

Press Release

Provincial Finance And Leasing Company Private Limited

May 19, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	100.00	ACUITE BBB- Stable Reaffirmed	-
Non Convertible Debentures (NCD)	600.00	PP-MLD ACUITE BBB- Stable Assigned	-
Non Convertible Debentures (NCD)	2700.00	PP-MLD ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	3400.00	-	-

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 of Provincial Finance & Leasing Co Private Limited (PFPL). The outlook remains '**Stable**'.

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) on the Rs. 100.00 Cr. Proposed Non Convertible Debentures of Provincial Finance & Leasing Co Private Limited (PFPL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE PP-MLD BBB-**' (read as **ACUITE Principal Protected Market Linked Debentures Triple B minus**) on the Rs. 600.00 Cr. Proposed Principal Protected Market Linked Debentures of Provincial Finance & Leasing Co Private Limited (PFPL). The outlook is '**Stable**'.

Rationale for the rating

The rating reaffirmation takes in to consideration the improvement in profitability, capital infusion, and increase in net worth of Provincial Finance & Leasing Company Private Limited (PFPL). PFPL reported a PAT of Rs. 40.00 crore 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 net worth of the company has increased from ~Rs. 208 Cr as of March 31, 2022 to ~Rs. 399 Cr. as on December 31, 2022. The net worth also 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 the 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 a 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 the Kothari Family Private Trust. Alpha Alternatives (AA) is a multi-asset 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/licences – Alternative Investment Fund (AIF), Portfolio Management Services (PMS), and 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 behaviour 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 and Rs. 100 Cr. is NCDs.

Key Rating Drivers

Strength

Experienced management team and synergies with parent

Provincial Finance & Lease Co Private Limited (PFPL) is the nondeposit, systemically important NBFC arm of Alpha Alternatives Holdings Private Limited. Alpha Alternatives acquired PFPL in 2019. PFPL is not primarily involved in lending activities and is majorly engaged in investing funds raised from investors via the PP-MLD issue. The investments would be managed by fund managers from Alpha Alternatives and would follow similar investing strategies as currently adopted by the parent. While the investment strategy for the previous issues under PFPL was 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 and 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 the equity capital markets business and a leading alternative asset management platform. Alpha Alternatives has shown growth in their AUM, which grew to Rs. 3,502 crore as of March 31, 2022, from Rs. 1,182 crore as of March 31, 2020. The AUM will further increase to Rs. 5,298 crore as of February 2023. These assets are managed through various strategies based on arbitrage (incl. commodities), absolute return, 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 Alpha Alternatives' Equity Absolute Return (EQAR) strategy and Commodities Absolute Return (CAR) strategy. Both of these strategies currently have an AUM of Rs. 1,434 crore and Rs. 189 crore, respectively, as of 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 crore in Q4 FY23, and further Rs. 68.00 crore 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 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 will be exposed to gap-down risk and other market and liquidity risks.

Higher leverage expectancy

Alpha Alternatives' track record of operating businesses at the NBFC level is limited. The management plans to leverage PFPL around five times and would require capital support from the parent company, Alpha Alternatives, for its future growth plans. Going forward, the ability of the company to 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 revised to 'Negative' in case of decline in the company's revenues 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

Particulars	Unit	FY22 (Actual)	FY21 (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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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
10 May 2023	Principal protected market linked debentures	Long Term	700.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	207.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	336.70	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	90.80	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Proposed principal protected market linked debentures	Long Term	316.60	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	360.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	188.90	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE BBB- Stable (Assigned)
	Proposed principal protected market linked debentures	Long Term	500.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
28 Apr 2023	Principal protected market linked debentures	Long Term	360.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Proposed principal protected market linked debentures	Long Term	500.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Proposed principal protected market linked debentures	Long Term	316.60	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	207.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	188.90	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	336.70	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	700.00	ACUITE PP-MLD BBB- Stable (Reaffirmed)
	Principal protected market linked debentures	Long Term	90.80	ACUITE PP-MLD BBB- Stable (Reaffirmed)
04 Apr 2023	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)
	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)
	Principal protected market linked debentures	Long Term	90.80	ACUITE PP-MLD BB+ Stable (Reaffirmed)
	Principal protected market	Long		ACUITE PP-MLD BB+ Stable

23 Sep 2022	linked debentures	Term	700.00	(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	INE0L6807070	Principal protected market linked debentures	10 May 2023	Not Applicable	25 May 2026	Complex	82.01	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	INE0L6808011	Principal protected market linked debentures	03 May 2023	Not Applicable	25 Apr 2033	Complex	150.00	PP-MLD ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	234.59	PP-MLD ACUITE BBB- Stable Reaffirmed
		Proposed principal						PP-MLD ACUITE

Not Applicable	Not Applicable	protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	600.00	BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	350.00	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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