

Rating Rationale

October 10, 2023 | Mumbai

PHF Leasing Limited

'CRISIL BBB-/Stable' assigned to Bank Debt and Fixed Deposits

Rating Action

Total Bank Loan Facilities Rated	Rs.25 Crore
Long Term Rating	CRISIL BBB-/Stable (Assigned)

Rs.25 Crore Fixed Deposits	CRISIL BBB-/Stable (Assigned)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Stable**' rating to Rs.25 crore bank loan facilities and fixed deposits of PHF Leasing Limited (PHF Leasing).

The rating takes into consideration extensive experience of board and management in vehicle financing and loan against property business, its adequate capital position backed by loans from promoters/equity Investors, and moderate earnings profile.

PHF Leasing has undergone substantial revision in its board and management post fiscal 2020. This company was originally started by Mr Shiv Dyal Chugh in year 1992 with three family members, of which Mr. Chandan Chugh (son of Mr. Shiv Dyal Chugh) is currently representing the promoter group on the board. The company operating in three districts of Punjab with prime focus on vehicle finance segment. Mr Dyal served as managing director of PHF Leasing for over 20 years. Post his unfortunate demise on March 7, 2021, Mr. V.K. Sareen, an Independent Director was appointed as the Whole Time Executive Director of PHF Leasing. During fiscal 2020, the promoters (with the help of Mr Dinesh Gupta who is an advisor to board since 1994) initiated transformation plan that involved introduction of strategic investors who would infuse equity to facilitate business expansion. It was also agreed that the promoter's shareholding would be diluted to below 50% through an Offer for Sale to prospective investors to facilitate professionalism in management.

As part of this transformation, 2-3 private investors were brought-in to strengthen board and capital structure of PHF Leasing. First one being 'Agile Finserv Pvt Ltd' (Agile Finserv), one of the NBFC operating in Northern states, took stake of 20% in PHF Leasing during fiscal 2020. During fiscal 2021, another investor 'Hamco Ispat Pvt Ltd' along with Affiliate took a stake of about 24% in PHF Leasing and Agile Finserv maintained its stake. Both these investors, apart from putting in equity capital, also provided funds in the form of loans and ICDs to support the portfolio growth of the company. As on June 30, 2023, the total paid up capital stood at Rs 12.4 crore and Rs 30.6 crore in the form of loans/ICDs. CRISIL Ratings has been given the understanding that funds provided in the form of loans/ICDs by both investors are solely to support the growth prospects of PHF Leasing and hence will remain with the company. The investors have also confirmed their willingness to provide additional funds (either in the form of equity or loans/ICDs) to support the company.

Post getting in investors, the board structure of PHF Leasing was also revamped by getting in eminent personnel like Mr. Yaduvendra Mathur (Ex-CMD EXIM Bank, he is currently Chairman and Independent Director of PHF Leasing), Mr Vijay Kumar Bhandari (Ex-Banker, Nominee Director from Agile Finserv), Mr Ashwani Kumar Jindal, a Chartered Accountant (Independent Director), etc. The company also has few mentors/advisors to board that includes Mr Praveen Kumar Gupta, Ex-MD Retail and Digital Banking at SBI and Mr Dinesh Gupta who is having directorships in Capital Small Finance Bank and advisor to many NBFCs and Mr. Shant Gupta, Independent Director in Midland Microfinance etc. Another professional, Mr. Kumar Shalya Gupta, was appointed a Business Head who later was promoted as Chief Executive Officer in April 2022.

These strengths are partially offset by moderate scale of operations with limited seasoning in portfolio quality and modest resource profile.

Assets under management (AUM) of the company grew by 156% to Rs 103 crore as on March 31, 2023, from Rs 40 crore a year earlier. AUM stood at Rs 127 crore as on June 30, 2023. The growth in AUM was attributed to higher demand of electric vehicles with improving economic sentiments, branch expansion in nearby geographies and continued focus on the two-wheeler and new segments i.e. three-wheeler (E- Rickshaw) segment and LAP. In fiscal 2023, the company disbursed around Rs 86 crore, compared to Rs 53 crore in fiscal 2022.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of PHF Leasing. Based on the understanding and articulation provided by investors and management, CRISIL Ratings has treated loans/ICDs provided by investors as quasi equity.

