

Press Release

Pahal Financial Services Private Limited (PFSPL)

May 14, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as **SMERA double B**) to the Rs. 60.00 crore bank facilities of Pahal Financial Services Private Limited (PFSPL). The outlook is '**Stable**'.

Pahal Financial Services Private Limited (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 69 branches across Gujarat, Madhya Pradesh, Rajasthan and Maharashtra. The company is led by Mr. Kartik Mehta and Mrs. Purvi J. Bhavsar.

Key Rating Drivers

Strengths

Experienced management:

PFSPL is promoted by Mr. Kartik S. Mehta and Mrs. Purvi J. Bhavsar. The Board of Directors comprises of five members namely Mr. Kartik Mehta (Managing Director), Mrs Purvi Bhavsar (Managing Director), Shri P.P. Vora (Non-executive Director), Mr. Venkat Raman Iyer (Independent Director) and Mr. A B Panchal (Independent Director). Mr. Kartik Mehta has been associated with HDFC bank, Development credit bank and ICICI bank in his career and has played a strategic role in rolling out of various regional and segmental initiatives by these banks. Mrs Purvi Bhavsar (Managing Director) has worked in various functions including corporate finance, retail banking, channel management, distribution and sales with various industrial players and banks like HDFC Bank, ICICI Bank, Vodafone among others.

SMERA expects PFSPL's credit profile to be supported by its experienced management which will enable it to scale up its operations while maintaining asset quality and profitability indicators.

Improving Geographical diversity of loan book:

PFSPL's loan portfolio has grown to Rs. 193.28 crore as on March 2018(Provisional) as compared to Rs. 124.61 crore in FY2017. The company has achieved the growth by penetrating into newer geographies. Till FY2017, PFSPL's operations were highly concentrated with 88 percent of portfolio concentration to Gujarat which has reduced to 76.05 percent as on 30 December, 2017. This was due to increased presence in Madhya Pradesh to 11.88 percent (9.55 percent in FY2017) and in Rajasthan to 11.22 percent (Nil in FY2017) and reduced presence in Maharashtra of 0.85 percent (1.95 percent in FY2017). Presently PFSPL is having 69 branches and plans to open around 7 more in the coming months in Rajasthan and Madhya Pradesh. These initiatives are expected to add to the geographical diversity of its portfolio.

Comfortable capitalisation levels:

The capital adequacy ratio (CAR) stood at 21.02 per cent as on 31 March 2018(Provisional) as against 24.75 percent as on 31 March 2017. The Tier one CAR stood at 12.92 per cent as on March 2018(Provisional) as against 19.02 percent in FY2017. The minimum regulatory requirement of CAR being 15 percent. The Tier two capital is funded by Norther Arc Capital (erstwhile IFMR Capital), Capital First Limited among others. PFSPL's gearing improved to 4.14 times as on 31 March, 2017 from 6.41 times as on 31 March, 2016 as the promoters had infused

equity capital.

SMERA believes that PFSPL will maintain comfortable capitalisation levels as the company plans to infuse Tier one capital in FY2019.

Weaknesses

High credit costs impacting profitability:

PFSPL extends credit under JLG model to women for their business needs. The loan portfolio stood at Rs. 193.28 crore as on March 2018(Provisional) as compared to Rs. 124.61 crore as on 31 March 2017. The company had faced headwinds in maintaining asset quality in FY2017 and FY2018 which impacted its profitability.

PFSPL's on time portfolio as on 31 December, 2017 stood at 97.92 per cent as compared to 90.54 percent as on 31 March 2017. The company's 90+ DPD stood at 0.67 per cent as on December 30, 2017 compared to 2.70 per cent as on 31 March, 2017. The Company had written off delinquent loans of Rs. 11.30 crore as on 31 March 2018 thereby impacting its profitability.

The company has reported net interest income of Rs. 13.05 crore in FY2018 (Provisional) as against Rs. 10.96 crore in FY2017 and net loss of Rs. 6.57 crore in FY2018 (Provisional) as against Profit after tax of Rs. 1.89 crore which has worsened its returns on average assets(ROAA).

SMERA believes that, the maintenance of healthy asset quality while sustaining growth in loan portfolio will remain a key rating sensitivity.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of PFSPL to arrive at the rating.

Outlook: Stable

SMERA believes that PFSPL will maintain a stable outlook on account of its experienced management and established relationship with banks/NBFCs. The outlook may be revised to 'Positive' in case of higher than expected profitability margins and sustained growth in assets under management while maintaining asset quality. Conversely, the outlook may be revised to 'Negative' in case of headwinds faced by PFSPL in growing its loan book and/or sustained stress in asset quality or profitability indicators over the near to medium term.

About the Rated Entity - Key Financials

Particulars	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	177.01	143.76	101.04
Total Income	Rs. Cr.	16.32	11.88	7.99
PAT	Rs. Cr.	1.89	1.88	1.45
Net Worth	Rs. Cr.	33.66	18.76	11.83
Return on Average Assets (RoAA)	(%)	1.18	1.53	1.66
Return on Average Net Worth(RoNW)	(%)	7.20	12.26	12.74
Total Debt/Tangible Net Worth (Gearing)	Times	4.14	6.41	7.15
Gross NPA	(%)	3.26	0.32	0.19
Net NPA	(%)	1.63	0.13	0.10

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Non-Banking Financing Entities - <https://www.smerra.in/criteria-nbfc.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24 October, 2017	Cash Credit	Long Term	5.00	SMERA BB/Stable (Downgraded)
	Term Loan	Long Term	20.00	SMERA BB/Stable (Assigned)
	Term Loan	Long Term	3.88	SMERA BB/Stable (Withdrawn)
	Term Loan	Long Term	2.12	SMERA BB/Stable (Downgraded)
	Proposed Long Term Loan	Long Term	22.88	SMERA BB/Stable (Downgraded)
25 August, 2016	Cash Credit	Long Term	4.00	SMERA BB+/Stable (Assigned)
	Term Loan	Long Term	6.00	SMERA BB+/Stable (Assigned)
	Proposed Long Term Loan	Long Term	40.00	SMERA BB+/Stable (Assigned)

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.12	SMERA BB / Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	32.88 (Enhanced from Rs. 22.88 Cr.)	SMERA BB / Stable (Reaffirmed)

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ABOUT SMERA

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