

Press Release

Provincial Finance And Leasing Company Private Limited

April 28, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	2700.00	PP-MLD ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	2700.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE PP-MLD BBB-**' (read as **ACUITE Principal Protected Market Linked Debentures Triple B minus**) on the Rs. 2700.00 Cr. principal protected market linked debentures (including the proposed facilities) of Provincial Finance and Leasing Company Private Limited (PFPL). The outlook is '**Stable**'.

Rationale for the reaffirmation

Acuite has reaffirmed the long-term rating of 'ACUITE PP-MLD BBB-' (read as ACUITE Principal Protected Market Linked Debentures Triple B minus) on the Rs. 500.00 Cr. principal protected market linked debentures of Provincial Finance & Leasing Company Private Limited (PFPL). The outlook is 'Stable'. Acuite has changed the rating for the instrument from 'ACUITE BBB-' (Acuite triple B minus), as the coupon rate has changed for the instrument from fixed coupon rate to Market linked rate.

The rating upgrade takes in to consideration the improvement in profitability, capital infusion and increase in network of Provincial Finance & Leasing Company Private Limited (PFPL). PFPL reported a PAT of ~Rs. 40.00 Cr. as on December 2022 as against ~Rs. 0.04 Cr for FY22. There has been an infusion of Rs. 45.00 Cr. in capital, as confirmed by the company, in Q4FY23 and the company plans to infuse ~Rs. 68.00 Cr. further. The network of the company has increased from ~Rs. 208 Cr as on March 31, 2022 to ~Rs. 399 Cr. as on December 31, 2022. The network includes the premium charged on the PP MLDs also.

The rating continues to factor in the parentage of PFPL (100 percent owned subsidiary of Alpha Alternatives Holdings Private Limited) and synergies arising from this association. The rating factors in track record & experience of the management team in managing investments across various asset classes. Alpha Alternatives commenced their operations in 2013 and have been managing assets worth Rs. 5,298 Cr. as on February, 2023 spread across equity, commodity and other alternative asset classes under 7 AIF, PMS and other schemes. PFPL is expected to benefit from the shared management expertise, risk management practices as well as shared operational & infrastructural support of Alpha Alternatives. PFPL the NBFC arm of Alpha Alternatives would be investing funds raised from investors via PP-MLD issue, the investments would be managed by fund managers from Alpha Alternatives and would follow similar strategies as currently adopted in the parent. While the investment strategy under PFPL will be focused on equity and commodity backed derivatives, the tested investment and risk management strategies at parent level will be critical for managing investments and scaling up AUM at PFPL level.

The rating is however, constrained by limited operational track record of PFPL and high

leverage expectations as the leverage under PFPL would be around 5 times in medium term. Going forward, the ability of the company to timely infuse capital and scale up the AUM would be key credit monitorable.

About the company

Mumbai based, Provincial Finance & Leasing Company Private Limited (PFPL) is a registered non-deposit, systemically important NBFC and was acquired by Alpha Alternatives in 2019. The NBFC is a wholly owned subsidiary of Alpha Alternatives Holdings Private Limited. The company is promoted by Mr. Naresh Kothari through Kothari Family Private Trust. Alpha Alternatives (AA) is a Multi Asset Class, Proprietary Capital investing and Asset Management platform. The Group creates alternative investment products across Equities, Commodities and other alternative asset classes. The Group operates across multiple structures/licenses – Alternative Investment Fund (AIF), Portfolio Management Services (PMS) & NBFC.

Analytical Approach

Acuite has taken standalone business and financial risk profiles of Provincial Finance & Leasing Company Private Limited.

About the rated instrument: The Rs. 2200 Cr. Principal Protected Market Linked Debentures are commodity and equity linked debentures, where the returns are linked to capital market returns on other underlying securities/indices. The principal amount is subject to the credit risk of the issuer whereby the investor may or may not recover all or part of the funds in case of default by the issuer. The instrument is subject to model risk wherein, the securities created are on the basis of complex mathematical models involving multiple derivative exposures which may or may not be hedged and the actual behavior of the securities selected for hedging may significantly differ from the returns predicted by PFPL or Alpha Alternatives using such mathematical models.

Rs. 500 Cr. is unsecured subordinated PPMLDs.

Key Rating Drivers

Strength

Experienced management team and synergies with parent

Provincial Finance & Lease Company Private Limited (PFPL) is the nondeposit, systemically important NBFC arm of Alpha Alternatives Holdings Private Limited. PFPL was acquired by Alpha Alternatives in 2019. PFPL is not primarily involved in lending activities and is majorly engaged in investing funds raised from investors via PP-MLD issue, the investments would be managed by fund managers from Alpha Alternatives and would follow similar investing strategies as currently adopted in the parent. While the investment strategy for the previous issues under PFPL were focused on equity and equity backed derivatives, the current issue is also expected to follow the same strategy.

The holding company Alpha Alternatives is promoted by Mr. Naresh Kothari (Founder & Managing Partner) and is led by him and his team of experienced professionals. Mr. Naresh is a seasoned financial services professional with over two decades of experience in business building and capital markets. Prior to Alpha Alternatives, Mr. Naresh was one of the earliest Senior Partners at Edelweiss Financial Services. He has previously led teams for Equity Capital Markets business and also a leading Alternative Asset Management platform. Alpha Alternatives have shown growth in their AUM which grew to Rs. 3,502 Cr. as on March 31, 2022 from Rs. 1,182 Cr. as on March 31, 2020. The AUM further increase to Rs. 5298 Cr. as on February, 2023. These assets are managed through various strategies based on Arbitrage (incl. commodities), Absolute Return and Equity based and Structured Credit.

