

September 07, 2023

## Prabhudas Lilladher Private Limited: [ICRA]A2 assigned for CP programme; rating reaffirmed for bank line programme

### Summary of rating action

| Instrument*   | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action        |
|---|-----------------------------------|----------------------------------|----------------------|
| Short-term fund-based/non-fund based bank facilities    | -                                 | 350.0                            | [ICRA]A2; reaffirmed |
| Commercial paper programme                              | -                                 | 50.0                             | [ICRA]A2; assigned   |
| Short-term non-fund based bank guarantee                | 230.0                             | -                                | -                    |
| Short-term fund-based overdraft facility                | 25.0                              | -                                | -                    |
| Short-term fund/non-fund based bank lines (unallocated) | 145.0                             | -                                | -                    |
| <b>Total</b>  | <b>400.0</b>                      | <b>400.0</b>                     |                      |

\*Instrument details are provided in Annexure I

### Rationale

While assigning 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 primarily offers loan against shares (LAS) facilities to PLPL's retail clientele.

The rating factors in the Group's long track record in capital market related businesses 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, and relatively low diversification in the liability profile. ICRA takes note of the improvement in the profitability in FY2023, though it remains modest and its sustainability across cycles is yet to be seen.

In FY2023, the Group witnessed an 18% year-on-year (YoY) moderation in broking income on account of the decline in cash volumes. Nonetheless, the decline in its net operating income (NOI) was limited to 7% on a YoY basis supported by the increase in the inherently cyclical advisory-related fees. Furthermore, with the reduction in write-off/provision for legacy bad debts/investments after the material cleanup in FY2022, the headline profitability metrics improved in FY2023 with a net profit of Rs. 10.9 crore compared to a net loss in FY2022, return on net worth (ex-revaluation reserve) of 6.5% and profit after tax (PAT)/NOI of 10.0%.

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 (15% of consolidated ex-revaluation reserve net worth as of March 31, 2023) could be a source of incremental pressure on its financial and capitalisation profile, given the weak financial profile of the investee companies. The rating also remains constrained by the sizeable share of relatively illiquid and unsecured exposures at PLFS, accounting for ~11% of its overall loan book as well as its net worth as of March 31, 2023.

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 and established presence in capital markets** – The Group has been engaged in the capital market space for over seven decades and is a prominent name in the securities broking business. As of June 30, 2023, it was catering to ~39,084 active National Stock Exchange (NSE) clients through a network of 13 branches and 1,224 franchises. PLPL also has an established institutional desk, catering to 133 active institutional clients as of June 2023, comprising mutual fund houses, insurance companies, domestic institutional investors and foreign portfolio investors. The Group capitalises on its established research position, supported by 35 research analysts covering over 100 companies, to assist its broking operations. 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. The share of income from these services accounted for ~21% of its NOI in FY2023.

ICRA also notes the change in PLAD's ownership in November 2022 with the Group's co-owner and Joint Managing Director (Joint MD) increasing her holding in PLAD to 96% from 24% through the acquisition of a stake from the existing promoters. The current owner and MD has been associated with the Group for over two decades and is actively involved in the business.

### Credit challenges

**Modest scale of operations** – Notwithstanding its long track record and presence in multiple capital market related businesses, the Group's scale of operations remains modest. It offers broking services to retail and institutional clients, accounting for 66% and 34%, respectively, of its broking volume in FY2023. While the Group expanded its ex-proprietary cash market share to 0.36% in FY2023 from 0.26% in FY2021, the same remains modest. Additionally, it witnessed a shrinkage in its derivatives market share on account of a marginal moderation in the futures & options (F&O) volumes in contrast to the sharp increase witnessed across the industry. The Group is also engaged in capital market funding through MTF at PLPL and LAS at PLFS. It scaled up its loan book to Rs. 174.9 crore (MTF accounted for 38% and LAS and unsecured loans largely accounted for the balance) as of March 31, 2023 and witnessed a compound annual growth rate (CAGR) of 56% between March 31, 2020 and March 31, 2023. However, it continues to be modest, leading to limited borrower diversification. Although the Group's funding requirements used to be low historically, its dependence on borrowing has increased in recent years due to the scaleup in the loan book and the higher working capital requirements amidst the slew of regulatory changes.

