

January 03, 2023

PAFT Finance Limited: [ICRA]BB (Stable) assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loan	30.00	[ICRA]BB (Stable); assigned
Total	30.00	

* Instrument details are provided in Annexure I

Rationale

The assigned rating takes into consideration PAFT Finance Limited's (PAFT) promoters' experience of more than two decades in microfinance operations and the company's adequate earnings profile (PAT/AMA¹ improved to 3.3% in H1 FY2023 from 2.4% in FY2022), supported by the improving scale of operations and the optimisation of operating expenses.

However, the rating is constrained by PAFT's moderate scale (Rs. 421.6 crore as of September 2022) and geographically concentrated operations with its entire operations being concentrated in Tamil Nadu and the Union Territory (UT) of Puducherry. ICRA also notes that PAFT is expected to transfer the majority of its business correspondent (BC) book to another Group company, PAFT Inclusive Financial Services Private Limited (PAFT IFSP), in the near term and focus on its own lending operations, going forward. The rating also considers the company's stretched capitalisation profile with a net worth of Rs. 20.1 crore and a managed gearing of 21.2 times as of September 2022 vis-à-vis 19.1 times as of March 2022 (13.3 times as of March 2021). The rating takes cognizance of the risks associated with the unsecured nature of the loans, the marginal borrower profile, and other socio-political and operational risks inherent in microfinance operations.

Key rating drivers and their description

Credit strengths

Promoters' experience in microfinance operations – PAFT is a non-banking financial company (NBFC), registered in 2017 and headquartered in Tiruchirappalli. Its promoters were previously conducting microfinance operations through a trust, which was formed in 1997, and started lending operations from 2002. The promoter, Mr. Stephen Francis Xavier (Managing Director), has more than two decades of experience in the microfinance business. PAFT is also expected to onboard directors with vast experience from the financial sector in the near term. This is expected to aid its business in its growth phase. PAFT acts as a BC (for originating microfinance loans) for three lenders, which was started from FY2019. It operates with 67 branches in 19 districts of Tamil Nadu and Puducherry with a borrower base of 1.4 lakh as of September 2022.

Adequate profitability indicators – The company's net profitability was in the range of 1.4-2.9% during FY2018-FY2022, mainly supported by fee income from the BC operations, which comprised 96% of the total income in H1 FY2023 (95% in FY2022). The profitability improved further to 3.3% in H1 FY2023 as the company had significantly scaled up its business operations, improving the economies of scale for the branch operating expenses. The operating expenses had improved to 3.7% in H1 FY2023 from 4.3% in FY2022. Over a period, the company is expected to scale up its own lending operations, to increase the proportion of its own lending portfolio in its assets under management (AUM) and interest income, which would help it comply with the regulatory requirements for an NBFC.

Credit challenges

¹ Profit after tax/Average managed assets

Moderate scale and geographically concentrated operations – PAFT’s scale of operations is moderate with an AUM of Rs. 421.6 crore as of September 30, 2022 (Rs. 267.4 crore as of March 31, 2022), consisting primarily of its BC book (99.95% of the AUM as of September 2022). It had disbursed Rs. 217.2 crore in H1 FY2023 vis-à-vis Rs. 255.1 crore in FY2022 through its BC partners. PAFT is expected to move a major portion of its BC arrangements to another company (PAFT IFSP) to concentrate on its own lending book in the near-to-medium term. This would also help it maintain the regulatory requirements applicable for an NBFC. In addition, the company’s operations remained concentrated in Tamil Nadu and Puducherry while the top 10 districts accounted for 88% of the AUM as of September 2022. ICRA expects the operations to remain concentrated in Tamil Nadu and Puducherry over the near-to-medium term.