Key Rating Drivers & Detailed Description

Strengths:

Extensive Experience of Board and management in the industry

The company has been in operations for more than three decades and has seen various economic cycles. Mr Shiv Dyal Chugh served as managing director since 1992. PHF Leasing underwent significant changes in its board and management during fiscal 2020 with the goal of expanding and growing rapidly by diluting promoter's shareholding to below 50% through an Offer for Sale to prospective investors to facilitate professionalism in management. Industry professionals were onboarded on the board and advisors which include Mr. Yaduvendra Mathur (Ex-MD, EXIM Bank), Mr. Praveen Kumar Gupta (Ex-Managing Director of Retail and Digital Banking at SBI), and others. In Punjab, it has a strong brand and competes with banks and other significant non-banking financial organizations (NBFCs). PHF Leasing is also focusing on bringing digitization in all its critical operations and has built a strong Technology team driven by Mr. Kumar Shalya Gupta, CEO and headed by an experienced CTO. The Company is mandating all disbursements and collections through banking channel. The company aims to strengthen the board further by bringing a few other eminent industry professionals.

Adequate capital position supported by funds from promoters in form of loans

PHF Leasing's capital position is adequate in relation to its current and expected scale of operations. Adjusted networth (including Rs 30 crore stood at Rs 58.6 crore as on June 30, 2023 as against Rs 19.4 crore as on March 31, 2022. Overall gearing was comfortable at 1.2 times as on the same date as against 2.0 times as on March 31, 2022. The capital position is supported by regular capital infusion by the existing investors - Agile Finserv Private Limited, Hamco Ispat Private Limited and Kalayana Chakraverty and their affiliate, around 15 Crores infused as pure equity and around Rs 12.5 crore in the form of loan from directors and quasi-equity during fiscal 2023 which will remain invested in the business for more than 5 years. The investment done by the investors stood at Rs 11.2 Crores in total paid up capital of Rs. 12.4 crore (besides Share premium of 10.77 crores) and Rs 25.12 crore in total ICDs of Rs 30.6 crore. Another round of equity infusion amounting to Rs 20 crore is planned for Fiscal 2024.

Average, though improving earnings profile

There has been improving trend in the earnings profile of the company with RoA of 1.9% (annualized) during the first quarter of fiscal 2024 as compared to 1.2% in Fiscal 2023. Prior to that, the company has reported losses during the fiscal 2020 and 2021 of Rs 0.2 crore and Rs 0.5 crore respectively. Opex is slightly higher since the company has gone major revamp in last 1-2 years and now going for growth, book size has increased mainly in last 2 years so profitability improvement has seen accordingly. Further, PHF Leasing is charging interest rates ranging between 18% to 32% depending on the product profile. However, the profitability of the company is moderate due to higher operating expenses on account of expansion in new geographies and segment. As the company has faced limited asset quality issues historically, the spread is adequate to absorb asset quality shocks. The ability of the company to improve its cost of funds and sustain its asset quality metrics while scaling up will remain key monitorable.

Weaknesses:

Moderate scale of operations

Despite being in the asset-financing business for the past three decades, company achieved sizeable loan book only in Fiscal 2023. The company registered 156% growth in fiscal 2023 which helped the company to achieve moderate book size of Rs 103 crore in Fiscal 2023. As on June 30, 2023, the assets under management for the company stood at Rs 127 crore registering annualized growth of 94%. The scale of operations for the company is moderate and recent diversification to 64 locations in Punjab and total 83 locations including Himachal Pradesh, Rajasthan, Delhi/ NCR, Haryana, Uttar Pradesh, Uttarakhand, and Jammu Kashmir. CRISIL Ratings believes that the ability of the company to scale up its loan book in the existing and new geographies while sustaining its asset quality performance will remain key monitorable.

