



## Infomerics Valuation And Rating Pvt. Ltd.

### Press Release

### Baba PuranDass Financial Services Limited

April 07, 2020

#### Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term - Fixed Deposit	4.00	IVR FBB+/Stable Outlook (IVR F Double B Plus with Stable Outlook)	Assigned
	<b>Total</b>	<b>4.00</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the fixed deposit of Baba Puran Dass Financial Services Limited (“BPDFSL” or “deposit-taking non-banking financial asset finance company”) derives comfort from its experienced promoters and management team with established presence in its lending sector. The rating also factor in its comfortable capitalization profile albeit small net worth base and satisfactory asset quality. These rating strengths are partially offset by monoline nature of its business, small scale of operations with geographical concentrated, high portfolio vulnerability on account of its high proportion of marginal income profile borrowers in customer profile and large proportion of new to credit customers. The rating also factor it’s largely cash based collection mechanism leading to high operational risk.

#### Key Rating Sensitivities

#### Upward Factors

- A significant increase in the scale of operations, without a significant impact on the asset quality, diversification of the funding source base while keeping adequate capitalization



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and operating buffers, and the maintenance of adequate liquidity, all on a sustained basis would lead to a positive rating action.

### **Downward Factors**

- Inability to increase the scale of operations and/or significant deterioration in the asset quality, along with a substantial increase in leverage, all on a sustained basis, could result in a negative rating action.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoters and management team**

Mr. Mohinder Pal Singh, the current Managing director of the company has an industry experience of over three decades. The other director Ms. Chanchal Kaur, is also having an industry experience of over two decades. The promoters of the company have good understanding of the geography and credit culture in and around Punjab. Also, the promoters are supported by well by experienced management team.

##### **Established track record of operations**

BPDFSL has nearly 25 years of track record in lending activities. BPDFSL portfolio is rural focused, and currently the company is into vehicle financing on hire and purchase basis. BPDFSL has an established presence in the vehicle finance segment in Punjab.

##### **Comfortable capitalization profile albeit small net worth base and satisfactory asset quality**

The Capital Adequacy Ratio (BPDFSL) of was comfortable at 71.00% as on March 31, 2018 and 72.35% as on March 31, 2019. Further, the company's leverage was 0.38 times as on March 31, 2019 and 0.62 times in as on December 31, 2019. Promoters have introduced additional capital of Rs.0.25 crore on till January, 2020 and planning to infuse further capital of Rs.0.25 crore before end of this quarter ending March, 2020. However, the marginal moderation was on account of fresh term loan availed from the financial Institutions in fiscal 2020. However, despite



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healthy capitalization, BPDFSL has a small net worth base of Rs.2.80 crore as on March 31, 2019 and Rs.2.96 crore as on December 31, 2019. BPDFSL's ability to attract equity or borrowings in the foreseeable future to support growth plans while maintaining comfortable capital structure will be important from a credit perspective. The asset quality of BPDFSL continued to remain satisfactory over the past four years despite strong growth in its loan portfolio during the same period. The gross NPA and net NPA remains nil in last four fiscal ending 2019. The company has adopted prudent lending practices as seen in its average LTV of ~75-80%. The low delinquency levels have enabled the company to maintain health margins. However, considering the rapid growth in loan portfolio and diversification initiatives, asset quality performance remains a key monitorable.

### **Key Rating Weaknesses**

#### **Monoline nature of business**

BPDFSL's nature of business is largely monoline with ~94% of the portfolio comprising vehicle loans and refinancing and remaining ~6% portfolio in Consumer Durables & Agriculture Implements, as on September 30, 2019. However, the company's long track record of operation in the segment and ability to keep asset quality under control provide some comfort.

