September 27, 2024

Prabhudas Lilladher Private Limited: Rating upgraded to [ICRA]A2+

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^	350.0	[ICRA]A2+; upgraded from [ICRA]A2
Commercial paper programme	50.0	50.0	[ICRA]A2+; upgraded from [ICRA]A2
Total	400.0	400.0	

**Instrument details are provided in Annexure I; ^Change in limits from previous rating exercise on January 23, 2023*

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 and mainly offers loan against shares (LAS) facilities to PLPL's retail clientele.

The rating upgrade factors in the healthy improvement in the Group's earnings profile aided by the increase in its scale of operations. Supported by industry tailwinds, the Group reported its best performance in FY2024, surpassing the previous high in FY2018. Led by the sizeable growth in broking, interest and advisory income, the Group reported a healthy increase in pre-provisioning operating profit[1] in FY2024, a part of it was utilised towards accelerated cleanup of legacy bad assets; Notwithstanding this, the Group reported a 77% year-on-year (YoY) increase in its net profit in FY2024. Its performance remained strong in Q1 FY2025 with a profit after tax (PAT) of Rs. 15 crore, PAT/net operating income (NOI[2]) of 32% and return on net worth (RoNW) of 46%. The rating continues to consider the Group's long track record in capital market and allied businesses and the operational synergies arising out of the complementary offerings of various Group entities.

The rating however remains constrained by the modest scale of operations and the exposure to the evolving regulatory environment, intense competition and risks inherent in capital market-related businesses. While the Group's legacy bad asset quality issues pertaining to sticky debtors and non-performing loans have been cleaned up with the write-off of stressed exposures in recent fiscals, its proprietary investment book (19% of consolidated ex- revaluation reserve net worth as of June 30, 2024), comprising mid and small cap companies, remains exposed to the inherently volatile capital markets. The rating also considers the credit and market risks associated with the margin trade funding (MTF) and LAS loans, given the nature of the underlying assets. In this regards, the Group's ability to scale up its operations while maintaining healthy asset quality and improving its capitalisation profile would remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Long track record and diversified 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, 2024, it was catering to 1.57

[1] The Group has done sizable cleanup of bad assets in recent years. Additionally, the promoter SPV was amalgamated with PL Group in FY2024, this had an PBT impact of Rs. 9.4 crore in FY2024, adjusting the same, the pre-provisioning profit stood at Rs. 58.4 crore in FY2024, up by 265% YoY.

[2] NOI comprises net broking income, distribution income, net interest income, depository income, advisory-related income and other fee related income from operating businesses

lakh clients (34,228 National Stock Exchange (NSE) active clients) through a network of 13 branches and 1,078 franchises. PLPL also has an established institutional desk, catering to 218 institutional clients (127 active as of June 2024), 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 having coverage on about 200 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 retail lending, distribution of financial products, portfolio management services, wealth management, and merchant banking. Income from these services accounted for ~45% of the NOI in FY2024.

Improved profitability amidst industry tailwinds - Supported by industry tailwinds, the Group reported its best-ever performance in FY2024, surpassing its previous high in FY2018. Led by the sizeable growth in broking and advisory income, the Group reported a 24% YoY increase in NOI in FY2024. With benefit of economies of scale, it reported a healthy pre-provisioning operating profit of Rs. 37 crore in FY2024 (Rs. 18 crore in FY2023 and past 4-year average of Rs. 24 crore) and trading cum income from distribution of un-listed shares[3] of Rs.12.2 crore (Rs. 6.2 crore in FY2023). In recent years, the Group has utilised the operating profits for the accelerated cleanup of legacy bad assets (aggregate of Rs. 58 crore during FY2020-FY2023 and Rs. 19 crore in FY2024). Nevertheless, the overall profitability remained adequate in FY2024 with a net profit of Rs. 19 crore (Rs. 11 crore in FY2024, past 4-year average of Rs. 8 crore), PAT/NOI of 13% (9% in FY2023, past 4-year average of 7%) and RoNW of 13% (6% in FY2023, past 4-year average of 5%). The Group's performance continued to be strong in Q1 FY2025 with a net profit of Rs. 15 crore, PAT/NOI of 32% and RoNW of 46.0% on a provisional basis, though the sustainability of the profitability across market cycles is yet to be established.

