PIONEER INVESTCORP LIMITED
April 1, 2020

Ratings

Instruments/Facilities	Amount (Rs. crore)	Ratings[1]*	Rating Action
Cash Credit (G-sec)	100	**CARE AA (SO); Stable [Double A (Structured Obligation); Outlook: Stable]**	Revised from CARE AAA (SO); Stable [Triple A (Structured Obligation); Outlook: Stable]
Cash Credit (Bonds)	100	**CARE A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]**	Revised from CARE AA (SO); Stable [Double A (Structured Obligation); Outlook: Stable]
Total Facilities	**200 (Rs. Two hundred crore only)**		

*Details of Instruments/facilities in Annexure I *The above ratings are based on the underlying structure*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pioneer Investcorp Limited (PINC) were earlier based purely on the structure and a legal opinion was sought on the strength of the structure. However, the approach has been revised and the ratings take into consideration the strength of the underlying structure along with PINC's standalone credit profile coupled with the credit profile of the lender (which has complete control over the usage of facility by PINC).

The structure stipulates restrictions on type of debt securities that can be purchased using the limits, maximum holding period for the securities, upfront margin requirements depending upon the type of securities and daily mark-to-market feature. Further, the lender has exclusive charge over the debt securities purchased by PINC using these limits and has complete control over the gilt and demat account where the purchased debt securities are held by PINC. Significant volatility in g-sec and corporate bond yields and liquidity risk associated with bond markets are key rating sensitivities.

The rating further takes into account standalone credit profile of PINC which takes into account experienced management, adequate capitalization, adequate resource profile & liquidity, small scale of operations and moderate profitability.

Key rating sensitivities:

Positive factors

- Improvement in the standalone credit risk profile of PINC

Negative factors

- Deterioration in the credit profile of the lender and/or PINC
- Volatility in interest rates
- Substantial deterioration in profitability of the issuer
- Increase in gearing beyond 5x

Detailed description of the key rating drivers

Key rating strengths

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

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 long standing 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. However, the bank's credit profile remains constrained by moderate asset quality and borrower as well as geographic concentration in the advances portfolio.

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-fulfillment of certain condition including:

- Intraday limit over utilized and the company unable to sell the excess portion of the sanctioned limit (the account is termed as 'overdrawn')
- If the account is not regularized by the borrower within 3 working days 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
  - Deterioration in credit rating of the Corporate Bonds pledged as security

The margin is always 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 on the existing holdings.

Low credit risk as majority of the trading is in government securities, SDLs and highly rated corporate bonds

Substantial portion of the stock-in-trade consists of Government securities with ~98% of the total turnover volumes on the NDS-Home platform constitutes GOI, SDL, Uday bonds/OIL bonds. The balance constitutes to non SLR portion, only related to papers which are dual rated and approved for Provident Fund's investments. These non SLR segment majorly constitutes PSU category. Thus, credit risk is low on account of volume of trades in Government securities/SDLs being more than the corporate bonds. Further within the corporate bonds, the trading is undertaken for higher rating category mainly 'AAA', 'AA+' and sometimes with approval for 'AA' rating. The arrangement does not allow usage of facility for purchase of bonds rated below 'AA'.

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

As per the structure, the maximum holding period for G-sec is 30 days and for corporate bonds is 45 days. Within this period, the company has to sell the securities held in its account and realise the cash. However, the company has kept a policy of not maintaining open positions beyond 15 days in the corporate bond and G-sec segment.

Experienced management

The company's operations are headed by Mr. Gaurang Gandhi; a qualified chartered accountant and Founder of PINC Group of Companies. He has worked with ICICI Ltd in the area of Project Finance. With over 30 years of experience in the financial services industry, he has advised companies across infrastructure, pharmaceutical, realty, consumer durable, engineering industry and financial services. The day to day operations and the key decision making of the company are looked after by the designated senior officials of the PINC group in the fields of resource mobilization, investments, credit selection and operations. PINC is active in trading of corporate bonds and activities related to debt securities and benefits from its experienced management.

Adequate capitalisation

The company's gearing levels are volatile as it is dependent on volume of activities related to debt securities. The company's borrowings are primarily in the form of cash credit facility. The company's gearing levels increased to 0.61x as on March 31, 2019 as compared to 0.26x as on March 31, 2018. The gearing ratio increased further to 1.26x as on September 30, 2019 on the back of increase in borrowings to Rs.150.36 crore.

Adequate Resource Profile and Liquidity
Majority of the assets are in the form of inventories which are held for trading purposes. Hence, there are no scheduled repayments of the assets. Borrowings is primarily in the form of borrowings from banks (97.68%) as on March 31, 2019. Cash and Bank balance stood at Rs.12.71 crore as on September 30, 2019. The company's repayments in one year stood at ~Rs.4 crore, which includes interest payable on long term debt and borrowings under overdraft facilities, while net inflows stood at Rs.4.91 crore (inventories), resulting in a positive mismatch.

Key Rating Weakness

Small scale of operation
The trading activity in G-sec/corporate bonds has been picking-up pace in the recent years. The company's plans of upscaling the business totally depends on the market situation and the management's view of the direction in which the market is heading. However, the company is mulling over increasing the manpower by 10% in the near term. Thus, the upscaling of business and its impact on profitability will be a key monitorable.

Moderate Profitability:
Despite the increase in volumes, PINC's top line has not grown in proportion because of uncertainties in the market. The company reported a growth of 21.30% y-o-y in its profit to Rs.1.85 crore in FY19. Operating costs came down in FY19 as the firm negotiated a better deal on intra-day transactions, which form the biggest part of operating expenses. As on September 30, 2019, the company had reported a PAT of Rs.1.14 crores on a total income of Rs.17.81 crores compared to a net loss of Rs.0.25 crores on a total income of Rs.11.38 crores in H1FY19. The ROTA stood at 0.97% in H1FY20 compared to -0.30% in H1FY19 and 1.06% in FY19.

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. 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 5%-12.5% (margins vary based on ratings of the securities) of the total limits provided by the lender.

Applicable Criteria: The rating is based on the strength of the underlying structure, along with the standalone credit profile of the issuer. It also takes into account the lender's credit profile (which has complete control over the usage of facility.

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology: Factoring Linkages in Ratings

Financial ratios – Financial sector

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)	FY18 (A)	FY19 (A)
Total operating income	27.80	32.33
PAT	1.52	1.85
Interest coverage (times)	1.25	1.25

Tangible Networth	116.58	118.47
Net NPA (%)	-	-
ROTA (%)	0.93	1.06

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

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
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE AA (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE A (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund Based –LT – Cash Credit	LT	100.00	CARE AA (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 A (SO); Stable	-	1) CARE AA (SO); Stable (02-Jan-19)	1) CARE AA (SO); Stable (31-Jan-18)	

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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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.

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