As of March 31, 2023, the Group's capitalisation profile was characterised by a net worth<sup>1</sup> of Rs. 173.6 crore and adjusted<sup>1</sup> gearing of 0.81 times. ICRA, however, notes that the Group's ability to sustain the impact of the evolving regulatory landscape and rising working capital requirements will remain a monitorable. Going forward, the Group's ability to scale up its operations further and diversify its asset and liabilities while achieving healthy capitalisation profile would remain critical from a credit perspective.

**Modest profitability, despite recent improvement** – After reporting a net loss in FY2022, the Group reported some improvement in its headline profitability in FY2023 led by the reduction in the write-off/provisions for legacy bad debts/investments after the material cleanup in FY2022. However, the same remains modest. In FY2023, the Group reported a net profit of Rs. 10.9 crore (loss of Rs. 5.9 crore in FY2022), PAT/NOI of 10% (PY: -5%) and return on equity (RoE)<sup>1</sup> of 6.5% (PY: -3.6%). ICRA notes that the improvement in profitability in FY2023 was largely driven by advisory-related income, which remains inherently volatile. Going forward, the sustainability of profitability across market cycles remains to be seen.

---

<sup>1</sup> Net worth adjusted for revaluation reserve

**Dependence on capital markets, which are inherently volatile, cyclical and competitive in nature; lending business exposed to market and concentration risks** – With the Group’s revenues being linked to the inherently volatile capital markets, its revenue profile and profitability remain vulnerable to market performance. In this regard, ICRA notes that any downturn in the capital markets may impact the Group’s financial performance. The Group has managed to earn healthy yields over the years, supported by the higher share of delivery volumes through its research and advisory services. However, pressure on yields cannot be ruled out, given the increasing competition in equity broking and the advent of discount brokerage houses.

The Group’s loan book in the non-banking financial company (NBFC) business (PLFS) remains concentrated with the top 10 client groups accounting for more than ~80% of the portfolio as of June 30, 2023. Further, with PLPL’s MTF book and PLFS’ loan book primarily comprising 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 effective margin utilisation stood at 65% during January-July 2023, with the average monthly margin (basis month-end data, including client margin) placed on exchanges aggregating Rs. 3,238 crore during this period. Further, as on March 31, 2023, it had an unencumbered cash and bank balance of Rs. 21.4 crore. Additionally, it has an MTF book of Rs. 66.5 crore, which may be liquidated at short notice to generate liquidity if required. The borrowings of Rs. 103.9 crore, as of June 30, 2023, are largely in the form of ICDs from directors and the parent company and OD facilities. The on-balance sheet cash & cash equivalents, 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 intercorporate deposits (ICDs)}. As of March 31, 2023, PLFS had drawable but unutilised bank lines of ~Rs. 16 crore and short-term LAS of ~Rs. 108 crore against external borrowings of Rs. 46 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 the weakening of the consolidated financial profile. 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 | <a href="#">Rating Methodology for Entities in the Broking Industry</a><br><a href="#">Consolidation and Rating Approach</a><br><a href="#">Rating Methodology for Non-banking Finance Companies</a>   |
| 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. PLAD offers merchant banking services besides providing liquidity support to its subsidiaries. PLPL offers retail and institutional broking, margin funding and wealth distribution services. As of March 31, 2023, it was catering to 39,084 active NSE clients through a network of 13 branches and 1,244 franchises. In FY2023, PLPL reported a net profit of Rs. 1.5 crore on net operating income of Rs. 92.8 crore and net worth of Rs. 76.2 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                                  | FY2022/Mar-22 | FY2023/Mar-23 |
|---------------------------------------|---------------|---------------|
| Net broking income                    | 75.2          | 61.6          |
| Net interest income                   | 16.8          | 19.2          |
| Other non-interest income             | 13.9          | 11.9          |
| Net operating income                  | 105.9         | 92.8          |
| Total operating expenses              | 84.7          | 92.5          |
| Net operating profit                  | 21.3          | 0.2           |
| Non-operating income                  | 1.6           | 1.9           |
| Profit before tax                     | 2.6           | 2.1           |
| Profit after tax                      | 1.8           | 1.5           |
| Profit after tax/Net operating income | 1.7%          | 1.6%          |
| Cost-to-income ratio                  | 79.9%         | 99.8%         |
| Return on net worth                   | 2.5%          | 1.9%          |
| Net worth                             | 74.7          | 76.2          |
| Gearing (times)                       | 0.82          | 1.36          |