ICRA also notes that the Group underwent a change in ownership in November 2022 with its co-owner and Joint Managing Director (Joint MD) increasing her holding in PLAD to 96% from 24% by acquiring stake from the existing promoters. While 48% of the stake was held directly by the promoter and remaining 48% was held through a special purpose vehicle (SPV; held by the promoter) - Conviction Capital Private Ltd. (CCPL). The current owner and MD has been associated with the Group for over two decades and is actively involved in the business.

With the recent equity raises of Rs. 75 crore in August 2024 besides sizable increase in accruals in 5M FY2025, the Group's capitalisation profile remains adequate (estimated consolidated net worth (ex. Revaluation reserve) of ~over Rs. 230 crore as of August 30, 2024) for the current scale of operations. ICRA however, takes a note of the increase in borrowings in recent period with scaleup of the loan book, higher working capital requirements and consolidation of borrowings availed for promoter stake acquisition. In a bid to streamline its Group structure, and consolidate the borrowings for efficient debt management, the Group amalgamated CCPL and two wholly owned subsidiaries (PL Insurance Broking Services Private Limited and PL Commodity Markets Private Limited - with limited contribution in operating business) with PLAD. With the scheme of amalgamation becoming effective, the assets, liabilities and reserves of these companies were transferred and vested in PLAD, resulting in an increase in the Group's indebtedness by Rs. 71 crore (due to borrowings previously held in CCPL) and a similar decline in its reserves (with the extinguishment of CCPL's investments in PLAD).

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 42% and 58%, respectively, of its net broking income in FY2024. While the Group expanded its ex-proprietary cash market share to 0.37% in FY2024 from 0.34% in FY2022, the same remains modest. Additionally, it witnessed a shrinkage in its derivatives market share on account of a slight 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. 244 crore (equal mix between MTF and LAS) as of June 30, 2024, up 39% from March 31, 2023. However, the same remains modest, leading to limited borrower diversification. Going forward, the Group's ability to scale up

[3] *Income from distribution of unlisted shares stood at Rs. 2.1 crore in Q1 FY2025, Rs. 3.5 crore in FY2024, nil in FY2023*

its operations further while maintaining healthy asset quality and adequate capitalisation would remain critical from a credit perspective.

Elevated competition, high dependence on technology, and evolving regulatory environment – Securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputation risk. Albeit PLPL did not witness any technical glitches during FY2024. Given the highly regulated nature of the industry, brokerage houses remain exposed to regulatory risk. Their ability to ensure compliance with the evolving regulatory landscape remains crucial. The sector also remains characterised by intense competition with susceptibility to the entry of new players.

While Prabhudas Group has managed to synthesise healthy average revenue per client amid relatively stable yields, cross-selling of wealth products and research-assisted advisory services, the pressure on pricing cannot be ruled out given the rising competitive intensity. Additionally, regulatory changes such as higher margin requirements had necessitated increased borrowings while recent changes such as uniform charges to be levied by market infrastructure institutions, are likely to impact the profitability of the broking industry (though the impact on the Group is likely to be less than 2-3% of its profit before tax (PBT)). These changes can pose risk to the capital market volumes and hence the revenues and profitability of the industry participants. Nonetheless, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term.

