September 07, 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 – Others	-	35.00	[ICRA]A2; reaffirmed
Short-term fund-based overdraft	20.02	-	-
Short-term fund based (unallocated)	14.98	-	-
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at 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, mainly offering loan against shares (LAS) facilities to PLPL's retail clientele.

ICRA takes note of the scaleup in PLFS' loan book in recent fiscals, with the same increasing by 1.39 times to Rs. 108.4 crore as of March 31, 2023 from Rs. 78.1 crore as of March 31, 2021. Further in Q1FY2024, led by a 30% increase in short term loan book (at net interest margins of about 3.75%), the loan book grew to Rs. 137.9 crore as of June 2023; albeit it remains modest. With the scaleup in operations and the slight moderation in the credit costs, PLFS' operating profitability witnessed some improvement after being impacted by the accelerated write-offs in FY2021 and FY2022. As of June 30, 2023, it had nil non-performing advances (NPAs). Its capitalisation profile remains characterised by a net worth of Rs. 81.0 crore and a gearing of 0.56 times as of March 31, 2023.

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[1] of Rs. 173.6 crore and adjusted[1] 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

[1] *Net worth adjusted for revaluation reserve*

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)[1] 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.

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

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.

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.

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	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 Financial Services Private Limited (PLFS) 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, PLFS reported a PAT of Rs. 10.7 crore on total income of Rs. 23.5 crore in FY2023. As of March 31, 2023, it had a net worth of Rs. 81.0 crore. in Q1FY2024, led by a 30% increase in short term loan book (at net interest margins of about 3.75%), PLFS's loan book grew to Rs. 137.9 crore as of June 2023.

ICRA has noted the change in PLAD's ownership. 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. She is currently 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	FY2022/Mar-22	FY2023/Mar-23
Total income	12.8	23.5
Profit before tax	0.5	11.6
Profit after tax	0.3	10.7
Loan book	89.1	108.4
Net worth	70.3	81.0
Total borrowings	50.9	45.7
Gearing (times)	0.72	0.56
Return on average assets	0.3%	8.5%
Return on average net worth	0.4%	14.1%
GNPA	3.9%	0.0%

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%[1]
Reported net worth	162.8	199.5
Reported gearing (times)	0.62	0.71
Adjusted[1] net worth	162.8	173.6
Adjusted[1] gearing (times)	0.62	0.81

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; [1]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

	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	Jan 01, 2021
1	**Short-term fund-based bank facilities – Overdraft**	Short term	-	-	-	**[ICRA]A2**	**[ICRA]A2**	-
2	**Short-term fund-based bank facilities (unallocated)**	Short term	-	-	-	**[ICRA]A2**	**[ICRA]A2**	-
3	**Short term fund based Others**	Short term	35.0	11.7	**[ICRA]A2**			
4	**Short-term fund-based bank facilities**	Short term	-	-	-	-	-	**[ICRA]A3+**

*Source: Company; *As of July 31, 2023*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term fund based – Others	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 based – Others	NA	NA	NA	35.00	[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) and 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

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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

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