08th September, 2023

To,
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot C/1,
G Block, Bandra-Kurla Complex
Mumbai – 400 051.

Sub: Intimation of Revision in Ratings under the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir/Madam,

With reference to the captioned subject and pursuant to Regulation 51(2) and 55 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015, read with Single Operational Circular date 29th July, 2022 as amended from time to time, please note that CARE Ratings Limited vide its letter dated September 8, 2023 has assigned ratings for the Principal protected -Market linked debentures issued by the Company as follows:

Sr. No.	ISIN	Name of the Credit Rating Agency	Credit rating assigned	Outlook (Stable/ Positive / Negative/ No Outlook)	Rating Action (New/ Upgrade/ Downgrade/ Re-Affirm/ Other)	Specify other rating action	Date of Credit rating	Verification status of Credit Rating Agencies	Date of verification
1	2	3	4	5	6	7	8	9	10
1	INE0L6807039	CARE Ratings Ltd	CARE PP-MLD BBB; Stable	Stable	New	-	08-09-23	Not verified	--
2	INE0L6807054	CARE Ratings Ltd	CARE PP-MLD BBB; Stable	Stable	New	-	08-09-23	Not verified	--
3	INE0L6807096	CARE Ratings Ltd	CARE PP-MLD BBB; Stable	Stable	New	-	08-09-23	Not verified	--

A copy of the press release is enclosed herewith. The press release on rating by CARE Ratings Ltd has been hosted on their website i.e. https://www.careratings.com

The above is for your information and record.

Thanking you.

For Alpha Alternatives Financial Services Private Limited
(Formerly known as Provincial Finance and Leasing Co Private Limited)
SHREYANS H MEHTA
Digitally signed by SHREYANS H MEHTA
Date: 2023.09.08 19:20:56 +05'30'
Shreyans Mehta
Director
DIN: 06756771

Alpha Alternatives Financial Services Private Limited

September 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Market linked debentures	1,000.00	CARE PP-MLD BBB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating of Principal Protected- market linked debentures (PP-MLD) issued or proposed to be issued by Alpha Alternatives Financial Services Private Limited (AAFSPL) factors the ring-fenced structure, deployment of proceeds of proposed PP-MLD largely in marginable securities to execute identified strategy, and well-defined payment mechanism. It also considers background of the experienced fund managers who possess strong understanding of capital/commodity markets, consistent performance of their deployed strategies reflecting a track record of achieving favourable results. The support from a well-capitalised parent entity further strengthens the position. The rating is constrained by the non-banking finance company's (NBFC's) limited operating performance track record, high leverage, inherent risk in capital / commodity markets and potential IT, regulatory or operational risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:

- Sustained improvement in profitability with return on total asset (ROTA) above 3.5% with consistent positive returns of strategies.
- Sustained increase in the scale of operations.

Negative factors: Factors that could, individually or collectively lead to negative rating action/downgrade:/

- Deterioration in the credit profile of the parent.
- Change in overall business model or strategy increasing the risk profile of the NBFC/parent.
- Sustained negative returns impacting credit profile with ROTA below 1%.
- Decrease in valuation of any MLD below subscription amount (face value and premium) or significantly different structure for incremental debt.
- Non-adherence to transaction structure or any material covenants.
- Material changes in the management team or the fund manager.

Analytical approach:

Standalone profile of AAFSPL strengthened by its linkage with parent, Alpha Alternative Holdings Private Limited, along with additional comfort derived from the structure.

Outlook: Stable

The 'Stable' outlook for the long-term instruments of AAFSPL factors improvement in financial metrics, growth in scale of operations, and adequate liquidity profile.

Detailed description of the key rating drivers:

Key strengths

Ring fencing of cash flows for deployed strategies with utilisation of funds largely in marginable high-quality assets

The proceeds from the issue of PP-MLDs for equity absolute return (EQAR) and commodity absolute return (CAR) strategies, together with the earnings thereon, will be ring-fenced. The issuer cannot utilise the same for other business operations. The proceeds will be invested in highly liquid securities like G-Sec, reverse repo, CDs, liquid mutual funds, and similar assets. These will be pledged with the broker as to serve as margin for taking exposures in strategies managed by AAFSPL. The MLDs are

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

backed by the investments made by the company using these funds, all within a secured ring-fenced framework. As on March 31, 2023, approximately 96.67% of EQAR funds were invested in G-Secs, certificates of deposit, and reverse repos, while about 99.83% of CAR funds were in liquid mutual funds.

