Press Release

Prachay Capital Private Limited (PCPL)

May 25, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loans	25.13	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Upgraded and Outlook revised	Simple
Long Term Fund Based Bank Facilities – Dropline OD	5.34	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Upgraded and Outlook revised	Simple
Long Term Fund Based Bank Facilities – Proposed	44.53	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Upgraded and Outlook revised	Simple
Long Term Fund Based Bank Facilities – Term Loans	0.00	-	Withdrawn*	Simple
Total	**75.00 (Rs Seventy-Five crore only)**			

**Withdrawn since earlier facility of Term loan of PCPL has been repaid, and no dues Certificate received from AU small finance bank and at a request by PCPL*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating upgradation to the bank facilities of PCPL is on account of improved scale of operations, healthy asset quality, comfortable capitalisation and experienced management team with adequate internal control systems. However, these ratings are constrained by sectoral concentration risk, geographical concentration risk and competitive nature of industry.

The withdrawal of ratings is in line with Infomerics policy on withdrawal of ratings.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained scaling up its operations by diversifying its loan portfolio geographically and sectorly, while maintaining healthy asset quality adequate capital position and profitability.

Downward Factors

- Substantial deterioration in operations impacting capital position, liquidity, and profitability.
- Adverse movements in collection efficiency impacting asset quality of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Improved Scale of operations

PCPL's AUM grew by 23.20% on y-o-y basis to Rs.289.16 crore in FY24 (P) driven by additions of new products like venture debt finance, equipment lease finance and equipment purchase finance. PCPL's total operating income has increased by 37.6% on y-o-y basis to Rs.44.85 crore in FY24(P) driven by higher disbursements and additions of new products. IVR expects PCPL scale of operations are likely to grew further in the medium term with expected geographical diversification and product additions.

Improved Profitability:

The Net interest margin of the company stood comfortably at 9.7% for FY24(P) as compared to 8.85% in FY23 due to higher interest spread, PCPL's PAT has increased to Rs.13.08 crore in FY24(P) (FY23:8.65 crore) driven by improved scale of operations.

Comfortable capitalization

PCPL has comfortable capitalization with tangible net worth of Rs.74.29 crore as on 31 March 2024 (P). Tangible Net worth of the company has consistently improved on the back of fresh capital infusion of Rs. 10 crore during FY24 (P) by the investors and retention of profits. On the back of which, PCPL's CRAR has improved to 27.01% in FY24 (P) from 24.89% in FY23.

Healthy asset quality:

Given the secured nature of loans, stringent lending policies and processes coupled with credit monitoring systems put in place, PCPL has been able to maintain healthy asset quality over the years with NIL NPAs as on 31 March 2024. The promoters actively participate in their rigorous credit evaluation process. Their loan portfolio is mostly made up of loans provided to real estate companies and majority of loan that they provide is backed by a security cover of 2x.

Experienced management team with adequate internal control systems:

The 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 company at PCPL and all the loan proposals and security for the loans are personally verified by him. PCPL has setup adequate credit appraisal, risk management and portfolio monitoring systems. The internal control and monitoring systems are expected to strengthen as the company grows in stature.

Key Rating Weaknesses

Sectoral Concentration risk

PCPL has been lending loans to real estate developers, more than 80% of their loan portfolio consist of loans extended to real estate related entities. The dependence on a single sector is riskier as any unexpected changes in the market or regulatory dynamics could impact the earnings profile of the company.

Geographical concentration risk

PCPL's operations are concentrated majorly in the state of Maharashtra. One state concentration exposes the PCPL to high geographical concentration risk. The company has major presence in the Pune city. However, PCPL has tied up with Knest in FY24 which is one the leading manufactures of Aluform. As per the tie up, customers intending to avail Aluform on lease from Knest, shall have option to avail loan from PCPL. As per this arrangement clients from all over the country are expected to be onboarded.

Competitive nature of industry

PCPL is exposed to stiff competition from other NBFCs and banks. The lending industry focused on small ticket loans is highly fragmented with unorganized lenders also vying for the same set of borrowers. However, with professional and experienced management coupled with their focused approach towards lending and their conservative underwriting policies, PCPL expects to grow its business in the near to medium term while mitigating the risks.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Financial Institutions/ NBFCs
- Criteria on Rating Outlook
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities
- Policy on withdrawal

Liquidity – Adequate

Considering the scale of operations as on March 31, 2024 (P), the company is well capitalized with a CRAR of 27.01%. Also, it has adequately matched asset liability profile as on March 31, 2024, across all the buckets. Company's average working capital utilization remained comfortable at ~66.18% for the last twelve months period ended April 2024. As on 31 March 2024, PCPL has cash and cash equivalents of Rs 16.61 crores.

About the Company

Established in 2017 PCPL, previously known as Prachay 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 provides business loans to MSMEs/SMEs, primarily last mile funding and inventory funding.

Financials (Standalone):

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Income	22.01	32.60
Interest Expenses	8.64	16.74
PAT	7.02	8.65
Total Debt	102.69	179.49
Tangible Net Worth	23.24	51.29
Total Loan Assets	135.33	165.40
Overall Gearing Ratio (x)	2.74	3.50
Gross NPA (%)	0.00	0.00
Net NPA (%)	0.00	0.00
CRAR (%)	35.91	24.89

* *Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 *(Dated: March 27, 2023)*	Date(s) & Rating(s) assigned in 2022-23 *(Dated: June 17, 2022)*	Date(s) & Rating(s) assigned in 2021-22 *(Dated: September 15, 2021)*	Date(s) & Rating(s) assigned in 2020-21 *(Dated: March 17, 2021)*
1.	Fund Based Bank Facilities – Term Loans	Long Term	25.13	IVR BBB/ Stable	IVR BBB-/ Positive	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB/ ISSUER NOT

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years			
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								COOPERATING
2.	Fund Based Bank Facilities – Dropline OD	Long Term	5.34	IVR BBB/ Stable	IVR BBB-/ Positive	-	-	-
3.	Fund Based Bank Facilities – Proposed	Long Term	44.53	IVR BBB/ Stable	IVR BBB-/ Positive	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB/ ISSUER NOT COOPERATING
4.	Fund Based Bank Facilities – Cash Credit	Long Term	-	-	IVR BBB-/ Positive	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB/ ISSUER NOT COOPERATING
5.	Fund Based Bank Facilities – Term Loan*	Long Term	0.00	-	IVR BBB-/ Positive	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB/ ISSUER NOT COOPERATING

** Withdrawn since entire term loan of PCPL has been repaid, and no dues certificate received from AU small finance bank and at a request by PCPL*

Name and Contact Details of the Rating Director:

Name: Amey Joshi

Tel: (022) 62396023

Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	25.13	IVR BBB/Stable
Dropline OD	-	-	-	5.34	IVR BBB/Stable
Proposed	-	-	-	44.53	IVR BBB/Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-prachay-may24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.