



Press Release

Paul Merchants Finance Private Limited (PMFPL)

August 03rd, 2020

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1.	Long Term Fund Based Facility – Cash Credit	50.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
2.	Long Term Bank Facility – Working Capital Demand Loan	6.40	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
3.	Long Term Proposed Facility	20.10	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
4.	Short Term Fund Based Facility – Overdraft	43.50	IVR A2 (IVR Single A Two)
	Total	120.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from established franchise presence in the regional market of the Promoter Company (Paul Merchants Limited), Healthy operational indicators and Adequate capitalization indicators. However, the rating strengths are partially offset by Moderate scale & regionally concentrated operations and diversification of funding profile critical to meet long-term growth plans.

Key Rating Sensitivities:

- **Upward Factor**

- Substantial scaling up its operations and diversifying its loan portfolio geographically, while maintaining the asset quality indicators, adequate capital position and profitability.

- **Downward Factor**

- Significant deterioration in scale of operations, asset quality and/or capitalization levels.



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Key Rating Drivers with detailed description

Key Rating Strengths

- ***Established franchise and presence in regional market of the Promoter Company (Paul Merchants Limited):***

PMFPL is a 100% owned subsidiary of Paul Merchants Limited, from the Chandigarh based Paul Merchant Group. The Group as a whole has been in the business of Foreign exchange, International money transfer, Tours, Travels, Holiday packages and air ticketing and has a track record of almost three decades now. Further, PMFPL is supported by its geographical reach in the northern part of India and an established business record, the Group enjoys a healthy brand recall and thus facilitates cross-selling opportunities for the various offerings. The Promoters of the Group are the directors of PMFPL which provides a certain visibility on operational and financial support from the Group.

Mr. S. Paul, promoter of the Group, along with support from professionals from various business verticals has played a vital role in building PMFPL's current scale of operations and presence in Haryana, Punjab and Chandigarh.

- ***Healthy operational indicators:***

Leveraging on the promoter's established presence in the financial services industry along with strong foothold in its key operating geographies, has demonstrated a healthy growth. PMFPL is engaged in extending retail loans (backed by gold as collateral) and corporate/business loans. The company has reported a healthy growth while maintaining asset quality and profitability measures. Overall AUM increased to INR264.43 Crore as on March 31st, 2020 (Provisional) from INR174.37 Crore as on March 31st, 2019 and INR57.03 Crore as on March 31st, 2018. Majority of its loan book consists of retail loans (93% of the overall portfolio as on March 31st, 2020) against collateral in the form of gold with the rest being in the form of corporate/business loans. Given the liquidity of the collateral, the ultimate default rates are expected to be low. The GNPA levels stood at 0.53% and NNPA at 0.40% in FY2020 (Provisional). The company adopts prudent lending practices as reflected by its average Loan to Value (LTV) ratio in the bracket of 50%-70%. PMFPL has sustained Net Interest Margins (NIMs) of 14.65% in FY2020 (Provisional) and 14.20% in FY2019. The Company's Return on Average Assets (RoAA) has improved to 6.90% in FY2020 (Provisional) from 5.73% in FY2019, primarily due to maintained operating expenses



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- ***Adequate capitalization indicators:***

PMFPL is adequately capitalized with a gearing of 0.93x on a net worth of INR144.85 Crore as on March 31st, 2020 (Provisional) supported by timely capital infusion from the promoter company and sharp expansion in the loan book resulting in higher plough back of profits into reserves. The company has mainly relied on the promoter's equity to support its business growth over this period. At the Consolidated level, the Group's overall gearing stood at 0.05x on a tangible net worth of INR367.40 Crore as on March 31st, 2019. The overall CRAR (%) stood at 92.07% in as on March 31st, 2020 (Provisional).

Key Rating Weaknesses

- ***Moderate scale and regionally concentrated operations:***

The Company started growing its lending portfolio aggressively only from FY2018 and had an outstanding loan book of INR264.43 Crore as on March 31st, 2020 (Provisional). As on March 31st, 2020, PMFPL had 36 branches spread across Punjab, Haryana, Chandigarh and Rajasthan. It has a regionally concentrated portfolio with Punjab and Haryana accounting to almost 95% of its total loan portfolio in FY2020 (Provisional). The moderate stage of operations is likely to keep operating expenses elevated in the medium term. PMFPL's strategic ability to improve its reach to newer geographies, while keeping its profitability and asset quality intact is a key rating sensitivity.

- ***Diversification of funding profile critical to meet long-term growth plans:***

PMFPL has high reliance on borrowings in the form of ICDs from the promoter group, almost 77% of the total debt as on March 31st, 2020 (Provisional). Though, the current liquidity position of the company is adequate, its ability to raise additional borrowings will be critical for scaling up the business operations.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Liquidity: Adequate

PMFPL's overall liquidity profile remains adequate with no negative cumulative mismatches in the near to medium term as per the ALM ending March 31st, 2020. The



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company's liquidity is supported by recent capital infusion by the promoters. PMFPL's capitalization is adequate with a gearing (adjusted to ICDs from promoters) of 0.12x as on March 31st, 2019. It's liquidity profile is further supported by working capital line in which was on an average of 12 months ended March 2020, 39% utilized.

About the Company

Paul Fincap Private Limited was incorporated in the year 2010 for the purpose of providing Gold Loan services to its customers. The name was eventually changed to Paul Merchants Finance Private Limited (PMFPL) in July 2018. The company acts a Non-Deposit taking Non-Banking Financial Company and received its NBFC license by the RBI only in 2015. Presently, it is engaged in providing Gold Loans, Corporate Loans and also undertakes Money Transfer Services. Gradually, it has expanded its presence in Punjab, Chandigarh, Haryana and Rajasthan and has 36 branches in all. PMFPL is a part of the Chandigarh based Paul Merchant Group and is a 100% owned subsidiary of Paul Merchants Limited (Publicly listed entity).

Financials:

	(INR Crore)		
For the year ended/ As On*	31-03-2018 (Audited)	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	5.22	18.18	43.60
Interest	0.58	1.01	10.18
PAT	0.61	6.63	15.14
Total Debt	4.32	51.85	134.01
Total Net-worth	56.82	130.40	144.85
Total Loan Assets	57.03	174.37	264.43
Ratios (%)			
PAT Margin (%)	11.72	36.49	34.72
Overall Gearing Ratio (x)	0.08	0.40	0.93
GNPA (%)	1.42	0.96	0.53
NNPA (%)	1.16	0.85	0.40
CAR (%)	NA	94.10	92.07

* Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	50.00	IVR BBB+/Stable	--	--	--
2.	Long Term Bank Facility – Working Capital Demand Loan	Long Term	6.40	IVR BBB+/Stable	--	--	--
3.	Long Term Proposed Facility	Long Term	20.10	IVR BBB+/Stable	--	--	--
4.	Short Term Fund Based Facility – Overdraft	Short Term	43.50	IVR A2	--	--	--

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	50.00	NA	NA	NA	IVR BBB+/Stable
Long Term Bank Facility – Working Capital Demand Loan	6.40	NA	NA	NA	IVR BBB+/Stable
Long Term Proposed Facility	20.10	NA	NA	NA	IVR BBB+/Stable
Short Term Fund Based Facility – Overdraft	43.50	NA	NA	NA	IVR A2