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

| PLAD (consolidated)                   | FY2022/Mar-22 | FY2023/Mar-23     |
|---------------------------------------|---------------|-------------------|
| Net broking income                    | 75.2          | 61.6              |
| Net interest income                   | 24.6          | 24.3              |
| Other non-interest income             | 18.8          | 23.1              |
| Net operating income                  | 118.5         | 109.0             |
| Total operating expenses              | 89.5          | 96.7              |
| Net operating profit                  | 29.1          | 12.3              |
| Non-operating income                  | 0.0           | 3.8               |
| Profit before tax                     | -3.5          | 12.5              |
| Profit after tax                      | -5.9          | 10.9              |
| Profit after tax/Net operating income | -5.0%         | 10.0%             |
| Cost-to-income ratio                  | 75.5%         | 88.8%             |
| Return on net worth                   | -3.6%         | 6.5% <sup>1</sup> |
| Reported net worth                    | 162.8         | 199.5             |
| Reported gearing (times)              | 0.62          | 0.71              |
| Adjusted <sup>1</sup> net worth       | 162.8         | 173.6             |
| Adjusted <sup>1</sup> gearing (times) | 0.62          | 0.81              |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; <sup>1</sup> Net worth adjusted for revaluation reserve of ~Rs. 26 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

| Sl No. | Instrument  |                     |           |            | Current Rating (FY2024) |                          |                                 | Chronology of Rating History for the Past 3 Years |                         |                         |                         |
|--------|---|---------------------|-----------|------------|-------------------------|--------------------------|---------------------------------|---|-------------------------|-------------------------|-------------------------|
|        |   |                     |           |            | Type                    | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore)^ | Date & Rating in FY2024                           | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
|        |   |                     |           |            |                         |                          |                                 | Sep 07, 2023                                      | Jan 23, 2023            | Dec 21, 2021            | -                       |
| 1      | Short-term facility                                     | fund/non-fund based |           | Short term | 350.0                   | 142.0                    | [ICRA]A2                        | -   | -                       | -                       |                         |
| 2      | Commercial paper programme                              |                     |           | Short term | 50.0                    | -*                       | [ICRA]A2                        | -   | -                       | -                       |                         |
| 3      | Short-term guarantee                                    | non-fund based      | bank      | Short term | -                       | -                        | -                               | [ICRA]A2  | [ICRA]A2                | -                       |                         |
| 4      | Short-term facility                                     | fund-based          | overdraft | Short term | -                       | -                        | -                               | [ICRA]A2  | [ICRA]A2                | -                       |                         |
| 5      | Short-term fund/non-fund based bank lines (unallocated) |                     |           | Short term | -                       | -                        | -                               | [ICRA]A2  | [ICRA]A2                | -                       |                         |

Source: Company; ^As of July 31, 2023; \* yet to be placed

### Complexity level of the rated instrument

| Instrument                                | Complexity Indicator |
|---|----------------------|
| Commercial paper programme                | Very Simple          |
| Short-term fund/non-fund based bank lines | Very Simple          |

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/non-fund based bank lines     | NA                          | NA          | NA            | 350.0                    | [ICRA]A2                   |
| NA   | Commercial paper programme – Yet to be issued | NA                          | NA          | NA            | 50.0                     | [ICRA]A2                   |

