

Press Release

Pahal Financial Services Private Limited (PFSPL)

24 October, 2017



Rating Downgraded and Assigned

Total Instruments Rated*	Rs.50.00 Cr
Long Term Rating	SMERA BB/Stable (Downgraded from SMERA BB+/Stable)

**Refer Annexure for details*

Rating Rationale

SMERA has downgraded the long term rating on the Rs.30.00 crore bank facilities of Pahal Financial Services Private Limited (PFSPL) to '**SMERA BB**' (read as SMERA double B) from '**SMERA BB+**' (read as SMERA double B plus) and assigned rating of '**SMERA BB**' (read as SMERA double B) on Rs. 20.00 crore bank facilities. The outlook is '**Stable**'.

PFSPL, incorporated in 1994, is a Gujarat-based non-deposit taking NBFC-MFI. The promoters acquired the microfinance portfolio of Lok Vikas Nidhi (a division of Vikas Centre for Development) - a trust operating in the area of social development in Gujarat for over 25 years and commenced commercial operations in 2011. PFSPL lends under the Joint Liability Group (JLG) model to women and operates through 60 branches across Gujarat, Madhya Pradesh and Maharashtra. The company is led by Mr. Kartik Mehta and Mrs. Purvi J. Bhavsar.

List of key rating drivers and their detailed description

Strengths:

Experienced management: The Directors, Mr. Kartik S. Mehta and Mrs. Purvi J. Bhavsar have rich experience of around two decades in micro finance and the BFSI sector.

Adequate capitalisation: PFSPL's gearing improved to 4.14 times as on 31 March, 2017 from 6.41 times as on 31 March, 2016 because of infusion of equity capital. The capital adequacy of PFSPL improved to 24.75 per cent in FY2017 from 16.34 per cent in FY2016. Further, as on August 2017, the capital adequacy stood at 25.36 per cent.

Comfortable net interest margins and interest spreads: The net interest margins (NIM) improved from 8.59 per cent in FY2016 to 9.50 per cent in FY2017. The operating income increased from Rs.11.88 crore in FY2016 to Rs.16.32 crore in FY2017. The average lending rate to JLG is 25 per cent while to individuals it is 30 per cent. The revenue of the company is also accentuated by income from securitisation.

Weaknesses:

Deterioration in asset quality coupled with moderation in disbursements: PFSPL's on-time recovery fell to 92.93 per cent as on 31 August, 2017 from 95.35 per cent in FY2017 and 99.58 per cent in FY2016. PFSPL's 90+ DPD stood at 5.33 per cent as on August 2017 compared to 0.29 per cent as on 31 March, 2017 and 0.34 per cent as on 31 March, 2016. Apart from lending to Joint liability groups, PFSPL also disburses individual loans. Of its total loan book, around 5 per cent constitutes loans to individuals.

PFSPL's own loan portfolio increased marginally by ~18 per cent in FY2017 to Rs. 124.61 crore from Rs. 106.04 crore in FY2016. Further, the loan portfolio stood at Rs. 138.00 crore as on August 2017. The company was not able to scale up its operations on account of the impact of demonetisation in FY2017. The disbursements moderated during 6MFY2018 due to the challenging industry scenario.

SMERA believes that, the maintenance of prudent asset quality while improving loan portfolio will remain a key rating sensitivity.

Geographic concentration risk: The operations are highly concentrated in Gujarat with ~99 per cent as on March 2016. While the same improved, it stood at ~85 per cent in June 2017. The company expanded its geographical reach in Maharashtra, Madhya Pradesh and Rajasthan. The company has 60 branches as on 31 March, 2017 and plans to open around 15 more in the coming months in Rajasthan and Madhya Pradesh.

Analytical approach: SMERA has considered the standalone financial and business risk profile of PFSPL to arrive at the ratings.

Applicable Criteria

- Non-Banking Financing Entities: <https://www.smerra.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

About the Rated Entity – Key Financials

For FY2016-17 (Provisional), PFSPL reported net profit after tax (PAT) of Rs.1.89 crore on total income of Rs.16.32 crore as against PAT of Rs. 1.88 crore on total income of Rs. 11.88 crore in FY2015-16. The tangible net worth stood at Rs.33.66 crore as on 31 March, 2017 as against Rs.18.76 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
25 August, 2016	Cash Credit	Long Term	4.00	SMERA BB+/Stable (Assigned)
	Term Loan	Long Term	6.00	SMERA BB+/Stable (Assigned)
	Proposed Term Loan	Long Term	40.00	SMERA BB+/Stable (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate (Per cent)	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	5.00	SMERA BB/Stable (Downgraded)
Term Loan	March 30, 2017	13.00	March 25, 2020	20.00	SMERA BB/Stable (Assigned)
Term Loan	NA	NA	NA	3.88	SMERA BB/Stable (Withdrawn)
Term Loan	November 11, 2016	13.00	May 31, 2018	2.12	SMERA BB/Stable (Downgraded)
Term Loan (Proposed)	NA	NA	NA	22.88	SMERA BB/Stable (Downgraded)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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