NCD/NSE/2022-23/19

3rd November 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 India Ratings & Research 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	Long Term Bank Facilities	NA	India Ratings & Research	Single A Minus	Stable	Reaffirmed	--	2nd November 2022	Annual Review	2nd November 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: 2022.11.03 13:10:42 +05'30'

Nitin Pangarkar
Company Secretary
Membership No. 23863

India Ratings & Research
A Fitch Group Company

Login

India Ratings Affirms Profectus Capital’s Bank Loans at ‘IND A-’/Stable

Nov 02, 2022 | Financial Services

India Ratings and Research (Ind-Ra) has affirmed Profectus Capital Private Limited’s (Profectus) debt instruments as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term bank loans	-	-	-	INR3,000	IND A-/Stable	Affirmed

Key Rating Drivers

Strong Capital Buffers Backed by Marquee Investor: Profectus’ credit profile is strengthened by the upfronting of equity infusion by its promoter Actis Capital. The tangible networth reached INR9,150 million (FY22: INR7,628 million, FY21: INR6,530 million) after infusions of INR1,500 million and INR1,003 million by Actis in 1QFY23 and FY22, respectively. Actis had made a commitment to invest a total of USD140 million (around INR10 billion) into Profectus in 2017; of this, INR9 billion had been infused as of June 2022, and the remaining will be infused by FY23 as per the management. Profectus’s capital buffers are strong, with tier I ratio of 52% and leverage ratio of 0.9x at end-1QFY23 (FY22: 47%, 1.1x, FY21: 62%, 0.7x). The strong buffers would help Profectus absorb any possible increase in credit cost and also give the company the ability to grow the portfolio, given the normalisation in operating environment from the impact of pandemic. With the growth in the franchise, there would be utilisation of capital; but as per the management, the leverage would remain below 4x over the medium term. Apart from the financial backing, Actis’ strong relationship with banks benefits Profectus in terms of strategies and scaling up of operations.

Diversification in Funding Profile: Profectus had aggregated funds from about 24 lenders as on 30 June 2022 (31

August 2021: 14 lenders, 31 March 2020: 2 lenders) - 10 private banks (54% of total borrowings at end-1QFY23), three public sector banks (7%), five small finance banks (13%) and five non-banks (18%). The company has been able to raise funds from a mutual fund investor through non-convertible debentures (8%). The strong capitalisation and the backing of marquee investors have played a vital role in leveraging its balance sheet at a fairly competitive cost of funds. In Ind-Ra's opinion, at the existing scale, the company's funding mix is diversified. However, its largest single lender contributed 25% to borrowings at end-1QFY23, hence Profectus requires further diversification in the funding profile.

Extensive Experience of Management in Core Lending Segments: Profectus's key product offerings include school financing (24.3% of assets under management at 1QFYE23), enterprise mortgage loans (36.1%) and equipment financing (9.6%), which would continue to comprise 85% of the loan portfolio in the long run. It also offers supply chain financing (8.7%), microfinance institutions/non-bank finance companies funding (8.7%) and merchant cash advance (0.3%). Profectus has been targeting small and medium enterprises with a turnover of INR50 million-500 million and schools; these are segments with which the entity's promoters and senior management have been closely associated for over two decades. The senior management team comprises seasoned personnel with experience of over two decades in their functional domains and has been stable. The focus has been on the granular book and had grown its assets under management to INR16.3 billion at 1QFYE23 (FY22: INR15.5 billion, FY21: INR8.9 billion; FY20: INR4.54 billion). Profectus has presence in 10 key industrial clusters.

Liquidity Indicator – Adequate: The company's liquidity profile is supported by its low leverage. The contractual asset-liability statement at 1QFYE23 displayed a cumulative surplus of 188% in up-to-one-year time bucket. On applying stress on the inflows to account for any potential volatility in collection scenario, the asset liability statement continues to reflect a cumulative surplus in all the time buckets. While there is no board approved policy, the management maintains on-balance sheet liquidity to manage two months of maturing debt obligations, operational expense and net disbursements on a steady-state basis. As on 30 June 2022, the company had cash and liquid investment of INR1.98 billion, which is more than maturing debt obligations of INR1.69 billion till December 2022, assuming nil collections and disbursements. The company also had unutilised working capital lines and undrawn term loan of INR0.59 billion as on 30 June 2022.