Comfortable Asset Quality supported by adequate risk management practices

GNPA improved to 2.3% in fiscal 2023 as compared with 4.8% in fiscal 2022 and 8.9% in fiscal 2021. The dpd increased slightly during Q1 due to flooding in certain areas of Punjab. Cumulative collection efficiency improved to over 100% in fiscal 2023 after declining to 91% during October 2021 driven by improvement in income levels of borrowers. The company did not undergo any restructuring and its portfolio showed strong growth starting in FY 2021. The company has displayed strong ability to recover past bad loans through repossession.

CRISIL Ratings believes that, Since the scale of operations has been moderate, the asset quality performance has remained comfortable. The ability of the company to sustain its asset quality performance will be key monitorable factor.

Furthermore, its growth in newer segments will also be monitorable on account of low vintage.

Modest Resource Profile

The company's resource mix comprises term loans from non-banking finance companies (NBFCs) and banks (33%), non-convertible debentures and bonds (20%), Exempted deposits (4%) and DA (16%) as on June 30, 2023. Average cost of borrowing stood at 12.5% in Q1 of fiscal 2024. The cost of borrowing is expected to improve over the medium term with the onboarding of public sector banks. Resources are raised from NBFCs, banks, financial institutions, and through public deposits. The company raised Rs 31 crore during fiscal 2023 and Rs 2 crore during first quarter of fiscal 2024 in the form of term loans. The ability of the company to maintain a diversified resource base as it grows along with the ability to raise funds at competitive rates remains a key monitorable.

Liquidity: Adequate

Asset-liability maturity profile was comfortable as on March 31, 2023, with positive mismatches across buckets up to 1 year. As on June 30, 2023, the company had liquidity of Rs 5.1 crore (including cash and cash equivalent, and Liquid investments). Against this, total debt obligation (including operating expense) was around Rs 13.4 crore until September 2023. This represents liquidity cover (assuming 75% collection efficiency) of more than 1.2x for three months. Liquidity is further supported by commitment of support by promoters at the time of exigency.

Outlook: Stable

CRISIL Ratings believes that PHF Leasing will continue benefit from support (both financial and managerial) provided by investors and experienced board/management. The company is also expected to maintain adequate capitalisation backed by funding support from investors over the medium term

Rating Sensitivity Factors

Upward factors:

- Sustained improvement in asset quality with 90+ dpd maintained at below 2% along with seasoning in portfolio
- Sustained improvement in earnings profile with RoA maintained over 2% on steady state basis
- Ability to raise sufficient funds from external sources i.e. bank loans to support its growth

Downward factors:

- Any revision in stance from investors on funding resulting in reduction in support provided in form of equity, loans and ICDs
- Deterioration in asset quality leading to increase in credit costs and its consequent impact on profitability
- Deterioration in capital position with increase in gearing remaining above 5 times

About the Company

Incorporated in 1992, PHF Leasing was registered as a deposit-taking NBFC, registered in Jalandhar. The company is classified as an asset-financing company and is engaged in the financing of vehicles. The company majorly finances two wheelers. The company has recently diversified into financing of three-wheeler, SME and loan against property. The Company is advancing financing to its borrowers who are predominantly located in rural and semi urban areas in state of Punjab, Haryana, Delhi NCR, Himachal Pradesh, Rajasthan, Uttarakhand, Madhya Pradesh, Uttar Pradesh and Jammu.

Key Financial Indicators

Particulars	Unit	June-2023	2023	2022
Total assets	Rs crore	123.4	120.3	61.1
Total income	Rs crore	6.3	17.7	8.6
Profit after tax (PAT)	Rs crore	0.7	1.2	0.7
90+ dpd	%	2.4	1.9	5.6
Adjusted gearing	Times	1.2	1.7	2.0
RoMA	%	1.9*	1.2	1.5

*annualised

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	25	NA	CRISIL BBB-/Stable
NA	Fixed Deposits	NA	NA	NA	25	Simple	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.0	CRISIL BBB-/Stable		--		--		--		--	--
Fixed Deposits	LT	25.0	CRISIL BBB-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	25	Not Applicable	CRISIL BBB-/Stable

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs criteria for rating fixed deposit programmes

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