Exposure to inherently volatile capital markets – The Group's primary revenue profile remains exposed to the inherently volatile capital markets with 62% of its NOI from broking and advisory related income followed by 23% from capital market lending and allied activities. The collaterals in the lending business comprising MTF at PLPL and LAS at PLFS, also remain exposed to the volatility in capital markets. ICRA albeit takes a note of the Group's initiatives in scaling the asset management business which has resulted in an increase in AUM to Rs. 372 crore as of June 30, 2024; up by 165% YoY; albeit it remains modest. Going forward, a meaningful scaleup in this business is expected to offer some stability to Group's revenue profile. However, with most of its revenues is linked to the inherently volatile capital markets, the Group's revenue profile and profitability remain vulnerable to market performance. In this backdrop, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Liquidity position: Adequate

PLPL's funding requirement is primarily for managing its working capital requirements and scaling up the MTF book. It's average margin utilisation (computed on a month end basis) stood at 51% during January-June 2024, with the average effective[4] monthly margin (basis month-end data, including client margin) placed on exchanges aggregating Rs. 1,081 crore during this period. Further, as on June 30, 2024, it had an unencumbered cash and bank balance of Rs. 37 crore and drawable but un-utilised working capital lines of Rs. 31 crore. Additionally, it has a margin funding book of ~Rs. 121 crore and receivable book of about ~Rs. 80 crore (which may be liquidated at short notice to generate liquidity if required) against external borrowings of Rs. 78 crore.

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 June 30, 2024, it had drawable but unutilised bank lines of ~Rs. 3 crore and short-term LAS of ~Rs. 108 crore against external borrowings of Rs. 52 crore.

Rating sensitivities

Positive factors – A sustained scale up in the operations while achieving healthy profitability and asset quality, and comfortable capitalisation on a sustained basis.

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[4] *Considering non-cash collaterals to be not less than available cash collaterals placed*

Negative factors – A deterioration in the asset quality of the lending business or a sustained decline in the broking volumes and/or yields, resulting in the weakening of the profitability. Besides, calibrated growth while maintaining prudent capitalisation and liquidity will be imperative for the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stock Broking & Allied Services Non-Banking Finance Companies (NBFCs)
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of 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 corporate advisory services besides providing liquidity support to its subsidiaries. PLPL offers retail and institutional broking, margin funding and wealth distribution services. As of June 30, 2024, it was catering to 34,228 NSE active clients through a network of 13 branches and 1,078 franchises. In FY2024, PLPL reported a net profit of ~Rs. 17 crore on NOI of ~Rs. 125 crore and net worth of ~Rs. 93 crore.

Key financial indicators

PLPL	FY2023	FY2024	Q1FY2025^
Net operating income	92.8	125.0	41.5
Profit after tax	1.5	17.3	12.7
Net worth (including MI)	76.2	93.5	106.3
Total assets	441.0	707.3	797.2
Gearing (times)	1.4	1.4	1.4
Return on average net worth	1.9%	20.4%	51.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; ^ provisional Note: The PBT adjusted for provisioning & write-off stands at Rs. 17 crore in Q1 FY2025, Rs. 30 crore in FY2024 and Rs. 2.1 crore in FY2023

PLAD (Consolidated)	FY2023	FY2024	Q1FY2025^
Net operating income	113.5	151.0	45.9
Profit after tax	10.9	19.2	14.8
Net worth (including MI)	173.6	121.6[1]	136.4[1]
Total assets	596.2	857.6	963.2
Gearing (times)	0.9	2.0[1]	2.1[1]
Return on average net worth	6.5%	13.0%[1]	46.0%[1]

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; ^ provisional [1] Net worth adjusted for revaluation reserve of ~Rs. 24 crore Note: The PBT adjusted for provisioning & write-off stands at Rs. 20 crore in Q1 FY2025, Rs. 49 crore in FY2024 and Rs. 16 crore in FY2023. The merger of promoter SPV with PL Group also had an impact of Rs. 9.4 crore in FY2024, adjusted for the same, the pre-provisioning PBT stood at Rs. 58.4 crore in FY2024, up by 265% YoY.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)		Chronology of Rating History for the Past 3 Years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	27-SEP-2024	Date	Rating	Date	Rating	Date	Rating
Short-term fund/non-fund based facility	Short term	350.0	[ICRA]A2+	7-SEP-2023	[ICRA]A2	-	-	-	-
Commercial paper programme	Short term	50.0	[ICRA]A2+	7-SEP-2023	[ICRA]A2	-	-	-	-
Short-term non-fund based bank guarantee	Short term	-	-	-	-	23-JAN-2023	[ICRA]A2	21-DEC-2021	[ICRA]A2
Short-term fund-based overdraft facility	Short term	-	-	-	-	23-JAN-2023	[ICRA]A2	21-DEC-2021	[ICRA]A2
Short-term fund/non-fund based bank lines (unallocated)	Short term	-	-	-	-	23-JAN-2023	[ICRA]A2	21-DEC-2021	[ICRA]A2