Well-defined payment structure of PP-MLD and deployment of funds with the buffer of premium and undistributed return from the strategy / ring-fenced assets

The current structure followed by the group is to issue PP-MLD through NBFC route to investors. Each PP-MLD issuance is for specific strategy (currently EQAR and CAR). The proceeds from the issuance are secured against investments made by the company using such proceeds through ring fenced structure. PP-MLD carry interest rate which is linked to underlying investment strategy over the tenure of debentures. The investors will get full return if the returns are less than hurdle rate as defined; and in case of returns greater than hurdle rate, excess returns shall be divided between investors and NBFC as per agreed mechanism PP-MLDs are issued at premium (currently 18%) and income from strategy will get accrued every year. The quantum of the premium that will be returned to the investors is a function of the profit/loss generated by the underlying strategy. Any losses in the underlying strategy will be first set-off from undistributed profits from previous periods, the returns generated on the investments kept as margin money and the premium received on the proposed issuance of PP-MLDs with general recourse to other assets of AAFSPL. Interest to investors along with principal is paid at maturity while interest or fees are accruing to NBFC on an annual basis with no claw back provision. The PP-MLD has a quarterly put / call option and in case of sustained losses, the investors are likely to exercise put option and exit.

Experienced fund managers in capital markets with support from the parent
Naresh Kothari, who is the Executive Director at the AAFSPL, also serves as a director at the parent company, Alpha Alternative Holdings private limited (Alpha Holdings). He possesses over 25 years of experience in asset management, investment banking, equities, and institutional relations within the corporate sector in India. The EQAR strategy is managed by Prashant Mohanraj, a partner at Alpha Holdings. He has over 18 years' experience in capital markets, leads the equity business and oversees portfolio allocation and risk management at Alpha Holdings. The CAR strategy is managed Mudit Singhania, another partner at Alpha Holdings, having over 17 years of experience and insights into commodity markets. CARE Ratings Limited (CARE Ratings) believes that ongoing managerial support from the parent company, Alpha Holdings, will be crucial for the performance of the strategies. Also, the ability of the company to retain existing fund managers/partners and recruit new one's with sufficient experience in capital/commodity markets will remain a key monitorable.

Consistent positive track record of strategies deployed

The company has not incurred quarterly loss while running this strategy in any of the calendar months in last 12 months at NBFC level and in last 5 years at parent level. Till date, EQAR and CAR strategies have been deployed. EQAR strategy focusses on investing in equity strategies having low corelation to market. For the last 25 quarters ending June 2023, EQAR strategy has not earned any negative returns in any quarter. Minimum and maximum return earned in any quarter has been 0.1% and 10.3%, respectively. CAR strategy is focussed on investing in commodities strategies having low co-relation to the market movements. For the last 8 quarters ending June 2023, CAR strategy has not earned any negative returns in any quarter. Minimum and maximum return earned in any quarter has been 2.3% and 11.00%, respectively. Although there may be monthly negative returns in some positions, the strategy has consistently recovered these losses, yielding a net positive return in every quarter.

CARE Ratings expects that the consistent performance of strategies and thus stable increase in valuation of MLDs is vital for fulfilling repayment obligations towards investors in MLD and is therefore a key monitorable.

Adequate capitalisation with support from the parent

Considering the early scale of operations, capital position is adequate. Currently, the entity maintains adequate capitalisation, evidenced by a capital adequacy ratio of 21.32% as of March 2023 (compared with 29.86% in the previous year). Since the acquisition of the NBFC, the parent has injected approximately ₹150 crore into the entity. A recent infusion of ₹45 crore took place in FY23 and ₹103 crore in the preceding fiscal year. An additional ₹58.33 crore through CCPS was raised.The entity also raised subordinate debt of around ₹176 crore in FY24 as part of Tier-2 capital. With increase in MLD issuances and subsequently increase in assets, we expect entity to infuse capital based on similar trends of past infusions. Primarily, the debt is raised at the NBFC level, while the holding company is predominantly capitalised through its net worth. As a result, the gearing ratio at the parent level on a consolidated basis stands at 2.80x as of March 2023 (compared with 2.85x in the previous year). This favourable gearing ratio provides a cushion for the AAFSPL, as it allows for potential support from the parent company in the event of capital stress.

The ratings consider the steady capital infusion by the parent, Alpha Holdings, in the event the capital adequacy of the company approaches near regulatory requirement. Inability of the entity to raise capital through parent or externally to maintain regulatory requirement is a key rating sensitivity.

Key weaknesses

While the strategy has elements of hedging, the returns are generated through investing in capital markets which are inherently volatile
While strategies have been deployed at NBFC level since March 2022, the parent entity has an experience of dealing in various strategies including similar equity-based strategies since 2017. Though the deployed strategies have demonstrated stable and consistent performance so far, it is important to acknowledge the inherent market risk associated with these strategies. The returns achieved in the past may not necessarily continue in the future, as market conditions and dynamics can evolve over time. CARE Ratings believes that it is essential for the entity to maintain a significant reliance on non-directional/delta neutral strategies and employ adequate risk management practices to ensure the continuation of satisfactory performance.