The holding company is planning to raise funds via PPMLD issuance in the NBFC which would further add to the growth of AUM on a consolidated basis. The proceeds from the issue will be invested through the Alpha Alternatives's Equity Absolute Return (EQAR) strategy and Commodities Absolute Return (CAR) strategy. Both these strategies currently have an AUM of Rs. 1,434 Cr. and Rs. 189 Cr. respectively as on February, 2023. Apart from strategic and risk management synergies with the parent, PFPL would also benefit from the capital support from Alpha Alternatives. The holding company has infused Rs. 45.00 Cr. in Q4FY23 and further Rs.

68.00 Cr is expected.

Weakness

Susceptibility to uncertainties inherent in the capital markets

The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. All the proceeds from the PP-MLD issue will be invested in capital markets and derivatives. Also, the coupon payments in the form of returns are also highly dependent on the performance of the underlying securities and derivatives invested. Though investments in equity and commodity backed derivatives will be via liquid securities, the company and investments shall be exposed to gap down risk, and other market and liquidity risks.

High leverage expectancy

Alpha Alternatives's track record of operating business at NBFC level is limited. The management plans to leverage PFPL around 5 times and would require capital support from the parent company Alpha Alternatives for its future growth plans. Going forward, the ability of the company infuse capital on time and scale up the AUM would be key credit monitorable

ESG Factors Relevant for Rating

PFPL, has a revenue stream with a majority portion accruing from the financial services sector. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to capital markets to avoid fraud, insider trading and other anti-competitive behaviour. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The material of environmental factors is low for this industry. PFPL maintains adequate disclosures with respect to the various board level committees mainly audit committee, nomination and remuneration committee along with stakeholder management committee. PFPL also maintains adequate level of transparency with regards to business ethics issues like related party transactions, investors grievances, litigations, and regulatory penalties for the company, if relevant.

Rating Sensitivity

- Operating performance
- AUM growth
- Any changes in management and ownership pattern
- Changes in regulatory environment

Material Covenants

None

Liquidity Position

Adequate

The companies liquidity is adequate and has maintained cash and bank balances of ~Rs. 8.8 Cr. as on December, 2022. The balances with brokers stood at ~Rs.10.00 Cr.

Outlook : Stable

Acuité believes PFPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues, while achieving sustained improvement in operating margins. Conversely, the outlook may be

Particulars	Unit	FY22	FY21
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ues or profit margins, or in

case of deterioration in the company's financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

		(Actual)	(Actual)
Total Assets	Rs. Cr.	922.68	4.38
Total Income*	Rs. Cr.	1.18	0.43
PAT	Rs. Cr.	0.04	0.06
Net Worth	Rs. Cr.	208.01	4.21
Return on Average Assets (RoAA)	(%)	0.01	1.28
Return on Average Net Worth (RoNW)	(%)	0.04	1.33
Total Debt/Tangible Net worth (Geraing)	Times	3.43	0.00
Gross NPA	(%)	-	-
Net NPA	(%)	-	-

*Total income equals to Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Apr	Principal protected market linked debentures	Long Term	188.90	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)
	Principal protected market linked debentures	Long Term	90.80	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)
	Principal protected market linked debentures	Long Term	700.00	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)
	Principal protected market linked debentures	Long Term	336.70	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)

2023	Principal protected market linked debentures	Long Term	207.00	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)
	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE BBB- Stable (Assigned)
	Proposed principal protected market linked debentures	Long Term	176.60	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)
	Proposed principal protected market linked debentures	Long Term	500.00	ACUITE PP-MLD BBB- Stable (Upgraded from ACUITE PP-MLD BB+ Stable)
23 Sep 2022	Principal protected market linked debentures	Long Term	90.80	ACUITE PP-MLD BB+ Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	700.00	ACUITE PP-MLD BB+ Stable (Reaffirmed)
	Proposed principal protected market linked debentures	Long Term	500.00	ACUITE PP-MLD BB+ Stable (Assigned)
	Proposed principal protected market linked debentures	Long Term	572.50	ACUITE PP-MLD BB+ Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	336.70	ACUITE PP-MLD BB+ Stable (Reaffirmed)
20 May 2022	Principal protected market linked debentures	Long Term	700.00	ACUITE PP-MLD BB+ Stable (Reaffirmed)
	Proposed principal protected market linked debentures	Long Term	1000.00	ACUITE PP-MLD BB+ Stable (Assigned)
17 Mar 2022	Proposed principal protected market linked debentures	Long Term	550.00	ACUITE PP-MLD BB+ Stable (Assigned)
	Proposed principal protected market linked debentures	Long Term	150.00	ACUITE PP-MLD BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE0L6807013	Principal protected market linked debentures	25 Mar 2022	Not Applicable	09 Apr 2025	Complex	700.00	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	INE0L6807039	Principal protected market linked debentures	19 Aug 2022	Not Applicable	03 Sep 2025	Complex	90.80	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	INE0L6807021	Principal protected market linked debentures	27 May 2022	Not Applicable	11 Jun 2025	Complex	336.70	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	INE0L6807047	Principal protected market linked debentures	06 Oct 2022	Not Applicable	21 Oct 2025	Complex	188.90	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	INE0L6807054	Principal protected market linked debentures	19 Nov 2022	Not Applicable	04 Dec 2025	Complex	207.00	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	INE0L6807062	Principal protected market linked debentures	12 Apr 2023	Not Applicable	27 Apr 2026	Complex	360.00	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	316.60	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	500.00	PP-MLD ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Basil Paul Manager-Rating Operations Tel: 022-49294065 basil.paul@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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