

Pioneer Investcorp Limited

February 22, 2019

Ratings

Instruments/Facilities	Amount (Rs. crore)	Ratings ^{1*}	Rating Action
Non-convertible debentures	100 (Rupees One Hundred Crore Only)	Provisional CARE AAA (SO); Stable [Provisional Triple A (Structured Obligation); Outlook: Stable]	Assigned

Details of Instruments/facilities in Annexure I

*The above ratings are based on the underlying structure

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debentures of Pioneer Investcorp Limited (PINC) is based on the strength of the underlying structure whereby the Debenture Trustee and a custodian bank have complete control over the usage of funds by PINC. The structure stipulates restrictions on type of debt securities that can be purchased using the funds raised through NCDs, maximum holding period for the securities, upfront margin requirements depending upon the type of securities and daily mark-to-market feature. Further, the trustee has exclusive charge over the debt securities purchased by PINC using these funds and custodian bank has complete control over the gilt and demat account where the purchased debt securities are held by PINC. Significant volatility in G-sec yields and liquidity risk associated with bond markets are key rating sensitivities.

Further, the above rating is 'provisional' pending receipt of the debenture trustee agreement and the custodian agreement. The rating shall be confirmed once company furnishes evidence supporting the receipt of the debenture trustee agreement, custodian agreement and other documents to the satisfaction of CARE Ratings Limited and confirm the final terms of the placement of the non-convertible debenture.

Detailed description of the key rating drivers

Key rating strengths

Control of the debenture trustee and custodian and strength of the underlying structure

PINC will appoint a Debenture Trustee and maintain DSRA account equivalent to 10% of the amount raised at all times. PINC will also enter into an agreement with a Custodian bank for monitoring the usage of funds and investments norms specified in the information memorandum to the NCDs investors. As per the draft terms, the funds raised through NCD can only be used for the purpose of purchase of government securities, SDLs and other SLR securities trading on NDS-OM platform. Thus the usage of facility is limited by its purpose.

PINC being a non-Negotiated Dealing System member will participate in the primary auctions and secondary market trades through the Custodian Bank which will be 'AAA' equivalent rated scheduled commercial bank permitted by RBI to participate directly. For this purpose, PINC will open securities account with the 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.

Cover of 1.20 times will be maintained by PINC in the form of cash/ G-sec/ FD with Custodian bank/ T-bills/ liquid mutual funds/ CBLO/ TREPS with the CSGI account. A safety margin of 10% will be maintained for mark to market purposes is included in the cover. A trigger will be kept at 1.15 times and top-up will have to be done in 3 business days. In the event of cover not reaching to 1.20 times post three days, then the debenture trustee will square the position and pay the requisite amount to the NCD holders.

Low credit risk as majority of the trading is in government securities, SDLs and other SLR securities

Substantial portion of the stock-in-trade will consist of Government securities and other SLR securities on the NDS-OM platform constituting State Development Loans and Treasury bills. Thus, credit risk will be low on account of volume of trades in Government securities/SDLs/SLR.

Shorter duration of the holding period with compulsory settlement within the specified period

The holding period for G-sec and other SLR securities will be short term. Within this period the company has to sell the securities held in its account and realize the cash. The company has a policy of not maintaining open positions beyond 90 days when it is a negative carry in the G-sec segment.

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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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. In addition the company also faces liquidity risk on account of inability 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% of the total funds raised through NCD.

Analytical Approach: The rating is based on the strength of the underlying structure.

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

Liquidity profile

PINC will maintain DSRA account equivalent to 10% of the amount raised at all times in favor of the debenture holders. Cover of 1.20 times will be maintained by PINC in the form of cash/ G-sec/ FD with Custodian bank/ T-bills/ liquid mutual funds/ CBLO/ TREPS with the CSGL account. A safety margin of 10% will be maintained for mark to market purposes is included in the cover. A trigger will be kept at 1.15 times and top-up will have to be done in 3 business days.

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 three decades of experience, PINC offers a gamut of customised services including 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)	FY17 (A)	FY18 (A)
Total operating income	53.01	27.80
PAT	12.97	1.52
Interest coverage (times)	2.89	1.25
Tangible Networth	115.08	116.58
Net NPA (%)	-	-
ROTA (%)	8.60	0.93

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of

its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures – Non-convertible debentures (Proposed)	-	-	-	100.00	Provisional CARE AAA (SO); Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	100.00	CARE AAA (SO); Stable	1) CARE AAA (SO); Stable (02-Jan-19)	1) CARE AAA (SO); Stable (31-Jan-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	100.00	CARE AA (SO); Stable	1) CARE AA (SO); Stable (02-Jan-19)	1) CARE AA (SO); Stable (31-Jan-18)	-	-
3.	Debentures – Non-Convertible debentures	LT	100.00	Provisional CARE AAA (SO); Stable	-	-	-	-

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