

Pioneer Investcorp Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A (SO); Stable [Single A (Structured Obligation); Outlook: Stable] and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

@ The above rating is based on the underlying structure for pledge of securities as explained below

Detailed Rationale & Key Rating Drivers

CARE has maintained the ratings assigned to the long-term bank facilities of Pioneer Investcorp Limited (PINC) and subsequently withdrawn the outstanding ratings assigned to the bank facilities of PINC with immediate effect. The above action has been taken at the request of PINC and 'No Objection Certificate' letter received from the bank that have extended the facilities rated by CARE.

The rating was based on the strength of the underlying structure for pledge of the securities purchased from the bank finance along-with adequate margin requirements whereby the lender (a bank) has complete control over the usage of facility by PINC. The structure stipulates restrictions on types of debt securities (including their minimum credit rating) that can be purchased using the bank limits, maximum holding period for these securities, upfront margin requirements depending upon the category of securities and rights to dispose of the securities in case of non-fulfilment of certain conditions mentioned in the sanction letter. Further, the lender has exclusive charge over the debt securities purchased by PINC using these limits and has complete control over the gilt (for G-sec securities) and demat (for corporate bonds) account where the purchased debt securities are held by PINC. The rating also factors in adequate capitalisation along with resource profile & liquidity of PINC on standalone basis.

The rating, however, was constrained by the market risk on account of volatility in interest rates and liquidity risk associated with the securities along with operational risk associated with trading, moderate profitability and small scale of operations.

Detailed description of the key rating drivers

Key Rating Strengths

Control of the lender and strength of the underlying structure

PINC has entered into an agreement with Federal Bank (Rated 'CARE AA; Stable') which has 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, SDLs and corporate bonds within the specified norm by the bank including single exposure norms, settlement period, margin requirements etc. Thus, the usage of facility is limited by its purpose.

PINC being a non-Negotiated Dealing System member participates in the primary auctions and secondary market trades through Federal Bank which is a scheduled commercial bank permitted by RBI to participate directly. The bank has a longstanding track record of operations, experienced management team, established depositor base and franchise in South India with increasing diversification in other states, adequate profitability and operating efficiency metrics, comfortable capitalization levels and liquidity profile.

PINC has opened securities account with bank known as gilt account. A gilt account is a dematerialized account maintained by the bank for its constituent (PINC). PINC has been given indirect access to NDS (trading platform) through the bank. 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/Joint DP account towards dues to the Bank in the event of non-fulfilment of certain condition including:

- If the shortfall is not made good by the borrower by 12 pm of the next working day by offering alternate/additional securities or by remittance of funds, in case of occurrence of one of the following events:
 - 20 bps rise in benchmark G-sec yield of comparable maturity
 - Value of G-sec/Corporate bond goes down by 5%
 - The balance in the account exceeds Drawing Power

The margin is maintained at 5% on a daily basis (in case of G-sec) and at 7.5%, 10% and 12.5% (in case of corporate bonds rated 'AAA', 'AA+' and 'AA' respectively). 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.

Key Rating Weakness

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 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

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of inability of the company to liquidate holdings due to non-availability of buyers for the security. Corporate bond market is more volatile and relatively shallow compared with G-Sec and sharp rating movement can have a direct bearing on the prices of security & its liquidity. 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 5%-12.5% (margins vary based on ratings of the securities) of the total limits provided by the lender.

Operational risk

The trading platform, Negotiated Dealing Settlement – Order Matching (NDS-OM) is being used by market participants such as PINC through Federal Bank. Any such platform would have operational risk in terms of execution of orders. Further, the margin requirement calculation and square-off of the securities in case of delay in funding the daily top-up margin is being managed by the lender and also has operational risk in terms of execution of the activities. Any slippages, errors or omissions in operation of the account may result in losses on the transactions.

Liquidity: Adequate

PINC's liquidity remained adequate marked by low average utilization of working capital limits on account of short holding period of securities. As indicated by management and confirmed by lender, PINC has maintained adequate margins as per its sanction terms.

Analytical approach:

The rating is based on the strength of the underlying structure for pledge of the debt securities purchased from the bank finance along-with maintaining adequate margin requirements and various other covenants. The rating also factors in lenders credit profile (which has complete control over the usage of facility) along with standalone credit profile of Pioneer Investcorp Limited.

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Pioneer Investcorp Ltd. (PINC) is an integrated mid-market focused financial services company. PINC is one of the growing integrated financial services company, listed on the BSE Ltd. The Company is SEBI registered Category – I Merchant Banker and provides Investment Banking and Financial Advisory Services. With over 3 decades of experience, PINC offers a gamut of customised services; include formulating capital structure, raising capital, debt restructuring, project financing, coal consultancy and other corporate advisory services. Along with these services the Company is also offering its services in the area of Secondary capital market like open offer in Takeovers, Right issue, Buy-back, Mergers and Amalgamation, and valuation assignment.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total income	35.12	25.67	NA
PAT	2.18	0.64	NA
Interest coverage (times)	1.33	1.34	NA
Total Assets	167.85	230.06	NA
Net NPA (%)	NA	NA	NA
ROTA (%)	1.19	0.32	NA

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (25-Mar-21) 2)CARE AA (SO); Stable (01-Apr-20)	-	1)CARE AAA (SO); Stable (02-Jan-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A (SO); Stable (25-Mar-21) 2)CARE A (SO); Stable (01-Apr-20)	-	1)CARE AA (SO); Stable (02-Jan-19)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Apr-20)	-	1)Provisional CARE AAA (SO); Stable (22-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
B. Non-financial covenants	NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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