.98 | [ICRA]A2; reaffirmed |
| Total | 35.00 | 35.00 | |

**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. The Group 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.

ICRA takes note of the scaleup in PLFS's loan book in recent fiscals, whereby its loan book increased by 2.1 times from Rs. 57.2 crore as of March 31, 2020, to ~Rs. 119 crore as of September 30, 2022; albeit it continues to be modest. Notwithstanding the scaleup, PLFS' profitability remained impacted on account of the accelerated write-off of legacy non-performing assets (NPA). Following the write-offs, it however had nil NPA as of September 30, 2022. The capitalisation profile of PLFS remains adequate with a net worth of Rs. 70.3 crore and gearing of 0.96 times as of September 30, 2022.

The rating continues to take into account 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 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 the Group reported a strong growth in its operating profit of Rs. 29.1 crore in FY2022 at a consolidated level 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 with 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 & PLCM) 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 consolidated Group's loan book and 12% of the consolidated Group's 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 accounts 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, its derivative ADTO lagged the industry growth, resulting in a shrinkage of its overall adjusted[1] 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% in PLPL, LAS of 48% in PLFS and unsecured loans of 10% in PLFS) as of September 30, 2022, a growth of over 4.5 times from March 2020. However, it continues to be modest. The LAS book in PLFS also remains concentrated with top ten client group accounting ~80% of the loan book as of September 30, 2022.

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. The resource profile in PLFS also remains concentrated with top lender accounting about 60% of the overall borrowing. Going forward, the Group's ability to scale up its operations further, diversify its assets 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

[1] *Excluding proprietary turnover*

fiscal, elevated operating expenses primarily due to bonus pay outs related to the previous year's performance (particularly in PLPL), 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 on account of the weak financial profile of the investee companies.

The profitability of the lending business in PLFS also remained weak in recent fiscals on account of accelerated write-off of legacy non-performing loans. Though, following the write-offs, PLFS reported nil NPA as of September 30, 2022.

**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 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 yields 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 the 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), 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<br>Consolidation and Rating Approach<br>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

Prabhudas Lilladher Financial Services Private Limited (PLFS) was incorporated by the Prabhudas Lilladher Group in 1996 to offer LAS to the broking clients of Prabhudas Lilladher Private Limited. PLFS is a wholly-owned subsidiary of the Group's holding company – PLAD. PLFS reported a PAT of Rs. 0.3 crore on operating income of Rs. 8.9 crore in FY2022. As of March 31, 2022, it had a net worth of Rs. 70.3 crore. On November 15, 2022, Ms. Amisha Vora increased her stake in the Group to 96% from 24% as of March 31, 2022.

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

| PLFS | FY2021/Mar-21 | FY2022/Mar-22 | H1FY2023/Sep-22* |
|---|---|---|---|
| **Total income** | 10.5 | 12.8 | 7.6 |
| **Profit before tax** | 0.9 | 0.5 | (0.0) |
| **Profit after tax** | 0.6 | 0.3 | (0.0) |
| **Loan book** | 78.1 | 89.1 | 118.8 |
| **Net worth** | 70.0 | 70.3 | 70.3 |
| **Total borrowings** | 21.6 | 39.6 | 67.6 |
| **Gearing (times)** | 0.31 | 0.56 | 0.96 |
| **Return on average assets** | 0.6% | 0.3% | 0.0% |
| **Return on average net worth** | 0.8% | 0.4% | 0.0% |
| **GNPA** | 11.2% | 3.9% | 0.0% |

*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 |

| PLAD (consolidated) | FY2021/Mar-21 | FY2022/Mar-22 | H1FY2023/Sep-22* |
|---|---|---|---|
| Profit after tax | 8.8 | -5.9 | 2.1 |
| Profit after tax/Net operating income | 10.3% | -5.0% | 3.7% |
| Cost-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 (FY2023) | | | | 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 | Jan 01, 2021 | Sep 27, 2019 |
| 1 | Short-term fund-based bank facilities – Overdraft | Short term | 20.02 | 17.4 | [ICRA]A2 | [ICRA]A2 | - | - |
| 2 | Short-term fund-based bank facilities (unallocated) | Short term | 14.98 | - | [ICRA]A2 | [ICRA]A2 | - | - |
| 3 | Short-term fund-based bank facilities | Short term | - | - | - | - | [ICRA]A3+ | [ICRA]A2 |

*Source: Company; *As of November 15, 2022*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Short-term fund-based bank facilities – Overdraft | Very Simple |
| Short-term fund based bank lines (unallocated) | 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 fund-based overdraft facility | NA | NA | NA | 20.02 | [ICRA]A2 |
| NA | Short-term fund-based bank facilities (unallocated) | NA | NA | NA | 14.98 | [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) and taken a consolidated view of PLAD and its subsidiaries including PLFS and PLPL, given the operational and business synergies in addition to a 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*

## ANALYST CONTACTS


**Mr. Karthik Srinivasan**
+91 22 6114 3444
karthiks@icraindia.com

**Mr. Deep Inder Singh**
+91 124 4545830
deep.singh@icraindia.com

**Mr. Subhrajyoti Mohapatra**
+91 22 6114 3463
subhrajyoti.mohapatra@icraindia.com

**Ms. Kruti Jagad**
+91 22 6114 3447
kruti.jagad@icraindia.com


## RELATIONSHIP CONTACT


**Mr. Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches




ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.