Press Release

Pioneer Investcorp Limited (PIL)

January 24, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term – Fund Based Bank Facility – Cash Credit	120.00	IVR A-/ Stable (IVR A Minus with Stable Outlook)	Rating Revised	Simple
Long Term – Fund Based Bank Facility – Bonds	(120.00) *	IVR A-/ Stable (IVR A Minus with Stable Outlook)	Rating Revised	Simple
Total	**120.00**			

*Sublimit of Cash Credit facility.

Reason for review of CE rating:

The Reserve Bank of India (RBI) has issued a fresh set of guidelines and FAQ to the credit rating agencies vide letter dated April 22, 2022 and July 26, 2022 specifically for bank loan ratings which are credit enhanced.

• As per this guideline, CE ratings can be assigned only in case of those corporate guarantees which are characterized inter alia by unconditionality, irrevocability, enforceability, entirety and presence of payment mechanism.

• Also, the guidelines highlight that letter of comfort / support/undertaking/ responsibility / acknowledgement / obligor – co obligor structure / pledge of shares will not qualify for CE ratings.

Adequacy of credit enhancement structure

In view of the RBI's Guidance Note dated April 22, 2022 and the FAQ document dated July 26, 2022 for assigning CE ratings, Infomerics has reviewed the structure and this does not comply with recent RBI guidelines wherein pledge of securities does not qualify CE ratings. Accordingly, Infomerics has revised the approach to standalone ratings.

Details of Facilities are in Annexure 1

Detailed Rationale

The standalone rating of Pioneer Investcorp Limited (PIL) factors in experienced promoters, reputed customer base, sound facility structure and secured trading mechanism, low credit, and healthy financial risk profile. However, the rating is constrained by relatively small scale of operations and market risk on account of volatility in interest rates and liquidity risk

Key Rating Sensitivities:

Upward Factors

- Substantially scaling up in operations along with increase in profitability leading to improvement in overall credit risk profile of the company.

Downward Factors

- Deterioration in the credit profile of the company.
- Volatility in the interest rates leading to deterioration in the business risk profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management

The company's operations are headed by Mr. Gaurang Gandhi, a qualified chartered accountant and founder of PINC Group. With over three decades of experience in the financial services industry, he has advised companies across infrastructure, pharmaceutical, realty, consumer durable, engineering industry and financial services. He is well supported by highly qualified and experienced second tire management across the functions. PINC is active in trading of corporate bonds and activities related to debt securities and benefits from the promoter's and experienced management.

Reputed Customer base

The company has a reputable and established clientele. The company majorly sells securities to mutual fund houses, banks, insurance companies and other institutions. The respective entities have to invest their funds in the specific securities as per government guidelines.

Sound facility structure and secured trading mechanism.

PINC has entered into an agreement with Federal Bank which have stipulated the type of securities that can be purchased using this limit. The limits can only be used for the purpose of purchase of government securities, state development loans and corporate bonds within the specified norms by the banks including margin requirements, settlement period, time limit of limit utilization, etc. Thus, the usage of facility is limited by its purpose.

The company being a member of Negotiated Dealing System participates in the primary auctions and secondary debt market trades through Federal Bank which is scheduled commercial bank permitted by RBI to participate directly. For this purpose, PINC has opened securities account with the banks known as gilt account. A gilt account is a dematerialized account maintained by the banks for its constituent (PINC). PINC has been given indirect access to NDS (trading platform) through the banks. The company has executed a power of attorney in favour of the bank authorizing the bank to dispose of the securities held in Constituent's Subsidiary General Ledger (CSGL) account towards dues to the bank in the event of non-fulfilment of sanctioned conditions. Further, PINC is required to maintain the margin at 5% to 15% on a daily basis depending on the type of security traded. In the event of decline in bond value, additional margin is to be provided to replenish the margins to 5% or above as required on the existing holdings.

Healthy financial risk profile of the company

The company has a healthy financial risk profile with comfortable leveraging position. The overall gearing and TOL/TNW stood at 0.81x and 0.87x respectively as on March 31, 2021 and at 0.38x and 0.46x respectively as on March 31, 2022. The company has witnessed an increase in operating profitability in FY21 and FY22 owing to an efficient management of expanses. The EBITDA margins improved to 41.25% in FY21 from 41.07% in FY20 and 24.56% in FY19. Further, EBITDA margin has improved to 44.95% in FY22.

