PROFECTUS CAPITAL

NCD/NSE/2022-23/17

31st October 2022

The Manager
Listing Department- Debt
National Stock Exchange of India Limited
"Exchange Plaza", Bandra-Kurla Complex,
Bandra (East), Mumbai – 400051

Dear Sir,

Sub: Intimation under regulation 55 of SEBI (Listing and Obligations Disclosure Requirements) Regulations, 2015 as amended from time to time

Pursuant to Regulation 55 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015, we, Profectus Capital Private Limited (**'the Company'**) hereby wish to inform you that Care Ratings Limited has reaffirmed the ratings of the Company's instruments/ facilities as detailed below:

Sr. No.	Facility / Instruments	ISIN	Name of Credit Rating Agency	Credit Rating Assigned	Outlook (Stable/ Positive/ Negative/ No outlook)	Rating Action (New/ Upgrade/ Downgrade/ Re-Affirm/ Other)	Specify other rating action	Date of Credit rating	Verification status of Credit Rating Agencies	Date of verification
1	Non-Convertible Debentures	INE389Z07013	Care Ratings Limited	Single A Minus	Stable	Reaffirmed	--	28th October 2022	Annual Review	28th October 2022
2	Long Term Bank Facilities	NA	Care Ratings Limited	Single A Minus	Stable	Reaffirmed	--	28th October 2022	Annual Review	28th October 2022

The said intimation is made on the receipt of the rating letter issued by above mentioned rating agency, which is enclosed herewith. Kindly take the above on your record.

Thanking You,

for **Profectus Capital Private Limited**

NITIN GANPAT PANGARKAR
Digitally signed by NITIN GANPAT PANGARKAR
Date: 2022.10.31 19:13:20 +05'30'

Nitin Pangarkar
Company Secretary
Membership No. 23863

CareEdge RATINGS

Profectus Capital Private Limited

October 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	500.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**500.00 (₹ Five Hundred Crore Only)**		
Non-Convertible Debentures	30.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**30.00 (₹ Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating re-affirmation for the bank facilities/instruments of Profectus Capital Pvt Ltd (PCPL) derives strength from comfortable capitalisation level supported by periodical equity infusion from the investor Actis LLP, relatively well diversified loan portfolio, reasonable ability to attract funding and good asset quality supported by conservative credit underwriting.

The rating, however, remains constrained on account of PCPL's moderate stage of business operations which subsequently results in an unseasoned loan portfolio inducing asset-side uncertainties. The geographic concentration has seen improvement over the last year due to expansion into newer states. Moderate profitability on account of higher operating costs due to operations being in early stages remains a key rating constraint. Going forward, ability of the company to increase its operational scale while maintaining asset quality and improving profitability on a sustained basis will remain critical parameters for its rating.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained increase in operational scale with improvement in profitability with ROTA above 1.5%
- Improvement in geographical diversification

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in gearing levels beyond 4.5x
- Weakening of asset quality parameters with Gross Stage 3 (GS3) assets above 4% on sustained basis
- Inability of the company to diversify the funding profile and reduce costs of funds

Detailed description of the key rating drivers

Key rating strengths

Healthy Capitalization: Actis LLP, a UK-based $14 billion private equity firm acquired a 100% shareholding in PCPL in 2019 with a commitment of investing Rs. 1,000 crore into the company. Of the said commitment, the private equity firm has infused Rs. 905 crore till June 30,2022 and has envisaged to invest the remaining ~Rs. 100 crore in FY2023 as per the capital requirement of the company. Actis was founded in 2004 as a spin-off of Commonwealth Development Group, a UK Government's finance institution established in 1948.

CARE Ratings Ltd (Care Ratings) also anticipates that benefits from the strategic investor will accrue in the form of strategy and management oversight, access to funding resources at competitive rates as well as adoption of industry best practices.

