Press Release

Prachay Capital Private Limited

January 06, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facilities – Fund Based Term Loan	12.50	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
2.	Long Term Bank Facilities – Fund Based Cash Credit	12.50	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
3.	Long Term Bank Facilities – Fund Based Term Loan (Proposed)	15.50	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
4.	Long Term Bank Facilities – Fund Based Cash Credit (Proposed)	7.50	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Prachay Capital Private Limited (PCPL) derives comfort from its experienced management team and adequate internal control systems, good asset quality and completely secured loan portfolio, moderate capitalisation metrics and improved scale of operations and regular capital infusion by promoters. However, the rating strengths are partially offset by an unfavorable operating environment, higher dependence on one asset segment, limited credit history and geographical concentration, credit risk concentration, low earnings stability and financial flexibility & adequate capitalization levels for current scale of operations; however, need for external capital remains high.

Key Rating Sensitivities

Upward factors:

- Significant improvement in scale of operations (product offering, geographical and sectoral segment penetration).
- Ability to overcome credit-related challenges

Downward factors:

- Increase in delinquencies
- Increase in dependence on short term borrowings
- Deterioration in financial and liquidity profile

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced management team and adequate internal control systems

The main promoter of the company is Mr. Girish Lakhotiya who has more than 10 years of experience in the financial services industry, he is the part of the investment committee at PCPL and all the loan proposals and security for the loans are personally verified by him. Mr Roshan Sancheti has over 8 years of experience in financial services and capital advisory industry, he is part of the credit committee at PCPL and looks after the in-depth analysis of loan proposals at the company. PCPL has setup adequate credit appraisal, risk management and portfolio monitoring systems. The internal control and monitoring systems are expected to strengthen further as the company grows in stature.

Good asset quality and completely secured loan portfolio

PCPL has reported NIL NPAs for its two years under operation. They have a stringent credit evaluation process wherein the promoters are actively involved. Their loan portfolio majorly consists of real estate entities and all loans extended are secured by a security cover of up-to 2x the loan amount.

Moderate capitalisation metrics and improved scale of operations

PCPL has a moderate but growing capital structure indicated by an improved tangible net worth of Rs. 10.01 crore in FY19 which has increased form Rs. 4.30 crore in FY18, owing to capital infusion by the promoters and retention of profits in the business. PCPL's capital adequacy ratio (CAR) was 39.85% in FY18, as against 26.68% in FY19. The drop was mainly due to the growth in lending portfolio. It is still well above the minimum regulatory requirement of 15%. The management has envisaged the total debt to net-worth ratio to be below 3x (currently 2.57x). The company's total operating income has increased from Rs. 0.78 Crore in FY18 to Rs. 4.60 Crore in FY19. The Net Interest Income has improved from Rs.0.36 Crore in FY18 to Rs. 2.09 Crore in FY19. The company posted a net profit of Rs. 1.21 crore in FY19.

Regular capital infusion by promoters

The promoters have supported the growing scale of operations by infusing equity to the tune of Rs.4.50 crore in FY19. As indicated by the management, there was a further infusion of equity aggregating to Rs. 6.50 crore in H1FY20.

Key Rating Weaknesses

Unfavourable operating environment

The NBFCs across the country are facing a tough task to grow their businesses as the after-effects of the IL&FS defaults are still being felt in the industry, with them being more and more vary of possible delinquencies and defaults in the future. The growth in the industry is expected to decline to 6-8% in comparison to 15% in the previous year. Constrained funding access and increased borrowing costs, offloading risky assets from loan books and an overall slow-down in the economy has hampered the growth for NBFCs. However, this also gives PCPL better business opportunities and nearly monopolistic market presence in certain loan categories.

Higher dependence on one asset segment

PCPL is a real estate centric NBFC as the promoters have massive experience in Real Estate. Only the borrowers in real estate sector can offer hard collateral of more than 2 times and the yields that PCPL is targeting. It has been lending loans to real estate developers, more than 70% of their loan portfolio consist of real asset related entities. The dependence on asset segment is deemed riskier as any unexpected changes in the market or regulatory dynamics could impact the earnings performance of the company.

Limited credit history and geographical concentration

The company is relatively new with its operations commencing in the latter half of FY2017. The maximum tenure of loans extended by PCPL is up to 3 years. The company has in total lent Rs.120 crores out of which only Rs.50 crores is outstanding within a short span of 1.5-2 years of active operations. Due to limited track record the ability of the company to navigate through business cycles remains untested in current NBFC environment The promoters have made an equity infusion of Rs. 4.5 crore in FY19, which is expected to be sufficient in the current term. The major focus will be on the ability of the company to raise external financing and subsequently grow its operations. PCPL's portfolio concentration in primarily in the state of Maharashtra and particularly in Pune.