Stretched capitalisation profile – PAFT’s net worth increased to Rs. 20.1 crore as of September 2022 from Rs. 14.1 crore as of March 2022 on account of the healthy internal generation in H1 FY2023. However, the managed gearing stood higher at 21.2 times as of September 2022 (19.1 times as of March 2022) on account of the increased scale of operations. Also, the 90+ days past due (dpd) stood high at Rs. 8.7 crore as of September 2022, increasing from Rs. 6.4 crore as of March 2022. However, the overall 0+ dpd had reduced to Rs. 14.7 crore as of September 2022 from Rs. 17.2 crore as of March 2022. Further, PAFT is required to maintain about 5% of its BC book in the form of lien marked deposits against first loss default guarantee (FLDG). This is expected to continue after the proposed transfer of a portion of the BC book to PAFT IFSP, as PAFT IFSP is expected to take some time to generate adequate surplus funds to post the requisite FLDG cover for the BC operations to be transferred.

The management expects to onboard a new shareholder with an equity infusion of Rs. 3.0 crore by the end of FY2023. Also, the surplus funds from the BC operations, which will be deployed to support PAFT’s own portfolio lending, are expected to support the capitalisation profile in the near term. Going forward, PAFT’s ability to bring in equity capital and maintain adequate profitability to aid the improvement in its capitalisation will remain a monitorable from a rating perspective.

Ability to manage political, communal and other risks in microfinance sector – The microfinance sector is vulnerable to socio-political and operational risks, which could negatively impact the operations and the financial position of entities with exposure to this sector. The industry risks are further accentuated by the company’s geographically concentrated portfolio. PAFT’s ability to navigate through the prolonged economic adversity and manage the impact on business growth, client retention and the risks pertaining to borrower overleveraging, given their access to informal funding sources, would be a key monitorable.

Liquidity position: Adequate

PAFT had a cash and bank balance of Rs. 1.08 crore as of November 30, 2022 against a debt repayment obligation of Rs. 0.4 crore during December 2022 - May 2023. As of September 30, 2022, it had relationships with two lenders and served as a BC partner of three lenders. Going forward, it would be crucial for the company to improve collections and secure funds in a timely manner and at competitive rates to improve its liquidity profile and to drive business growth as envisaged.

Rating sensitivities

Positive factors – ICRA could change the outlook or upgrade the rating if PAFT is able to scale up its operations while maintaining the performance of its asset quality and improving its capitalisation profile on a sustained basis.

Negative factors – ICRA could revise the outlook or downgrade the rating in case of a weakening in the asset quality or a deterioration in the capitalisation profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone financial statements of PAFT Finance Limited

About the company

PAFT Finance Limited (PAFT) is a non-systemically important non-deposit taking non-banking financial company (NBFC) headquartered in Tiruchirappalli (Tamil Nadu). It extends micro, small and medium enterprise loans for income-generation purposes to women members with a good track record. The founders of PAT Trust, which conducted microfinance operations under the self-help groups (SHG) model from 2002, had envisaged to carry out the financial inclusion drive of PAT Trust in a professional manner. They acquired Indma Finance, which was reinstated as PAFT Finance Limited in August 2016. Currently, the company's operations are carried out primarily under the BC model.

In H1 FY2023, PAFT reported a net profit of Rs. 6.0 crore on total managed assets of Rs. 449.6 crore while it reported a net profit of Rs. 4.9 crore on total managed assets of Rs. 286.4 crore in FY2022.

Key financial indicators (audited) – IGAAP

PAFT Finance Limited	FY2021	FY2022	H1 FY2023 (P)
Total income	7.9	15.8	15.1
Profit after tax	1.7	4.9	6.0
Net worth	9.2	14.1	20.1
AUM	122.5	267.4	421.6
Total managed assets	132.8	286.4	449.6
RoMA	1.4%	2.4%	3.3%
Return on net worth	20.3%	42.3%	70.0%
Gearing (times)	0.05	0.16	0.17
Managed gearing (times)	13.3	19.1	21.2
90+ dpd	2.3%	2.4%	2.1%
CRAR	457.2%	490.4%	NA

Source: Company, ICRA Research
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years			
			Amount Rated	Amount Outstanding	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
			(Rs. crore)	(Rs. crore)	Jan-03-2023	-	-	-
1	Long-term fund-based term loan	Long term	30.00	0.00	[ICRA]BB (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Term loans - unallocated	-	NA	-	30.00	[ICRA]BB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for limited consolidated analysis - NA

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