As at March 31,2022, the capital adequacy of the company remained comfortable with Capital Adequacy Ratio (CAR) at 48.23% and Tier 1 CAR at 46.89% which well above the regulatory requirement of 15% and 10% respectively. As the company is currently well capitalised, the overall gearing stood at 1.11 times (borrowings/tangible net worth) as on March 31,2022. As at June 30,2022, the CAR and Tier 1 CAR stood at 53.27% and 52.01% respectively. During Q1FY23 (April 2022-June 2022), Actis invested Rs. 150 crore in PCPL, owing to which the gearing reduced to 0.94 times.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Competent Management Team: The management team reflects an adequate level of depth of experience and capability. Mr.K V Srinivasan, CEO & Whole Time Director, is the founder of PCPL who has over 30 years of experience, previously being associated with large finance companies. The key management personnel come with varied experience of 20-25 years largely in the finance and credit segment. The board of PCPL consists of three representatives from Actis LLP. The proven track record of the company's leadership provides comfort on the growth prospects and robust management of the company in the medium term.

Reasonable Ability to Attract Funding: The resource profile of PCPL comprises of term loans and cash credit lines as at March 31,2022. However, the company has been able to diversify its sources modestly with funding from small finance banks, private banks, NBFCs and public sector banks. During Q1FY23, the company raised funds through capital markets via non-convertible debentures. Going forward, significant funding access from frontline banks will lend more credibility to the diversified resource profile along with ability to utilize the leverage to scale up.

Relatively well diversified loan portfolio: PCPL mainly provides school funding, secured financing to Micro, Small and Medium Enterprises (MSME) borrowers and funding to other MFI/NBFC. As on March 31,2022, out of the total portfolio outstanding, 37% (PY:33%) consists of enterprise mortgage loans (MSME LAP), 25% (PY:35%) consists of school funding and 20% (PY:18%) consists of equipment funding with segmental exposure to pharmaceuticals & healthcare, engineering, printing, textiles etc. The top 3 states i.e., Maharashtra, Tamil Nadu and Telangana consist of 52% of the portfolio outstanding as on March 31,2022. (March 31,2021:58%). Further, as on June 30,2022, the top 3 states consist of 50% of the portfolio outstanding. There was improvement in the geographic concentration over the last two years as the company expanded its reach over other states such as Delhi, Haryana, Andhra Pradesh with 9 new branches since FY20. Going forward, the product mix of the company is expected to grow in the same proportion with 80% comprising of MSME LAP loans, school funding and equipment funding and 20% comprising of MFI/NBFC funding and supply chain financing with penetration into newer cities within the same states.

Key rating weaknesses

Operating History Remains Relatively Moderate: The company has been able to grow its portfolio to Rs. 1,618 crore as on June 30,2022 witnessing CAGR of 66% since March 2019.Considering disbursements were made from 2019 only, cumulative disbursements of Rs.2,660 crore suggests business operations to be in the moderate stages. The portfolio remains moderately seasoned as only 13% of the AUM has balance tenure of 12 months & less and remaining 87% of the AUM has balance tenure of 1-10 years with 54% of the AUM having balance tenure of 3-8 years as on June 30,2022. Thus, asset quality performance over various economic cycles is yet to be established. Nonetheless, Care Ratings takes comfort from the significant capital buffers maintained by PCPL and the management's conservative underwriting norms.

As on March 31,2022, the asset quality remained stable with GS3 assets of 0.78% and Net Stage 3 (NS3) assets of 0.65%. (March 31,2021:GS3-0.21%, NS3-0.19%). As on June 30,2022, the GS3 assets stood at 0.89% and NS3 assets stood at 0.77%. The company had extended one-time restructuring to its customers as per RBI's COVID Regulatory Package, the outstanding of standard restructured assets which stood at 1.04% of the loans outstanding as on June 30,2022. PCPL had also extended loans through Emergency Credit Line Guarantee Scheme (ECLGS) which stood at 1.75% of the total loans outstanding as on June 30,2022. The provision coverage ratio of the GS3 assets stood at 17.3% as on March 31,2022 (March 31,2021: 12.4%) and the NS3 to tangible net worth stood at 1.28% as on March 31,2022 (March 31, 2021: 0.26%). The ability of the company to maintain a steady state asset quality through various cycles remains a key monitorable.

Profitability Remains Modest Constrained by Elevated Operating Costs: PCPL has been able to report profitability due to low interest expenses on account of lower gearing and minimal credit costs. The increase in leverage over the last two years and lower yield on advances during FY22 due to reduction in the school funding program book (which is high yield product) led to a compression in Net Interest Margin (NIM) during FY22. NIM stood at 6.77% for FY22 (FY21: 8.50%). The operating expense to total assets stood at 6.14% in FY22 (FY21: 7.44%). Credit costs remained stable at 0.46% of total assets during FY22. On account of the above, the Return on total assets (ROTA) stood at 0.57% in FY22 (FY21: 0.76%).

