

## Profectus Capital Private Limited

August 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	1500.00	CARE A; Stable	Reaffirmed
Non-convertible debentures	10.00	CARE A; Stable	Reaffirmed
Non-convertible debentures	50.00	CARE A; Stable	Reaffirmed
Non-convertible debentures	205.00	CARE A; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of the rating for bank facilities and instruments of Profectus Capital Private Limited (PCPL) factors in comfortable capitalisation level supported by periodical equity infusion, relatively well-diversified loan portfolio, and diversified resource profile. Ratings also take note of the benefits derived from the strategic investor in the form of capital support and management oversight. However, the rating remains constrained considering PCPL's moderately seasoned loan portfolio and asset quality. The rating also takes note of the modest but improving profitability metrics. Going forward, the company's ability to increase its scale of operations while maintaining healthy capitalisation, asset quality, and improving profitability on a sustained basis will remain critical parameters for its rating.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors – Factors that could, individually or collectively, lead to positive rating action/ upgrade:

- Sustained increase in scale of operations and improvement in profitability with return on tangible net worth (TNW) above 11%.
- Any significant mobilisation of equity capital for further growth in business.

#### Negative factors – Factors that could, individually or collectively, lead to negative rating action/ downgrade:

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

### Analytical approach: Standalone

### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes PCPL will continue to benefit by its experienced management team, and maintain healthy capitalisation metrics, while improving its asset quality and profitability in the medium term

### Detailed description of key rating drivers:

#### Key strengths

#### Comfortable capitalisation level

Actis LLP, a UK-based private equity firm with US \$13.5 billion of asset under management (AUM), acquired a 100% shareholding in PCPL in 2019 with a commitment of investing US \$140 million (around ₹1,000 crore) into the company. As on March 31, 2024, the private equity firm has fully infused the committed amount. Actis was founded in 2004 as a spin-off of Commonwealth Development Group, a UK Government's finance institution established in 1948. Last capital infusion of ₹270 crore was done by Actis in FY23, on rights basis, which helped in the improvement of capitalisation level. This has resulted in a TNW of ₹1,112 crore as on March 31, 2024 and ₹1,123 crore as of June 30, 2024.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

As on June 30, 2024, the company's capital adequacy remained comfortable with capital adequacy ratio (CAR) at 41.84% and Tier-1 CAR at 41.28%, respectively, which are well above the regulatory requirement of 15% (overall CAR) and 10% (Tier-1 CAR). The overall gearing (borrowings/ TNW) stood comfortable at 1.65x as on June 30, 2024, as against 1.79x as on March 31, 2024. With increase in scale of operations, the gearing is expected to increase.

### **Improving scale of operations with well-diversified loan portfolio**

The company's AUM reported an increase from ₹2,522 crore in FY23 to ₹3,070 crore in FY24 indicating a 22% growth, while the disbursements increased to ₹1,817 crore in FY24 from ₹1,765 crore in FY23. As on June 30, 2024, AUM reported was ₹2,944 slightly lower than the March 31, 2024, numbers owing to higher prepayments, even though the disbursements in Q1FY25 were approximately ₹279 crore, which was more than the disbursement of ₹176 crore done in Q1FY24.

PCPL mainly provides school funding, secured financing to micro, small and medium enterprises (MSME) borrowers, supply chain finance and funding to other non-banking finance company (NBFC). As on June 30, 2024, of the total AUM, 36% (FY24: 36%; FY23: 37%) consists of Enterprise Mortgage Loans (MSME LAP), 23% (FY24: 24%; FY23: 23%) consists of School Funding and 17% (FY24: 17%; FY23: 17%) consists of equipment funding with segmental exposure to pharmaceuticals & healthcare, engineering, printing, textiles, chemical and plastics, and auto ancillaries, among others.

In terms of geographical concentration, the top three states, Maharashtra, Telangana, and Tamil Nadu, consist of 44% of the portfolio outstanding as on June 30, 2024. The exposure to top five states has considerably improved over past four years from 84% in FY21, 72% in FY22, 65% in FY23 to 62% in FY24 and Q1FY25. As on June 30, 2024, the company operates 28 branches across 14 states. Going forward, as indicated by management, the company's product mix is expected to grow in the same proportion with around 80% comprising enterprise mortgage loans, school funding and equipment funding and balance around 20% comprising NBFC funding and supply chain financing with deeper penetration.