Source: Company

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

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	Rated Entity, 100%^	
Prabhudas Lilladher Financial Services Private Limited	PLAD, 100%	
Pl Capital Markets Private Limited	PLAD, 100%	
PL Asset Management Private Limited	PLAD, 100%	
PL Wealth Private Limited	PLAD, 100%	
Prabhudas Lilladher IFSC Private Limited	PLAD, 100%	

Source: Company, ^ 24% holding through wholly owned subsidiary-PLFS

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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.

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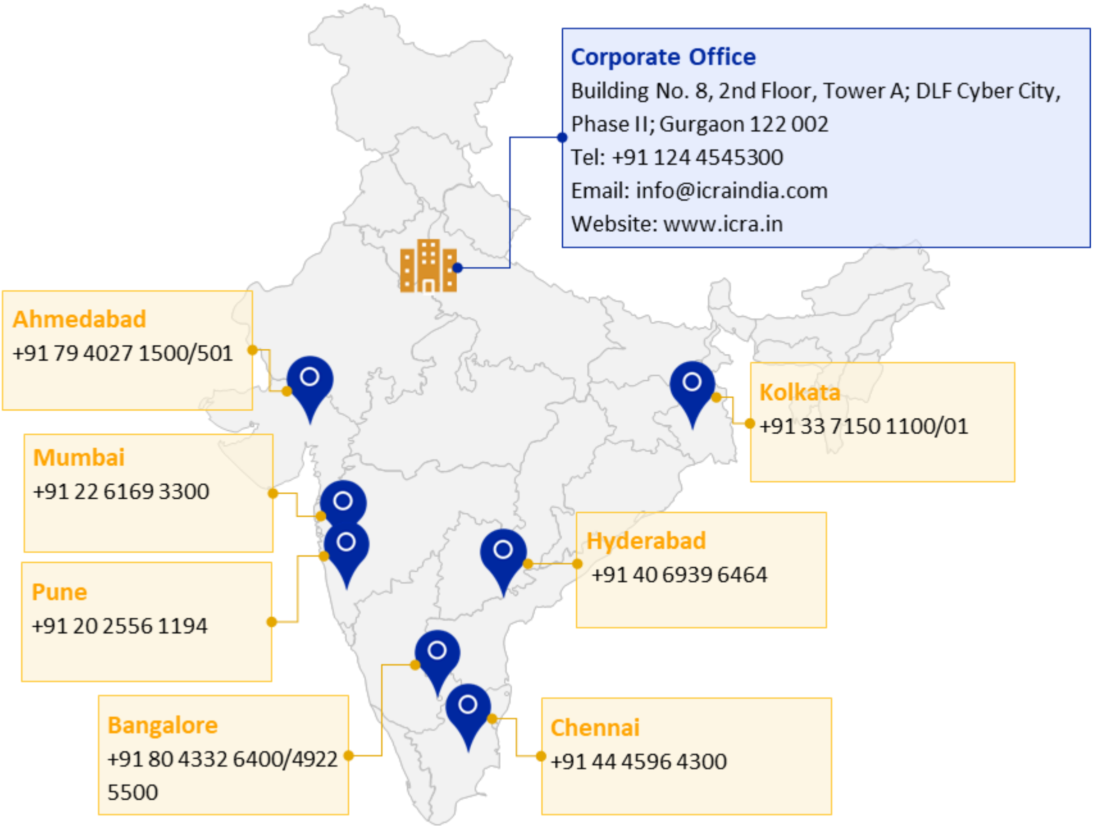

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