

March 31, 2022

PHF Leasing Limited: Rating reaffirmed; Removed from Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposit Programme	4.65	4.65	MB+ (Stable); reaffirmed and removed from 'Issuer Not Cooperating' category
Total	4.65	4.65	

*Instrument details are provided in Annexure-1;

Rationale

The rating factors in PHF Leasing Limited's (PHFL) long track record of operations of 25 years, the granular nature of its portfolio mainly comprising loans for two-wheeler financing with an average ticket size of Rs. 65,000, and the moderate asset quality indicators. ICRA notes that the company's asset quality indicators have shown improvement with the gross non-performing advances (GNPA)% declining to 9.2% and 5.8% as on March 31, 2021 and December 31, 2021, respectively, from 16.2% as on March 31, 2020. However, portfolio seasoning remains low as a large proportion of the business growth was achieved recently. The assets under management (AUM) grew to Rs. 34.5 crore as on December 31, 2021 from Rs. 27.3 crore as on March 31, 2021 and Rs. 10.6 crore as on March 31, 2020.

The rating is constrained by PHFL's small scale of operations, modest capitalisation profile with a net worth of Rs. 7.6 crore as on December 31, 2021, limited financial flexibility and subdued profitability indicators. The portfolio vulnerability is also impacted by the target borrower profile with limited income buffers, which might keep the portfolio at risk, especially in the softer delinquency buckets. ICRA notes that the company has plans to raise further capital, going forward, to support the business growth and augment the diversification of portfolio. The timeliness and quantum of the same would have a bearing on PHFL's overall credit profile. Overall, the company's ability to increase its scale of operations and capitalisation levels while maintaining the asset quality indicators and hence report an improvement in the profitability from the current level would be a key rating monitorable.

Going forward, ICRA notes the management's stated intention of growing the loan book by getting into co-lending arrangements with non-banking financial companies (NBFCs) and banks. ICRA also notes the change in ownership, management, and subsequent revamping of the operations. The rating also factors in PHFL's modest capitalisation profile with elevated gearing levels on account of portfolio growth. The gearing level increased to 5.27 times as on March 31, 2021 from 1.23 times as on March 31, 2020. However, this moderated to some extent to 4.85 times as on December 31, 2021 on account of fresh equity infusion of Rs. 1.9 crore and internal accruals. With more equity infusions planned in the near term, the gearing might moderate, albeit to a limited extent, given the growth plans for the portfolio. In this regard, ICRA notes the recent equity infusion by new investors and the subsequent changes in PHFL's shareholding profile.

Diversification in the borrowing mix remains limited with the company mainly dependent on non-convertible debentures (NCDs) from known associates and borrowing lines from NBFCs, which causes the cost of funds to remain elevated. PHFL's profitability indicators have remained subdued with the return on assets (RoA) and the return on equity (RoE) at -2.1% and -9.1%, respectively, in FY2021 against -0.7% and -1.5%, respectively, in FY2020 due to high operating and credit costs. Operating costs have remained high due to the revamping of operations, recruitment of talent and the setting up of infrastructure.

Key rating drivers and their description

Credit strengths

Long track record of operations – PHFL, which commenced operations in 1992, has a long track record and experience in the two-wheeler finance business. It offers financing of two and three-wheelers and commercial vehicles and it recently started products like loan against property (LAP). In terms of the geographical spread, the major part of the company's operations is based in Punjab and it is expanding its footprint in Himachal Pradesh and Haryana.

Some improvement in asset quality indicators, albeit on a less seasoned portfolio – PHFL's asset quality had deteriorated in the past with GNPA% (recognised on 180 days past due basis) of 16.2% as on March 31, 2020. However, the GNPA's declined to 9.2% and 5.8% as on March 31, 2021 and December 31, 2021 respectively, on account of recoveries, write-offs and an increased portfolio base. Nevertheless, portfolio seasoning remains low as a large proportion of the business growth was achieved recently. The AUM grew to Rs. 34.5 crore as on December 31, 2021 from Rs. 27.3 crore as on March 31, 2021 and Rs. 10.6 crore as on March 31, 2020. The portfolio vulnerability is also augmented by the relatively weaker credit target borrower profile with limited income buffers, which might keep the delinquencies volatile, especially in the softer buckets. However, ICRA notes the secured nature of overall portfolio. Going forward, PHFL's ability to control slippages while growing the portfolio would be a key monitorable.

Credit challenges

Modest scale of operations – PHFL's scale of operations remains small with AUM of Rs. 34.5 crore as on December 31, 2021, though the same increased from Rs. 27.3 crore as on March 31, 2021 (Rs. 10.6 crore as on March 31, 2020). The portfolio mix largely consists of two-wheeler financing (70%) followed by commercial vehicle financing (3%), LAP (12%), micro, small and medium enterprise (MSME) loans (6%), etc. The business growth was supported by the revamping of operations and the onboarding of new investors and lending partners. ICRA notes that the company has high growth plans and it intends to double the loan book over the next one year. In this regard, PHFL's ability to scale up its underwriting systems and processes, in line with the growth, would be critical.