Credit risk concentration, low earnings stability and financial flexibility

More than 70% of the loan portfolio of PCPL includes real estate related entities, there is inherent credit risk concentration in the loan portfolio of the company. Given the low vintage of business operations along with the small scale of operations, PCPL has limited relationships with lenders, especially in the banking channel, with most of the funding coming from a single lender. Given the growth plans and current market conditions, the ability of the company to focus on diversity of quality funding sources which will be available in conditions of stress is a vital factor moving forward. The current liquidity profile is moderate, given the currently modest scale of operations, with sufficient sanctioned bank lines of around Rs. 12.5 crore as on June 30, 2019, further supported by an equity infusion of Rs. 4.5 crore in FY19.

Adequate capitalisation levels for current scale of operations; however, need for external capital remains high

The company's capitalisation profile is adequate in relation to the current scale of operations with a gearing of 2.40x, a net worth of Rs. 10.51 crore as on FY19. The capitalisation profile was further supported by an equity infusion of Rs. 4.5 crore in FY19. The company would need further external capital to grow in the medium term, given that the internal capital generation is likely to remain modest over the near term.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Non-Banking Finance Companies

Financial Ratios & Interpretation (Financial Sector)

Liquidity

Liquidity is adequate marked by net cash accruals of Rs. 1.22 crore and gearing ratio of 2.40 times as of March 31, 2019, giving the company sufficient gearing headroom to raise additional debt to expand operations in the future. The company has a favourable ALM profile. As on November, 2019, the company has had an average utilisation of 76% of working capital limits.

About the Company

Prachay Capital Private Limited (PCPL) established in the year 2017, previously known as Pracaya Financial Services Private Limited; is a registered nonbanking financial company that caters secured short and medium-term funding to small regional businesses (majorly real estate developers). The company is mainly focussed on extending financial assistance to those, depending on customers' needs, who find it difficult to get funds from the normal banking channel. The company provides business loans to MSMEs/SMEs primarily last mile funding and inventory funding. The clients are sourced through both Direct Sales Agents (DSAs) and in-house sales teams mainly within Pune. The company provides secured lending with a minimum hard security coverage of 2 times. The portfolio outstanding as on March 31, 2019 was Rs. 25.33 crore. The total disbursements in FY19 was Rs. 63.34 crore.

Financials:

For the year ended* / As On	**31-03-2018 (Audited)**	**31-03-2019 (Audited)**
Total Operating Income	0.78	4.60
Interest	0.12	1.60
PAT	0.30	1.21
Total Debt	8.69	25.70
Tangible Net-worth	4.30	10.51
Total Loan Assets	10.71	37.08
Ratios		
a. PAT Margin	34.69	26.07
b. Overall Gearing Ratio	2.02	2.40
c. Total CAR (%)	39.85	26.68
d. Gross NPA (%)	0.00	0.00
e.Net NPA (%)	0.00	0.00

* Classification as per Infomerics' standards

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 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Bank Facilities – Fund Based – Term Loan	Long Term	12.50	IVR BB+/ Stable Outlook	--	--	--
2.	Long Term Bank Facilities – Fund Based - Cash Credit	Long Term	12.50	IVR BB+/ Stable Outlook	--	--	--
3.	Long Term Bank Facilities – Fund Based - Term Loan (Proposed)	Long Term	15.50	IVR BB+/ Stable Outlook	--	--	--
4.	Long Term Bank Facilities – Fund Based - Cash Credit (Proposed)	Long Term	7.50	IVR BB+/ Stable Outlook	--	--	--

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.

Name and Contact Details of the Rating Team:

Name: Rajath Rajpal
Tel: (022) 62396023
Email: rrajpal@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Fund Based – Term Loan	NA	NA	July 2024	12.50	IVR BB+/ Stable Outlook
Long Term Bank Facilities – Fund Based - Cash Credit	NA	NA	Revolving	12.50	IVR BB+/ Stable Outlook
Long Term Bank Facilities – Fund Based - Term Loan (Proposed)	NA	NA	NA	15.50	IVR BB+/ Stable Outlook
Long Term Bank Facilities – Fund Based - Cash Credit (Proposed)	NA	NA	Revolving	7.50	IVR BB+/ Stable Outlook