In terms of underwriting, PCPL has a well-established credit underwriting policy with systems and processes in place for checking the credit history of the client, conducting field investigations, assessing business and income of the client using standard tools, and studying the free cashflow available for debt servicing. As on June 30, 2024, among its Enterprise Mortgage Loans portfolio (~36% of AUM), the company focuses on few select segments of the economy such as engineering and machine tools (~12% of AUM) print and packaging (~7% of AUM), chemical and plastics (~6% of AUM), healthcare (~6% of AUM), and food processing (~6% of AUM), among others. Thus, the company's ability to focus on select sectors of the economy is a differentiating factor for the company.

CARE Ratings believes that promoters' background, experienced management and their connects in the market, and the ability to raise capital should help PCPL in scaling up of the portfolio, going forward.

### **Improving profitability metrics**

In FY24, the net interest margin (NIM) shrank slightly to 5.71% (excluding direct assignment [DA] income) as against 6.55% in FY23, which was because of increase in the MCLR of the banks and of higher utilisation of borrowings in FY24 compared to FY23 as there was no capital infusion.

On account of scaling up of operations, the operational efficiencies were visible with significant improvement in cost to income ratio from 83.18% in FY22 to 69.62% in FY23 which further decrease to 64.66% in FY24. In FY24, the total operating and other expenses/average total assets (%) reduced slightly to 4.55% as against 4.88% in FY23 while the credit cost as a percentage of average total assets remained under control and reported at 0.43% of average total assets in FY 24 similar to levels as reported in FY23 at 0.42%. Even with the lower NIM, the company was able to report a higher return on total asset (ROTA) owing to the higher fee and other operating income (including DA income) in FY24 (1.33%) as against FY23 (0.45%). The return on net worth (RONW) also showed an improvement from 3.28% in FY23 to 4.43% FY24. As on June 30, 2024, the company reported a ROTA of 1.26% and RONW of 3.61%.

CARE Ratings will continue to monitor PCPL's ability to significantly scale up the portfolio amidst increasing competition, and its ability to manage credit costs, operating expenses and profitability metrics.

### **Diversified resource profile**

PCPL's resource profile comprises term loans, cash credit, WCDL, NCDs, and pass-through certificates (PTCs) from around 35 different lending institutions as on March 31, 2024. The company was able to diversify its sources with funding from public and private banks, small finance banks, and NBFCs. There has been increase in cost of funds due to increase in MCLR rates from banks. However, for recent borrowing, the company has been able to raise funds at relatively lower cost.

## Key weakness

### Moderate asset quality and moderate portfolio seasoning

PCPL was founded by KV Srinivasan on June 09, 2017, and the company started its first disbursement from Q4FY18 of ₹0.70 crore and gradually scaled up the business. Considering disbursements were made from 2019 only, the company has total disbursements of ₹5,896 crore since inception till FY24 and an AUM of ₹3,070 crore as on March 31, 2024, suggests business operations to be in the early stages.

The portfolio remains moderately seasoned since as on March 31, 2024, around 59% of the portfolio has an average tenure of around 8.5 years indicating that the majority of portfolio has witnessed less than one loan cycle on contractual basis. The portfolio remains moderately seasoned since as on March 31, 2024, only 20% of the AUM has balance tenure of 12 months & less and remaining 80% of the AUM has balance tenure of more than one year with 46% and 34% of the AUM having balance tenure of one to seven years and seven to 10 years, respectively. Thus, asset quality performance over 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 June 30, 2024, the gross non-performing asset (GNPA) stood at 1.80% (March 31, 2024: 1.41%) and the net NPA (NNPA) stood at 1.38% (March 31, 2024: 0.98%). The increase is due to increase in stage 3 accounts in mortgage loans. The increase was expected as the book gets more seasoned. However, considering largely secured nature of book, it is expected to remain in range of 1.5%-1.6% in medium term.