Key Rating Weaknesses

Relatively small scale of operations amid the competitive industry

PINC's overall transaction value (sales of G-Sec, SDL and Corporate Bonds) stood at Rs.6627.53 crore in FY22 as compared to Rs.8198.59 crore in FY21 (FY20: Rs.20001.47 crore). The company's business performance is linked to the level of activity in the bond market which in turn is linked to the overall economic cyclicality and other macro-economic factors. The trading activity in G-sec/corporate bonds has been picking-up pace in the recent years and the company's plans of up-scaling the business totally depends on the market situation and the management's view of the direction in which the market is heading. Also, the industry is characterized by competition from various players to tap the market share at competitive pricing.

Market risk on account of volatility in interest rates and liquidity risk

The company is exposed to market risk arising out of adverse movement of prices of the securities due to changes in interest rates. Specifically, the prices of Government securities & corporate bonds are influenced by the level and changes in interest rates in the economy and developments in other markets including credit and capital markets, international bond markets, and policy actions by RBI. This will result in booking losses on mark to market basis. Further, in addition the company also faces liquidity risk on account of inability of the company to liquidate holdings due to non-availability of buyers for the security. Due to illiquidity, the company may need to sell at adverse prices and incur losses. However, as per the structure, the company needs to put upfront margins to the extent of 10% (margins vary based on ratings of the securities) of the total limits provided by the lender.

Market risk is also somewhat mitigated as trading is allowed only in limited type of securities and shorter duration of the holding period with compulsory settlement within the specified period. As per the sanction terms, the bank limits are to be utilized for trading in G-sec and corporate bonds. These securities are not allowed to be held beyond 30 days and 45 days, any security in the pledged basket should be churned within the stipulated time from the date of its pledging. The company has kept a policy of not maintaining open positions beyond 15 days in the corporate bond and G-sec segment. Further, within the corporate bonds, the company is only involved in the trading in high rated ('AAA', 'AA') bonds only.

Analytical Approach: Standalone Approach

Applicable Criteria:

[Rating Methodology for Service Sector Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Criteria of Rating Outlook | Infomerics Ratings]

Liquidity –Adequate

Liquidity is adequate marked by gross cash accruals (GCA) of Rs.4.47 crores against no major long term debt repayment commitment. The Company has a favourable working capital limits utilisation, average CC utilisation remains low at ~32% in last 12 months ended March 2022, providing adequate liquidity cushion to the company. Furthermore, as per the structure, the company needs to put upfront margins of 5% for AAA rated Government guaranteed bonds. For others such as PSU & bonds issued by banks, the margins vary based on ratings of the securities. Cash and Bank balance stood at Rs.1.71 Crore as on March 31, 2022.

About the Company:

PINC is an integrated mid-market focused financial services company. The company is SEBI registered Category – I Merchant Banker and provides Investment Banking and Financial Advisory Services. It is listed on the BSE. With over 3 decades of existence, PINC offers a gamut of customized services, which includes formulating capital structure, raising capital, debt restructuring, project financing, coal consultancy and other corporate advisory services. Along with these services the company is offering its services in the area of Secondary capital market like open offer in Takeovers, Right issue, Buy-back, Mergers and Amalgamation, and valuation assignments. The company also deals in Government securities (G-Sec & SDL) and 6 corporate bonds. PINC is promoted by Mr. Gaurang Gandhi, a chartered accountant, having over three decades of experience in the Indian debt market.

Financials (Standalone):

(In Crore)

For the year ended/ As on*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Income#	25.67	27.50
PAT	0.63	3.67
Total Debt	100.48	48.89
Tangible Net Worth	123.35	128.37
PAT margin (%)	2.47	13.34
Overall Gearing Ratio (x)	0.81	0.38

** Classification as per Infomerics' standards*
 # Total Income= Sale amount of securities (plus other operational income) – Purchase amount of securities.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 July 08, 2022	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based Facility – Cash Credit	Long-term	120.00	IVR A-/ Stable	IVR AA+ (CE)/ Stable	-	-
2.	Fund Based Facility – Bonds	Long Term	(120.00)*	IVR A-/ Stable	IVR A (CE)/ Stable	-	-

*Sublimit of Cash Credit

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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 Fund Based Facility – Cash Credit	-	-	-	120.00	IVR A-/ Stable
Long Term Fund Based Facility – Bonds	-	-	-	(120.00)*	IVR A-/ Stable

*Sublimit of cash credit

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-PIL-jan23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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