January 03, 2025

Paragon Finance Limited: [ICRA]B+ Rating Watch with Developing Implications; Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]B+ Rating Watch with Developing Implications; Assigned
Total	**-**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating takes into consideration Paragon Finance Limited's (Paragon) adequate capitalisation profile with a net worth of Rs. 32.4 crore as on September 30, 2024 and an adequate liquidity profile. The gearing remained low at 0.02 times as on September 30, 2024, with no external debt on the balance sheet.

However, the rating is constrained by Paragon's small scale and geographically concentrated operations with a presence in only two cities. The assets under management (AUM) remained small at ~Rs. 13 crore as on September 30, 2024 (Rs. 13.6 crore as on March 31, 2024) and has been declining over the years. Further, the gross non-performing assets (NPAs) stay elevated and stood at 4.6% as on March 31, 2024.

The rating is on Watch with Developing Implications due to a share purchase agreement dated July 25, 2024 entered into by some of the company's promoters and the promoter group. Under this agreement, 51.47% of the company's shares will be transferred to the acquirer (Apple Equifin Pvt. Ltd) along with persons acting in concert (PAC; GKML Software Pvt. Ltd and Sunkesula Infra LLP), subject to the approval of the Securities and Exchange Board of India (SEBI) and the receipt of a no objection certificate (NOC) from the Reserve Bank of India (RBI). The acquirer, along with PAC, also gave an open offer to the public shareholders on July 25, 2024 to acquire shares representing 26.00% of Paragon's voting share capital. The rating shall remain on watch till further clarity emerges on the transaction and the company's business plan, post the transaction.

Key rating drivers and their description

Credit strengths

Adequate capitalisation for current scale of operations – As on September 30, 2024, the company was adequately capitalised for the current scale with a reported net worth of Rs. 32.4 crore. Its on-book gearing stood at 0.02x as on September 30, 2024 as well as March 31, 2024 with borrowings comprising loans from related parties/Group companies.

Credit challenges

Small scale and geographically concentrated operations – The company's scale of operations remains small with AUM of ~Rs. 13 crore as on September 30, 2024 (Rs. 13.6 crore as on March 31, 2024), spread across Ranchi and Kolkata. The company has been gradually reducing its disbursements and the AUM has been declining as it intends to discontinue its vehicle financing operations. A large part of the AUM (89% as of March 2024) comprised inter-corporate loans to Group companies. Paragon's promoters are in the process of selling their stake in the company and want to completely exit the lending business.

Moderate asset quality and earnings profile – Paragon has not disbursed any loans to external parties/borrowers since the Covid-19 pandemic. It has been winding down its external lending and the loan portfolio largely comprised inter-corporate loans (89% of portfolio) to related parties (Group companies). The sizeable exposure to Group entities increases Paragon's portfolio vulnerability. The overall gross NPAs stood at 4.6% as on March 31, 2024, for which the company was carrying 100% provision coverage. Excluding inter-corporate deposits/loans to related parties, the 90+ days past due (dpd) stood at 60% as on March 31, 2024.

Paragon's profitability is moderate on account of modest margins and low operating efficiency. It reported a net profit of Rs. 0.9 crore in FY2024, translating into a return of 2.8% on average managed assets (AMA) and 3.0% on average net worth against -Rs. 0.1 crore, -0.5%, -0.5%, respectively, in FY2023. The company has a large share of non-operating income, mainly from net gains on fair value changes on investments made. Operating expenses remain elevated in relation to the scale and target business, largely comprising the salary drawn by the promoters.

Liquidity position: Adequate

Paragon's liquidity profile is adequate, given the free cash and bank balance and liquid investments of Rs. 19.1 crore as on September 30, 2024. The company has scheduled inflows of Rs. 12.7 crore from loans and advances during the 12-month period ending September 30, 2025 vis-à-vis scheduled debt repayments of Rs. 0.7 crore during this period. As on September 30, 2024, there was no external debt. However, Paragon had a contingent liability of Rs. 6.5 crore as on March 31, 2024.

Rating sensitivities

Positive factors – Profitable business growth and improvement in the asset quality while maintaining a prudent capital structure would positively impact the rating.

Negative factors – A deterioration in the liquidity profile or further deterioration in the asset quality could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Paragon Finance Limited (Paragon), incorporated on July 21, 1986, was promoted by the Late Mr. Radhey Shyam Gupta in Kolkata with his sons – Mr. Aloke Gupta and Mr. Manoj Gupta, as the first directors. It is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) as a non-deposit taking NBFC. It was initially formed as Paragon Finance and Plywood Industries Ltd as its Group entities were involved in the plywood and timber business.

