

Prabhudas Lilladher Financial Services Pvt. Ltd.

Instrument/Facility	Amount (In INR Crores)	Rating Action (June 2016)
Short-term Fund Based Lines	50.00	[ICRA]A2 Reaffirmed

ICRA has reaffirmed the rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 50 Crores short-term fund-based bank lines of Prabhudas Lilladher Financial Services Pvt. Ltd. (PLFS). The rating is based on the standalone financial performance of the company while also factoring in the parentage and the strength of the franchisee of the Prabhudas Lilladher Group (which has long experience in capital markets both in Institutional Equities and Investment Banking operations). The rating also considers the strategic importance of PLFS to the Prabhudas Lilladher Group for undertaking its Margin Funding and IPO financing businesses. The rating, however, is constrained by the moderate track record of the company and continued write-off of old NPAs and its consequent impact on the company's profitability levels. In ICRA's view, going forward, PLFS's rating would be sensitive to its ability to scale up its business operations while improving asset quality metrics and profitability matrices.

PLFS, started for conducting NBFC services, is a wholly owned subsidiary of the group's holding company Prabhudas Lilladher Advisory Services Pvt Ltd. Though the company was incorporated in 1996, it started ramping up its operations only in FY2010. As on Mar-16, PLFS had a loan book size of ~Rs. 49 Crores (with around Rs. 44 Crores for margin funding activities while the rest for promoter funding activities¹) vis-à-vis Rs. 78 Crores as on Mar-15. The company's book remains concentrated with the top 10 clients accounting for about 63% of the loan book as on Mar-16 (84% as on Mar-15). The management expects to grow its book in FY2017 on the back of expectations of strong equity market performance.

While the company's overall loan book stood sufficiently secured by equity shares & securities with a cover of about 1.5 - 2 times, some accounts in the promoter funding book had turned delinquent a few years ago. For the last 3-4 years, PLFS has gradually written off some of these stressed accounts while providing adequately (as per regulatory norms) for the rest. Since then, there have been no incremental promoter funding activities. With sizeable amounts being written off each year, PLFS's asset quality has been improving over the years. For FY2016, the GNPA% and the NNPA% stood at 9.88% each as on Mar-16 vis-à-vis 10.12% each as on Mar-15. Going forward, the company's ability to keep its asset quality under control while growing its loan book would remain a key rating consideration.

During FY2016, PLFS's portfolio saw moderation with the book size reducing to Rs. 49 Crores as on Mar-16 from Rs. 78 Crore on Mar-15 (a decline of 37% YoY). Since almost the entire shrinkage in loan book size was in Q4FY2016, the gross interest income underwent only a marginal decline (to Rs. 8.07 Crores from Rs. 8.37 Crores as on FY2015). The other sources of income for the company include interest income on FDs and dividend income but the contribution of the same in the revenue pool continued to remain low. The cost of average interest bearing funds for PLFS remains on the lower side at ~8.54% owing to access to an interest-free ICD² and low cost deposits from one of its promoters. With de-growth in the loan book, there was a sharp decrease in borrowings from Rs. 38.27 crore as on Mar-15 to Rs. 8.30 crore as on Mar-16. Consequently, there was a decrease in interest expense from Rs. 2.58 crore in FY2015 to Rs. 2.00 crore in FY2016. Despite the improvement in the company's Net Interest Income, the net profitability remained under check on account of large write-offs. PLFS ended FY2016 with a PAT³ of Rs. 1.09 Crores (RoE of 1.99%) vis-à-vis a PAT of Rs. 1.38 Crores in FY2015 (RoE of 2.59%).

With decrease in borrowings during FY2016, the company's leverage level declined to ~0.15 times as on Mar-16 (~0.71 times as on Mar-15). PLFS has deployed adequate risk management systems, wherein the company maintains a list of approved securities eligible for funding and the loan amount is arrived at after applying the margin haircuts for each of the scripts under consideration. While preparing the basket, lot of emphasis is also given to future indications looking at the market conditions.

¹ All promoter funding accounts are currently classified as Non-Performing Assets. They are backed by, in the management's opinion, with adequate collateral.

² Interest on this ICD is accrued on the Balance Sheet

³ As per provisional results for FY2016



Company Profile

Prabhudas Lilladher Financial Services Private Limited (PLFS), registered with the RBI as a non-systemically important NBFC, is a wholly owned subsidiary of Prabhudas Lilladher Advisory Private Limited. PLFS is into margin funding, promoter funding and IPO financing business. In FY2016, PLFS reported a PAT³ of Rs. 1.09 crore (RoE of ~2.0%) on a total income base of Rs. 8.88 crore as compared to a PAT of Rs. 1.38 crore (RoE of ~2.6%) on a total income base of Rs. 9.05 crore. As on 31st March 2016, the company had a networth of Rs. 55 Crores.

July 2016

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