Piramal Finance Limited (Revise)

October 03, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Non-convertible debentures	250	**CARE AA; Stable (Double A; Outlook: Stable)**	Assigned
Non-convertible debentures*	750 (enhanced from Rs.250 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Subordinate Debt*	500 (reduced from Rs.1,000 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Total	1,500 (Rupees One Thousand Two Hundred and Fifty crore only)		

**CARE has reclassified the rating amount and enhanced the amount of Non-Convertible Debentures by Rs.500 crore and reduced the amount of Subordinate Debt by Rs.500 crore with immediate effect*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Piramal Finance Limited (PFL) factor in strength derived from strong and resourceful promoter group (Piramal group) which has strong experience in diversified segments like real estate, healthcare, financial services and glass manufacturing.

The ratings also take into consideration the strategic importance of the company being the financial services company of the group post transfer of large part of loan book and borrowings from Piramal Enterprises Limited (PEL) along with shared brand name and common treasury with PEL – holding company of PFL, experienced management team. The ratings further draw comfort from the adequate capitalization levels, profitability, and asset quality parameters of PFL, comfortable liquidity profile and the fact that going forward PFL would be key the entity driving the lending business for Piramal Group.

The above-mentioned rating strengths are partially offset by PFL's high exposure to the real estate sector, moderately seasoned loan book and client concentration in the loan portfolio.

Continuing parent support, asset quality, client and sector concentration, capitalization levels, liquidity and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Resourceful promoter group: PFL is a wholly owned subsidiary of PEL that is a part of the Ajay Piramal group of companies. The Group is a diversified Indian business house with interests in healthcare, glass manufacturing and financial services. The company has successful track record of around more than two decades in the healthcare business. Over the past few years the group has built its financial services business also with consolidated lending portfolio of Rs. 28,648 crore as on June 30, 2017.

Shared Brand name and common treasury between PEL and PFL: PFL benefits from group synergies in the form of shared brand name, capital, managerial and operational support from the parent. The financial services companies of the group have a shared treasury desk, which is responsible for raising resources for the financial services segment. The common treasury would help PFL to raise resources to fund growth at a competitive cost.

Strong and experienced management team and board: The Company's board is headed by Mr. Ajay Piramal. He is the chairman of entire business conglomerate, Piramal Group and Shriram Group. The company's board and management

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

are supported by various other qualified professionals heading various verticals with adequate and relevant experience in their respective fields.

Increase in size of operations on account of loan transfer: There has been significant rise in the balance sheet size of PFL as the company acquired a portion of lending portfolio comprising loan book assets of Rs.13,950 crore and borrowing of 12,511 crore from its parent for a net consideration of Rs.1,440 crore against which PFL has allotted equity shares of Rs.1,104 crore and Rs.336 crore has been paid in cash. As on June 30, 2017 the loan portfolio stood at Rs.21,543 crore.

Adequate capitalization levels: During FY17 (refers to the period of April 01, 2016 to March 31,2017) PFL received additional capital from its parent PEL of Rs.1,465 due to which its tangible net-worth increased to Rs.3,238 crore. The capitalizations are comfortable with overall capital adequacy ratio (CAR) at 20.59% and Tier I CAR at 16.75% as on March 31, 2017.

Profitability: Due to transfer of loan portfolio to PFL, it reported total income of Rs.1,492.41 crore during FY17 as compared to Rs.142.46 crore during FY16 and its Profit After Tax (PAT) saw more than five-fold growth to Rs.193.28 crore during FY17 from Rs.37.22 crore during FY16. On a consolidated basis, PEL reported a PAT of Rs.1,252 crore on a total income of Rs.8,781 crore as on March 31, 2016. During Q1FY18 (refers to period from April 01 to June 30), PFL reported PAT of Rs.207.31 crore on a total income of Rs.811.23 crore.

Comfortable asset quality: The asset quality remained comfortable with improvement in GNPA and NNPA ratio of 0.43% and 0.35% respectively as on March 31, 2017 in comparison to GNPA and NNPA of 8.51% and 7.66% as on March 31, 2016. The Net NPA to Tangible net-worth ratio stood at 2.03% as on March 31, 2017 as against 8.98% as on March 31, 2016. The GNPA and NNPA ratio (on 90 d-p-d) stood at 0.19% and 0.13% respectively as on June 30, 2017. The company has a policy of maintaining 2% provision on standard assets as against the regulatory requirement of 0.4% provisions.
The company has also put in place a dedicated asset monitoring team for stringent monitoring and managing performance of the overall loan portfolio which has helped the company to maintain comfortable asset quality.

Key Rating Weaknesses

Moderately seasoned loan book: The Piramal group has largely built its loan portfolio in FY16 & 17 due to which the seasoning of the loan book is moderate and the performance of the asset quality is yet to be seen.

Significant sectoral exposure: The financial services segment of the group has significant exposure towards real estate segment which constitutes 85% of the total lending book and rest comprises the corporate finance group which includes exposures to various sectors like renewables, infrastructure, auto components, cement, etc. The company is increasingly looking at focusing on construction finance (currently 56% of the total portfolio) as against funding at the land or pre-approval stage. Further, the company has been gradually attempting to diversify its loan-book and in FY17 has added lease rent discounting (LRD) in the real estate segment. It has also stepped up its focus on non-real estate lending, namely, Corporate Finance Group (CFG).

Client concentration risk: On a standalone basis PFL's top exposures form a sizeable proportion of the overall loan book. Due to the concentration, the portfolio may have inherent vulnerability to any borrower which may impact the reduction asset quality indicators.

Analytical approach: CARE has analyzed PFL's standalone credit profile by considering the consolidated financial statements of PEL owing to financial and operational linkages between the parent and its subsidiaries and common management.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology- Non Bank Finance Companies
Financial ratios - Financial Sector

About the Company

Piramal Finance Ltd. (PFL) is a fully owned subsidiary of Piramal Enterprise Limited (PEL) that is a part of the Ajay Piramal group of companies. The Group is a diversified Indian business house with interests in healthcare, glass manufacturing and financial services. The company was incorporated on February, 1973. It was earlier known as Glass Engineers Private Limited. PFL was established in 2011 as a non-deposit taking NBFC. The company lends mainly to real estate (primarily Construction finance, Lease Rental Discounting), Corporate Finance Group under which it lends to various sectors (including infrastructure, cement, renewables, auto, services and entertainment) and emerging corporates (ticket size up to Rs. 100 crore). The company has also entered the housing finance segment through its subsidiary Piramal Housing Finance Private Limited. The company reported total tangible assets of Rs.23,478 crore (unaudited) as on June 30, 2017.

Piramal Finance Limited (Standalone)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	142.46	1,492.41
PAT	37.22	193.28
Total Assets (adjusted for Intangible assets)	780.13	20,263.57
Net NPA (%)	7.66	0.35
ROTA (%) (PAT/Average Total Assets)	4.64	1.84

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.

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)	-	-	-	250.00	CARE AA; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	750.00	CARE AA; Stable
Bonds-Tier II Bonds	08-Mar-17	9.55%	08-Mar-27	500.00	CARE AA; Stable
Bonds-Tier II Bonds	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	750.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Feb-17) 2)CARE AA (27-Sep-16)	-	-
2.	Bonds-Tier II Bonds	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (15-Feb-17)	-	-
3.	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AA; Stable (15-Feb-17)	-	-
4.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691