Paragon started as a commercial vehicle financing business as it had already established good relations with truck drivers. It was renamed Paragon Finance Limited in 1993 and went public {launched its initial public offering (IPO)} in 1995. As on March 31, 2024, the company reported assets under management (AUM) of Rs. 13.6 crore with a presence in Ranchi and Kolkata. Paragon is largely held by the promotor group with a stake of ~71% as on September 30, 2024.

Key financial indicators

Paragon Finance Limited	FY2022	FY2023	FY2024	H1 FY2025
	Audited	Audited	Audited	Provisional
Total income	3.0	1.8	3.6	2.6
Profit after tax (PAT)	0.7	-0.1	0.9	1.4
Total managed assets	28.9	29.1	31.7	34.0
PAT/Average managed assets	2.4%	-0.5%	2.8%	8.7%
Gross NPAs	9.8%	10.6%	4.6%	NA
Capital adequacy ratio	110.4%	101.2%	98.0%	NA
Gearing (reported; times)	0.03	0.06	0.02	0.02

Source: Company, ICRA Research; Amount in Rs. crore; NPAs – Non-performing assets; All ratios as per ICRA's calculations; NA – Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	January 3, 2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					-	-	-
1	Issuer Rating	Long term	-	[ICRA]B+ Rating Watch with Developing Implications	-	-	-

NA – Not available

Complexity level of the rated instrument: Not applicable

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

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Complexity Indicator	Rating Outstanding	Listed/ Unlisted	Current Rating	Rating Recommended
Issuer Rating	NA	NA	NA	NA	NA	-	[ICRA]B+ Rating Watch with Developing Implications

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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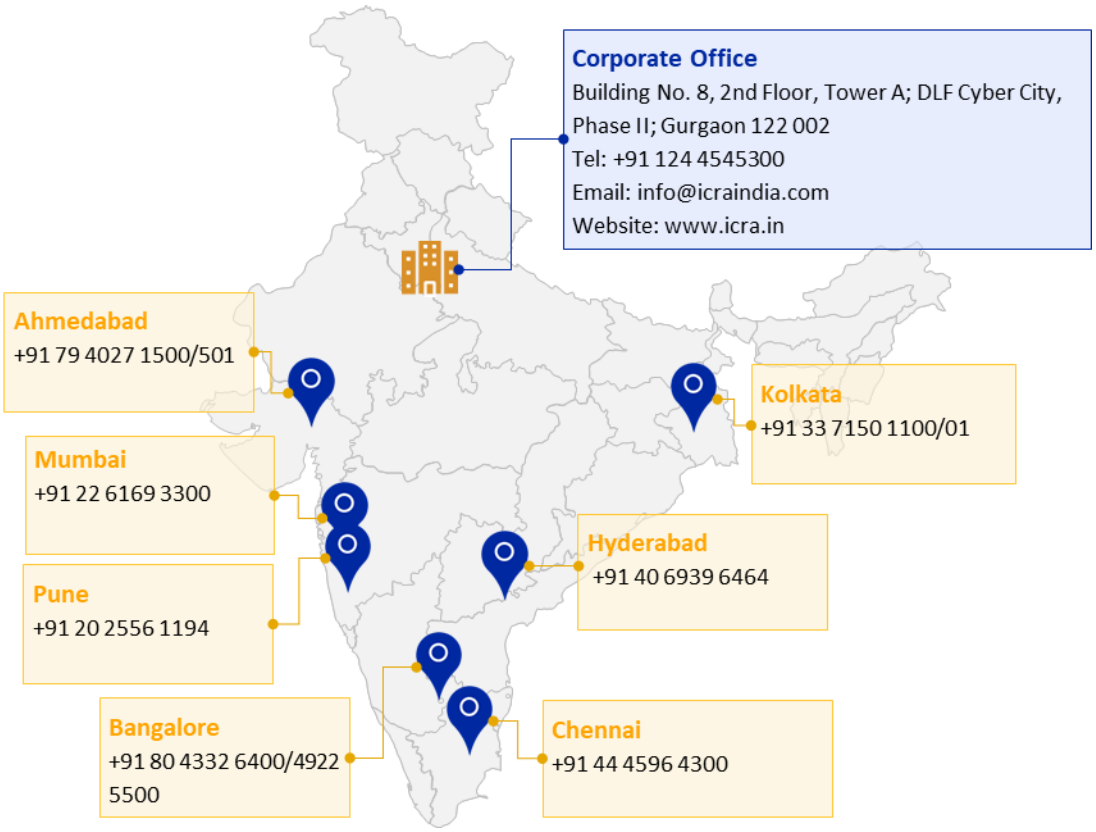

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