#### **Small scale of operations with geographically concentrated operation**

The company is engaged in providing loans for purchase of two/four wheelers with loan ticket size of close to Rs.40,000 –Rs.2,00,000. BPDFSL has relatively small scale of operation, indicated by its assets under management of Rs.4.46 Cr in as on March 31, 2019 (March 31, 2018: R4.28 Cr). During FY19, the company earned a PAT of Rs.0.16 crore on total operating income of Rs. 0.87 crore. The ROTA remained moderate at 3.29% in FY19. The loan portfolio outstanding as on March 31, 2019 was Rs.4.27 crore and Rs. 4.85 crore as on 30th September, 2019. Further, BPDFSL's operations are concentrated in the state of Punjab.



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### **Intense competition and low seasoning of portfolio**

The asset financing industry is a highly competitive segment owing to presence of many organized and unorganized players. Intense competition in the industry may create downward pressure on the profitability in the future. There has been a significant increase in loan portfolio in the past three years, which indicates low seasoning of portfolio.

### **High portfolio vulnerability on account of marginal income profile borrowers and large proportion of new to credit customers**

BPDFSLS provides loans primarily to low income group self-employed individuals or people working in informal sector. Majority of the borrowers of BPDFSLS are first time borrowers. On account of lower income borrower profile and untested credit customer portfolio vulnerability remains relatively high. However, company's robust field inspection mechanism with due diligence and hypothecation of vehicles as security mitigates the risk largely. Also, risk due to weak borrower profile is priced in its lending rates which are relatively higher.

### **Largely cash based collection leading to high operational risk**

The company lends majorly for vehicle financing. The loan portfolio therefore remains concentrated. Majority of the collections are done through cash. Large collections through cash lead to higher operational risk. However, Non-performing assets are under control with Nil NPAs reported in last four fiscal. This is largely because of the tighten credit policies placed by the company management.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Financial Institutions/NBFCs.

Financial Ratios & Interpretation (Financial Sector)



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### Liquidity: Adequate

BPDFSLS's working capital utilization remained moderate at ~77% for the last 12 months period ended November' 2019. With the current business model, the company has been relying majorly on equity to fund its lending business which is supported by relatively shorter tenure loan book against its borrowings. Furthermore, ALM profile is fairly matched in all the time buckets. Also, the company maintains surplus liquidity throughout, to cover its FD maturity of amounting Rs.5.7 lakhs in next 15 months and monthly repayment of Term loan of close to Rs. 6.10 lakhs per month against repayment from loan book. Overall, liquidity position is expected to remain adequate in near term.

### About the Company

Incorporated in 1995, Baba Puran Dass Financial Services Limited (BPDFSLS) is registered as a public deposit accepting NBFC (Non-Banking Finance Company) with the Reserve Bank of India (RBI). Later on, in January 2002, the company was converted to Public Limited Co. in line with requirement of RBI regarding acceptance of deposit by only Limited Companies.

The company is engaged primarily in lending for vehicle financing on hire and purchase basis and having only one business segment which is Asset Financing, which includes vehicle Finance (Two-wheeler & four-wheeler), as well as Consumer Durable loans. During FY2019-20, the company has opened two branches in addition to corporate office at Khanna to increase its loan spread as well as to improve its recovery operations.

### **Financials (Standalone):**

<b>For the year ended*</b>	<b>(Rs. In Crore)</b>	
	<b>31-03-2018</b>	<b>31-03-2019</b>
	<b>Audited</b>	<b>Audited</b>
Total Income	0.78	0.87
Interest Expense	0.14	0.13
PAT	0.14	0.16
Tangible Net worth	2.76	2.80
Total Loan Assets	4.17	4.27
PAT Margin (%)	17.51	18.05



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For the year ended*	31-03-2018	31-03-2019
Overall Gearing Ratio (x)	0.38	0.34

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** As per vide press release dated January 28, 2020, India Ratings and Research (Ind-Ra) has migrated Baba Puran Dass Financial Services Ltd's term deposits rating to the issuer not cooperating category.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fixed Deposit	Long Term	4.00	IVR FBB+/Stable Outlook	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product



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portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term –Fixed Deposit	-	-	-	4.00	IVR FBB+/Stable Outlook