During Q1FY23, the NIM contracted to 7.39% (Q1FY22: 7.95%) mainly on account of lower yield on advances. Further, the operating expense to total assets stood at 6.33% (Q1FY22: 6.72%), while the credit costs remained stable at below 1% levels. On account of the above, the ROTA stood at 0.85% in Q1FY23 (Q1FY22: 0.89%), which is relatively lower as compared to the peers.

Care Ratings expects PCPL's earnings to remain adequately supported by low leverage in the near term which will provide the required support during its growth period till operating costs stabilize. Going forward, supported by significant improvement in scale of operations, opex to average assets is expected to reduce thereby supporting improvement in ROTA.

Liquidity: Adequate
PCPL's statutory liquidity statement for June 30,2022, reflected cumulative surplus position across all maturity buckets up to 1 year with the liquidity profile being supported by low leverage. The company has Rs. 342.80 crore of contractual debt repayments upto one year against which the company has inflows from advances of Rs. 486.19 crore and unencumbered cash & bank balance and liquid investments of Rs. 197 crore as on June 30,2022. Apart from that, the company also has undrawn bank lines of Rs. 25 crore and cash credit/overdraft limits of Rs. 34 crore to take care of any mismatch. As a policy, the company maintains liquidity upto two months debt repayments. Liquidity metrics remain supported by the ample capital levels in the near term providing PCPL with the much-needed time to establish its franchise and raise relatively longer tenure borrowings**.**

Analytical approach
CARE has analyzed the profile of PCPL on a standalone basis.

Applicable criteria
Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non-Banking Financial Companies

About the company
Incorporated in June 2017, PCPL is registered as a systemically important, non-deposit taking Non-Banking Financial Company (NBFC – ND) with Reserve Bank of India (RBI) in September 2017. The company provides secured financing to Small and Medium Enterprise (SME) businesses operating in sectors like engineering, textiles, plastics and ancillaries, food processing, pharmaceuticals, education and healthcare through 22 branches. PCPL's product line includes term loans and working capital loans ranging from business expansion loans, supply chain finance, equipment finance, school funding program, MFI-NBFC funding etc. The company operates in 11 states – Maharashtra, Telangana, Tamil Nadu, Karnataka, Gujarat, Rajasthan, Punjab etc with an employee base of 562. As on June 30, 2022, the total portfolio outstanding amounted to Rs.1618 crore.

Actis, a UK-based private equity firm with focus on emerging markets currently holds 100% stake in PCPL. Actis LLP is a United Kingdom-based company, which is engaged in investing in markets across Africa, Asia and Latin America. Actis is a leading investor in growth markets across Africa, Asia and Latin America. Its three separate investment groups focus on energy and infrastructure; real estate; and general sectors, including consumer, education, financial services, healthcare, industrial, manufacturing, and retail. The company has investments in over 40 countries including China, South East Asia and India/South Asia. Actis was formed in 2004 following a restructuring of CDC (Commonwealth Development Corporation – a Development Financial Institution owned by the UK government) designed to bring more equity capital into developing countries.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total income	98.93	161.67	56.32
PAT	6.80	7.83	3.74
Total Assets*	1,143.05	1698.07	1840.69
Net NPA (%)	0.19	0.63	0.78
ROTA (%)	0.76	0.55	0.85

A: Audited; UA:Unaudited *adjusted for deferred tax assets and intangible assets.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE389Z07013	10-06-2022	9.57%	10-06-2025	30.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	2026	223.01	CARE A-; Stable
Fund-based - LT-Term Loan- Proposed	-	-	-	-	276.99	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	500.00	CARE A-; Stable	-	1)CARE A-; Stable (22-Mar-22) 2)CARE A-; Stable (16-Apr-21)	1)CARE A-; Stable (30-Mar-21)	-
2	Debentures-Non-Convertible Debentures	LT	30.00	CARE A-; Stable	1)CARE A-; Stable (01-Jun-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in