CARE Ratings believes that PCPL's asset quality shall continue to remain anchored on the income profile of the underlying borrowers, as majority of them are self-employed borrowers and their cash flows remain vulnerable to economic shocks. However, the company's asset quality and profitability could still be impacted by credit costs in weaker economic cycles and hence remains to be a key rating sensitivity going forward.

### Liquidity: Adequate

The company's liquidity profile is comfortable with no negative cumulative mismatch in its less than 1-year tenor bucket aided by available cash and liquid investments of ₹389 crore as on June 30, 2024. It has contractual inflows (excluding interest) of ₹1420 crore, against this, the company has contracted repayments on borrowings (excluding interest) of ₹901 crore in the next one-year. It also has undrawn lines worth ₹98 crore. Per the asset liability maturity (ALM) statement of June 30, 2024, there are no negative cumulative mismatches up to 5-year tenor bucket even after stressing the structural liquidity statement to 90% collection efficiency.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

## About the company and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company

PCPL was founded by KV Srinivasan on June 09, 2017, and received certificate of registration from RBI as NBFC ND SI in September 2017. Currently, the company is 100% held by Actis Capital Ltd, private equity fund based in UK. PCPL provides loans to MSME, equipment funding, supply chain finance for dealers in segments, such as pharmaceuticals, consumer durables, and auto ancillaries, among others. The company is also engaged in providing school funding for upgrading and/or expanding the infrastructure. PCPL also provides loans to NBFC. The company started its first disbursement from Q4FY2018 of ₹0.70 crore and

gradually scaled up the business with disbursements of ₹1,765 crore in FY23 and ₹1,817 crore in FY24. The AUM stood at ₹2,944 crore as on June 30, 2024, consists of majorly Enterprise Mortgage Loans (36% of AUM), School Funding (23%), and Equipment Finance (17%). As on March 31, 2024, the company's operations are spread across 28 locations across 14 states in India, with a borrower base of 5191 customers.

### Standalone financials of PCPL

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total income	162	273	403	100
PAT	8	30	48	10
Total assets*	1699	2995	3258	3120
Gross NPA (%)	0.78	0.80	1.41	1.80
Net NPA (%)	0.65	0.61	0.98	1.38
ROTA (%)	0.55	1.28	1.54	1.26 <sup>^</sup>

A: Audited; UA: Unaudited Note: these are latest available financial results

\*Adjusted for deferred tax assets and intangible assets. <sup>^</sup>ROTA for Q1 is annualised for comparison purposes

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### 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	10.00	CARE A; Stable
Debentures-Non-convertible debentures	INE389Z07054	18-07-2024	10.157%	16-07-2027	49.00	CARE A; Stable
Fund-based - LT-Term loan	-	-	-	Oct-2028	359.92	CARE A; Stable
Fund-based - LT-Term loan (Proposed)	-	-	-	-	1,140.08	CARE A; Stable
Debentures-Non-convertible debentures (Proposed)	-	-	-	-	206.00	CARE A; Stable

**Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long term	LT	1500.00	CARE A; Stable	1)CARE A; Stable (12-Jul-24)	1)CARE A; Stable (28-Dec-23) 2)CARE A; Stable (05-Oct-23)	1)CARE A-; Stable (28-Oct-22)	1)CARE A-; Stable (22-Mar-22) 2)CARE A-; Stable (16-Apr-21)
2	Debentures-Non-convertible debentures	LT	10.00	CARE A; Stable	1)CARE A; Stable (12-Jul-24)	1)CARE A; Stable (28-Dec-23) 2)CARE A; Stable (05-Oct-23)	1)CARE A-; Stable (28-Oct-22)	-
3	Debentures-Non-convertible debentures	LT	50.00	CARE A; Stable	1)CARE A; Stable (12-Jul-24)	-	-	-
4	Debentures-Non-convertible debentures	LT	205.00	CARE A; Stable				

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable**
**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Term loan	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of 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 clarifications.

## Contact us

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### About us:

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### Disclaimer:

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