Modest capitalisation indicators – PHFL's capitalisation profile remains modest with a net worth of Rs. 7.6 crore as on December 31, 2021. With incremental business being funded out of fresh borrowings, its gearing level increased to 5.3 times as on March 31, 2021 from 1.2 times as on March 31, 2020. The gearing moderated to some extent to 4.8 times as on December 31, 2021 on account of fresh equity infusion of Rs. 1.9 crore and internal accruals, though it remains high. ICRA notes that the company plans to raise further capital, going forward, to support the business growth. ICRA also notes the strategic support and financial support in form of borrowing/liquidity lines PHFL is receiving from the new equity investors. The timeliness and quantum of the same would have a bearing on PHFL's overall credit profile.

Limited diversification in borrowings and inadequate financial flexibility – PHFL's borrowing mix has limited diversification and is dominated by NCDs from known associates and borrowing lines from other larger NBFCs. This limits its financial flexibility to scale up the loan book at profitable spreads. The company would need to diversify the lender base going forward.

Subdued profitability indicators – PHFL's lending spreads declined to 9.6% due to the contraction in yields for FY2021 despite the decline in the cost of funds in the low interest rate environment. This, coupled with high operating costs, resulted in the company reporting a subdued RoA and RoE of -2.1% and -9.1%, respectively, in FY2021. The operating costs remained at elevated levels for setting up infrastructure and for expanding the teams for the purpose of revamping the operations and for business growth. PHFL's operating costs are expected to remain at similar levels in the near to medium term due to the envisaged portfolio growth and associated costs. While the credit cost moderated to some extent in 9M FY2022, it will remain a key monitorable given the low seasoning of the majority of the portfolio. Due to the moderation in credit costs and the improving net interest margins (NIMs), PHFL reported a net profit of Rs. 0.7 crore in 9M FY2022.

Liquidity position: Adequate

PHFL's liquidity position is adequate with positive cumulative mismatches for FY2022 as per the liquidity statement as on December 31, 2021. The liquidity profile is also supported by unencumbered cash and cash equivalents and liquid Government securities of Rs. 7.2 crore as on December 31, 2021. The expected repayments of Rs. 8.1 crore in the next 12 months are expected to be covered by inflows of Rs. 18.7 crore from performing assets.

Rating sensitivities

Positive factors – An increase in the scale of operations and improvement in the capitalisation levels while maintaining the asset quality indicators would lead to a rating upgrade. Also, PHFL's ability to improve the profitability from the current levels would be a key rating sensitivity.

Negative factors – A significant deterioration in the asset quality indicators and/or an increase in the gearing levels would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

PHF Leasing Limited is a public limited company based out of Jalandhar, Punjab. It was incorporated on July 20, 1992 under the Companies Act, 1956. Its shares are listed on Metropolitan Stock Exchange of India Limited. As on March 31, 2021, the company had operating branches in Jalandhar, Batala, Amritsar, Kapurthala, Ferozpur, Tarn Taran and Ludhiana in Punjab. PHFL is primarily engaged in the financing of all types of two-and-three wheelers and commercial vehicles and it started providing LAP, MSME loans, etc, recently.

In FY2021, the company reported a net loss of Rs. 0.5 crore on an asset base of Rs. 33.3 crore as on March 31, 2021 compared to a net loss of Rs. 0.08 crore in FY2020 on an asset base of Rs. 13.1 crore as on March 31, 2020. For 9M FY2022, the company reported a net profit of 0.75 crore on an asset base of Rs. 48.67 crore as on December 31, 2021.

Key financial indicators

PHFL	FY2019	FY2020	FY2021	9M FY2022
	Audited	Audited	Audited	Provisional
Total income (Rs. crore)	2.3	2.7	3.6	5.9
Profit after tax (Rs. crore)	0.2	(0.1)	(0.5)	0.7
Net worth (Rs. crore)	5.5	5.5	5.0	7.6
Loan book (Rs. crore)	9.7	10.6	27.3	33.2
Total managed assets (Rs. crore)	11.8	13.1	33.3	48.7
Return on managed assets (%)	2.0%	-0.7%	-2.1%	2.4%
Return on net worth (%)	4.7%	-1.5%	-9.1%	15.8%
Managed gearing (times)	1.1	1.2	5.3	4.8
Gross stage 3 (%)	13.6%	16.2%	9.2%	5.8%

PHFL	FY2019	FY2020	FY2021	9M FY2022
	Audited	Audited	Audited	Provisional
Net stage 3 (%)	11.0%	13.8%	8.1%	4.4%
Solvency (Net stage 3/Net worth)	19.7%	25.7%	42.7%	19.0%
CRAR (%)	48.4%	48.0%	17.0%	17.3%

Source: Company, ICRA Research; * Provisional numbers. All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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 as on Dec 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Mar 31, 2022	Mar 19, 2021	Feb 26, 2020	Nov 29, 2018	
1	Fixed Deposit Programme	Medium Term	4.65	4.65	MB+ (Stable); removed from 'Issuer Not Cooperating' category	MB+ (Stable); ISSUER NOT COOPERATING	MB+ (Stable); ISSUER NOT COOPERATING	MB+ (Stable); ISSUER NOT COOPERATING	

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed Deposit Programme	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: www.icra.in

Annexure-1: Instrument details as on December 31, 2021

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit Programme	NA	NA	NA	4.65	MB+ (Stable)

Source: PHFL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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