

Press Release

Peerless Financial Services Limited

December 23, 2021



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB- Stable Assigned	
Total	15.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 15.00 crore proposed bank facilities of Peerless Financial Services Limited (PFSL). The outlook is '**Stable**'.

The rating takes into account parent support (PFSL is wholly owned by Peerless General Finance & Investment Company Limited & associate group companies) and comfortable capital structure of PFSL. As on March 31, 2021, the company reported networth of Rs. 55.72 Cr. Given that portfolio scale-up is being funded by liquidation of investments, the company has nil borrowings. While Acuite takes cognizance of asset quality challenges in general on account of Covid-19 disruptions, PFSL has been able to maintain healthy asset quality and collection efficiency metrics in the recently originated portfolio. The company's upto 30 dpd portfolio stood at 96.80 percent with GNPA of 3.06 percent as on September 30, 2021. The GNPA mainly comprises legacy account amounting to Rs. 1 crore (secured against residential property). Likewise, average overall collection efficiency for six months ended September 30, 2021 stood at 95.84 percent.

The rating is however, constrained by modest scale of operations & geographical concentration, moderate financial performance, limited resources raising ability & portfolio seasoning. Going forward, the company's ability to raise funds and profitably scale up its operations shall be key monitorables.

About the company

Kolkata based Peerless Financial Services Limited was established in April, 1988 as a wholly owned subsidiary of The Peerless General Finance & Investment Company Limited. PFSL was initially involved in dealing and trading in financial instruments, bill discounting activities, leasing and hire-purchase business and merchant banking businesses. Later in 2017, the company commenced with offering Term Loans and other lines of Credit, both secured and unsecured, to individuals and other business entities under its various product categories, such as, Loan against Salary, Loan to Professionals, Business Loan, Equipment Finance, Loan against Marketable Securities, etc. PFSL is led by Mr. Abhishek Tantia (MD & CEO).

As on March 31, 2021, PFSL operates in the state of West Bengal having presence in 5 districts with its 2 branches having a portfolio of Rs. 31.84 Cr.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of PFSL to arrive at the rating.

Key Rating Drivers

Strength

Parent support & comfortable capital structure

PFSL is wholly owned subsidiary of Peerless Group. Peerless General Finance & Investment Company Limited & other associates collectively own 100% shareholding in the company. Over the last few years, the company's business profile has been evolving. Since 2017, PFSL is engaged in extending both secured and unsecured funding to individuals and other business entities. As on March 31, 2021, the portfolio mix of the company comprised of loan to professionals (~38 percent), equipment finance (~36 percent), business loans (~20 percent), loan against salary (~6 percent) and balance others of their total outstanding portfolio of Rs. 31.84 Cr.

PFSL's capital structure is comfortable marked by networth of Rs. 55.72 crore and Nil gearing as on March 31, 2021. The company has started scaling up its portfolio since 2018 and has been gradually liquidating its investments portfolio for the same due to which it has no borrowings. Despite anticipated portfolio growth during H2FY22, gearing levels are expected to remain modest in the near to medium term.

Acuite believes that the support from the parent company and comfortable capital structure would be will be central to support the business risk profile of the company in the near to medium term

Weakness

Small scale of operations & limited portfolio seasoning

PFSL was initially involved in dealing and trading in financial instruments, bill discounting activities, leasing and hire-purchase business and merchant banking businesses. Later in 2017, the company commenced with offering Term Loans and other lines of Credit, both secured and unsecured, to individuals and other business entities under its various product categories, such as, Loan against Salary, Loan to Professionals, Business Loan, Equipment Finance, Loan against Marketable Securities, etc.

PFSL's loan portfolio increased to Rs. 30.93 crore as on March 31, 2021 from Rs. 16.26 crore as on March 31, 2020 as compared to Rs. 15.238 crore as on March 31, 2019.

Going forward the ability of the company to access and mobilize low cost debt, will be a key factor in the scalability of business. The impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes.

The activities of PFSL are exposed to geographical concentration risks. PFSL has presence only in West Bengal as on March 31, 2021. It has 2 branches located over 5 districts. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and any changes in the regulatory framework thereby impacting credit profile of PFSL.

PFSL has been able to maintain healthy asset quality metrics. The company's upto 30 dpd portfolio stood at 96.80 percent with GNPA of 3.06 percent as on September 30, 2021. The GNPA mainly comprises legacy account amounting to Rs. 1 crore (secured against residential property). Likewise, average overall collection efficiency for six months ended September 30, 2021 stood at 95.84 percent. While asset quality metrics and performance of recently originated portfolio continues to be comfortable, the company's portfolio has limited seasoning.

Acuite believes, going forward, the ability of the company to mobilize additional funding through debt /sub debt and its ability to profitably scale up business while maintaining its asset quality will be key rating sensitivity.

Modest financial performance

The company is operating mainly through internal accruals, cash balances & investments. PFSL reported a PAT of Rs. 1.68 crore as on March 31, 2021 (P.Y Rs. 0.88 crore). PFSL profitability metrics were marked by Return on Average Assets (RoAA) at 3.02 percent as on March 31, 2021 (1.63 percent as on March 31, 2020). The improvement was on account of increase in interest income backed by growth in loan portfolio from Rs. 16.26 crore in March 31, 2020 to Rs.

30.93 crore as on March 31, 2021 and also on account of gain on sale of investments which formed almost 44 percent of PFSL's Net Operating Income. PFSL has been liquidating its investments and utilizing such proceeds for growth of their loan book. Going forward PFSL will have to sustain its profitability metrics based on income from lending activities by way of mobilizing additional funds through debt or capital.

Rating Sensitivity

- Ability to raise capital
- Movement in collection efficiency & asset quality
- Movement in liquidity buffers
- Profitable scale-up in business
- Changes in regulatory environment

Material Covenants

None

Liquidity: Adequate

The company has maintained cash and cash equivalent at levels of Rs. 1.98 crore as on March 31, 2021 and investments in equitable assets like mutual funds and equity shares amounting to Rs. 16.44 crore as on March 31, 2021. PFSL currently has no long term debt obligation in near term. PFSL's overall liquidity profile remains adequate.

Outlook: Stable

Acuité believes that PFSL will maintain a 'Stable' outlook over the medium term is supported by its established presence in its area of operations and comfortable capitalization levels. The outlook may be revised to 'Positive' in case of significant and sustainable growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	56.28	54.55
Total Income*	Rs. Cr.	5.07	4.04
PAT	Rs. Cr.	1.68	0.88
Networth	Rs. Cr.	55.72	54.01
Return on Average Assets (RoAA)	(%)	3.02	1.63
Return on Net Worth (RoNW)	(%)	3.05	1.65
Total Debt/Tangible Net Worth (Gearing)	Times	-	0.01
Gross NPA's	(%)	3.49	5.83
Net NPA's	(%)	-	-

*Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	15.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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