Source: Company; As on July 31, 2023

[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% |  |
| PL Wealth Private Limited                                | PLAD, 100% |  |
| Prabhudas Lilladher IFSC Pvt. Ltd.                       | PLAD, 100% |  |

Source: Company

## ANALYST CONTACTS

**Mr. Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Anil Gupta**

+91 124 4545 314

[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Mr. Deep Inder Singh**

+91 124 4545830

[deep.singh@icraindia.com](mailto:deep.singh@icraindia.com)

**Mr. Subhrajyoti Mohapatra**

+91 080 4332 6406

[subhrajyoti.mohapatra@icraindia.com](mailto:subhrajyoti.mohapatra@icraindia.com)

**Ms. Kruti Jagad**

+91 22 6114 3447

[kruti.jagad@icraindia.com](mailto:kruti.jagad@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited

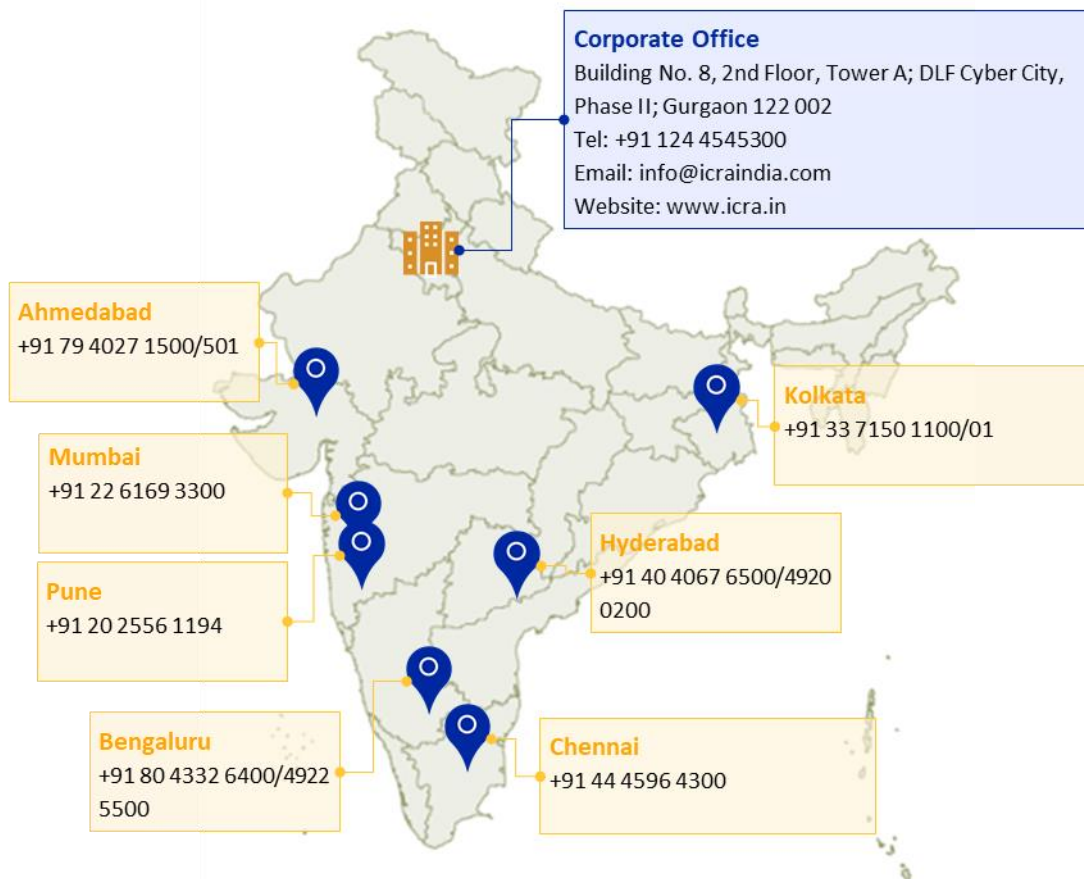


### Registered Office

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



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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](http://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.