Comfortable Asset Quality Although Book Lacks Adequate Seasoning: The target borrower segment of Profectus has recovered from the impact on the operating cashflows caused by pandemic-led disruptions. As a result, Profectus' early delinquencies (30+ dpd: 1QFY23: 3.9%, FY22: 3.9%, 1QFY22: 7.9%) have improved. The company's collection efforts (monthly collection efficiency; June 2022: 99%, March 2022: 103%, May 2021: 92%) and support towards its borrowers by offering restructuring (1% at 1QFYE23 adjusting for restructured assets in NPA) and financing under the Emergency Credit Line Guarantee Scheme (ECLGS; exposure of 6% at 1QFYE23) have helped Profectus to maintain its gross non-performing assets in control (1QFY23: 0.9%, FY22: 0.8%, FY21: 0.2%). However, the incremental slippages from restructured and ECLGS supported book could impact the asset quality. Furthermore, 73% of Profectus' portfolio was originated during the 12 months ended June 2022, which reflects limited seasoning. The asset quality trajectory of Profectus with seasoning will be a key monitorable. Furthermore, the credit cost (1QFY23: 0.5%, FY22: 0.5%, FY21: 0.6%) is low which can be attributed to both quality sourcing and low seasoning in the loan book that led to a lower-than-peers' provisioning coverage ratio (1QFY23: 13.8%, FY22: 17.3%, FY21: 11.9%). Ind-Ra expects the ratio to increase with scale and seasoning of the portfolio, leading to an increase in the credit cost.

Profitability Yet to Reach Steady State: Profectus has already made requisite investments in technology and infrastructure, key human resources and the physical branch network which is essential for meeting its medium-term growth objectives. This has led to higher, albeit improving, operating costs (operating expense to average loans; 1QFY23: 7.0%, FY22: 5.8%, FY21: 7.5%; FY20: 10.6%). The return on asset (1QFY23: 0.8%, FY22: 0.6%, FY21: 0.8%) is supported on account of low leverage and credit cost. As the net interest margins (1QFY23: 8.4%, FY22: 8.0%, FY21: 11.5%) reaches steady state with leverage build-up, cost efficiency accruing from economies of scale could help in improving its profitability. Furthermore, the asset quality impact with seasoning of loan book and increase in provision coverage ratio will determine the credit cost trajectory and movement of return ratios in the medium term.

Rating Sensitivities

Positive: A significant expansion in the franchise with an adequately seasoned book along with control on the asset quality, improvement in profitability, and further diversification in the funding mix could lead to a positive rating action.

Negative: The following developments, individually or collectively, could lead to a negative rating action:

a rise in the leverage to above 4x on a sustained basis

significant deterioration in the asset quality leading to a material increase in the credit cost

deterioration in the liquidity buffer and/or fund-raising ability

Company Profile

Profectus is a systemically important non-bank finance company regulated by the Reserve Bank of India. It commenced operations in June 2018. Actis Capital, a USD14 billion global fund, owns around 100% stake in Profectus. The company targets emerging micro small and medium enterprises present in certain industrial clusters along with schools. The company operates with a network of 25 branches across 12 states.

FINANCIAL SUMMARY

Particulars	1QFY23 (Provisional)	FY22	FY21
Total tangible assets (INR million)	18,407	16,981	11,430
Total tangible equity (INR million)	9,150	7,628	6,530
Net profit (INR million)	37	78	68
Return-on-average assets (%)	0.8	0.6	0.8
Tier 1 capital (%)	52.0	46.7	62.0
Source: Profectus			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Rated Limits (million)	Rating	24 September 2021	12 March 2021	24 February 2020
Long-term bank loans	Long-term	INR3,000	IND A-/Stable	IND A-/Stable	IND BBB+/Stable	IND BBB/Positive

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Description	Complexity Indicator
Bank loan	Low

For details on complexity level of the instrument, please visit www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Pankaj Naik
Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001723
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Asutosh Patro
Senior Analyst
+91 22 40001788

Chairperson
Prakash Agarwal
Director and Head Financial Institutions
+91 22 40001753

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

DISCLAIMER