

Press Release

Peerless Financial Services Limited

March 23, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed 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 remains '**Stable**'.

Rating Rationale

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, 2022, the company reported networth of Rs. 58.43 Cr. The company had borrowings of Rs. 8.84 Cr as on March 31, 2022 from the parent company. As on December 31, 2022, the company has a total debt outstanding of Rs. 25 Cr. entirely from the parent company. The AUM of the company have improved from Rs. 30.93 Cr. in FY21 to Rs. 53.97 Cr. in FY22 and to Rs. 69.24 Cr. as on December, 2022. Along with the increase in AUM, the profitability metrics also saw an improvement from Rs. 1.68 Cr. for FY21 to Rs. 2.71 Cr. for FY22. RoAA improved from 3.02 percent in FY21 to 4.39 percent in FY22 and NII improved to 11.31 percent from 9.24 percent in the same period.

The rating is however, constrained by moderate asset quality of PFSL. The GNPA (180+ DPD) as on December 31, 2022 stood at 3.32 percent from 2.38 percent as on March 31, 2022. The GNPA includes one legacy account of Rs. 0.91 Cr and ~Rs. 0.70 Cr. from the medical equipment finance. The 90+ DPD bucket increased to 4.85 percent as on December, 2022 from 3.59 percent as on March, 2022. The upto 30 DPD bucket stood at ~94 percent as on December, 2022. Further the average overall collection efficiency for the last 9 months ended December, 2022 stood at 80.66 percent.

The rating is further constrained by modest scale of operations, geographical concentration and limited resources raising ability. Going forward, the company's ability to raise funds and profitably scale up its operations while improving the asset quality 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 December 31, 2022, PFSL operates in the state of West Bengal having presence in 11 districts with its 5 branches having a portfolio of Rs. 69.24 Cr.

Analytical Approach

Acuité 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 December 31, 2022, the portfolio mix of the company comprised of loan to professionals (~39 percent), equipment finance (~22 percent), business loans (~35 percent), loan against salary (~2.5 percent) and balance others of their total outstanding portfolio of Rs.69.24 Cr. PFSL's capital structure is comfortable marked by networth of Rs. 58.43crore as on March 31, 2022 as against Rs. 55.72 crore as on March 31, 2021. The gearing stood at 0.15 times as on March 31, 2022.

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

Improved AUM and Profitability metrics

PFSL's AUM improved to Rs. 69.24 Cr. as on December, 2022 from Rs. 55.72 cr in March, 2022. The AUM for FY21 was Rs. 30.93 Cr. The improvement in AUM has also led to an improvement in the profitability of the company as the PAT for FY22 improved to Rs. 2.71 Cr from Rs. 1.68 Cr for FY21. The RoAA improved to 4.39 percent for FY22 from 3.02 percent in FY21 and the NII improved to 11.31 percent from 9.24 percent during the same period. The expansion of the business within West Bengal from 2 branches in FY21 to 5 branches as on December, 2022 has contributed positively towards the improvement in the overall portfolio. The company has made disbursements of Rs. 33.7 Cr till December, 2022 in FY23 through these branches. The disbursement for FY22 stood at Rs. 36.9 Cr as against Rs. 21.85 Cr. in FY21.

Weakness

Moderate Asset Quality

PFSL classifies GNPA at 180+ DPD. The GNPA as on December 31, 2022 stood at 3.32 percent, which increased from 2.38 percent as on March 31, 2022. The GNPA for FY21 stood at 3.49 percent. The GNPA includes one legacy account of Rs. 0.91 Cr and ~Rs. 0.70 Cr. from the medical equipment finance portfolio. The 90+ DPD bucket increased to 4.85 percent as on December, 2022 from 3.59 percent as on March, 2022. Although, the upto 30 DPD bucket stood at ~94 percent as on December, 2022, the portfolio feels the pressure in the other buckets. Further the average overall collection efficiency for the last 9 months ended December, 2022 stood at 80.66 percent.

Modest Scale of operation and geographical concentration

PFSL operates only in West Bengal. Even though the number of branches has increased from 2 to 5 catering to 11 districts of the state, the scope of operation still remains moderate and the portfolio is exposed to geographical concentration risks. 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.

Acuité 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 improving its asset quality will be key rating sensitivity.

Rating Sensitivity

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

Material Covenants

None

Liquidity Position Adequate

The company has maintained cash and cash equivalent at levels of Rs. 11.61 crore as on December 31, 2022. PFSL currently has long term debt of Rs. 25 Cr from the parent company, which is under moratorium for 3 years. 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	67.27	56.28
Total Income*	Rs. Cr.	7.12	5.07
PAT	Rs. Cr.	2.71	1.68
Networth	Rs. Cr.	58.43	55.72
Return on Average Assets (RoAA)	(%)	4.39	3.02
Return on Net Worth (RoNW)	(%)	4.75	3.05
Total Debt/Tangible Net Worth (Gearing)	Times	0.15	-
Gross NPA's	(%)	2.38	3.49
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

None

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Dec 2021	Proposed Bank Facility	Long Term	15.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

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