Key man risk in terms of managing or adjusting the strategies
Loss or resignation of key person such as founder or experienced fund managers handling EQAR and CAR strategies can have negative impact on the business. However, key managerial person/fund manager are shareholders and partners in the organisation reducing key man risk. Fund manager looks after the overall portfolio level risk. In addition, all strategies have their individual heads and senior portfolio managers who look after the sub strategy and their own book, where the key man risk is diversified. There are around 10-25 people under each fund manager, which creates an ecosystem for new leadership.

Exposure to regulatory, IT and operational risk
Having robust IT systems are a must for effective risk management that enable companies in reducing transactional, compliance and operational risks. The operational risk can result from a variety of factors, including failure to obtain proper internal authorisations, improperly documented transactions, failure of information security procedures, computer systems, software, delay in placing orders fraud, inadequate training and employee errors. The fund managers largely look after risk management practices for their own strategies along with small team monitoring separately. A significant failure of security measures or operational procedures could have a material adverse effect on business and future financial performance.

As majority of trades are through algorithm, it is vital to have effective IT and risk management system in place. Current risk management practices are adequate as trading desk head who specialises in strategies manages the risk and does not participate in trading, but as the entity grows, CARE Ratings believes it is vital to have separate risk officer looking for overall risk management practices and have defined detailed risk policy.

Financial sector and capital market industry are highly regulated. The market regulator has been closely monitoring the sector and has come out with various new regulations at regular intervals. The players are further subjected to regular audits by the exchanges, SEBI and RBI. CARE Ratings believe that any adverse change in regulations or law concerning capital markets, NBFC or MLD, might impact credit profile of the entity.

Limited track of operating performance and high leverage at NBFC level

AAFSPL's track record of operating businesses at the NBFC level is limited. In FY 23, which marked the first full year of operations post issuance of MLDs, achieved a high Return on average total Assets (ROTA) of 3.40%. Considering the historical performance of the strategies deployed across market cycles at the parent level, as well as the expertise of fund managers with over a decade of experience in the capital market, CARE Ratings anticipates that the ROTA will sustain above 3.0% in the long run, with the possibility of an increase in operating expenses as part compensation structure to traders is also linked to performance of strategy and increase in asset base. The profitability of AAFSPL is contingent upon the performance of the deployed strategies. In case profit from strategies crosses above hurdle rate on annual basis, the profit accrues to NBFC with water mark provision and no claw back.

Consistent performance of strategies is the key to profitability, even for growth in the scale of operations and is therefore a key monitorable.

Adjusted net worth and gearing were ₹245.98 crore and 5.63x, respectively as of March 2023 as against ₹105.91 crore and 7.71x as of March 2022. The net worth in FY23 includes CCPS amounting to ₹58.33 crore subscribed by external investors. Overall debt to equity increased to 7.96x in June 2023 due to raising MLD and subordinate debt, and the same is yet to be fully utilised to earn income accruals. With increase in accruals and net worth, CARE Ratings expects the gearing to come down below 6x by FY25. However, as debt includes premium and accrued interest which is to be returned only in case there is profit from underlying strategy and only face value is protected, such structure provides additional buffer to AAFSPL in terms of leverage and capital requirement.

Liquidity: Adequate

The liquidity of the entity is supported by the fact that coupons for investors are accrued annually, and both the interest and principal are to be paid only upon maturity or on exercise of the put option. Moreover, the underlying investment strategies in equity and commodities markets are expected to exhibit a high level of liquidity, effectively mitigating any potential redemption pressure. As on March 31, 2023, the entity holds a cash and bank balance of ₹14.11 crore in addition to a balance of ₹7.46 crore with brokers. Cash and bank balance increased to ₹53.95 crore as on June 2023. The company's stated liquidity policy involves utilising G-sec and liquid funds as margin with brokers, while entities own net worth are majorly invested in liquid investments further reinforcing its liquidity management approach.

CARE Ratings expects that the bullet payment structure, combined with the liquidity of the underlying capital markets and underlying investments, comfortable asset liability (ALM) Position, ensures the adequacy of the entity's liquid position.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Market Linked Notes
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

Alpha Alternative Financial Services Private Limited (herein after referred as "AAFSPL") is a systematically important non-deposit-taking non-banking finance company (NBFC) that was acquired by Alpha Alternatives Holding Private Limited (referred to as "Alpha Holdings") in January 2019. Till May 2023, AAFSPL operated under the name of Provincial Financial and Leasing Co Private Limited. Currently, AAFSPL's primary focus is on the deployment of strategies which were once managed under structure of parent company, and it is not involved in lending or financial services activities. AAFSPL functions as a wholly-owned subsidiary of Alpha Holdings, which itself is owned 90.21% by the Naresh Kothari Family Trust. Alpha Holdings has been pioneer in using NBFC structure in raising PP-MLD, returns linked with underlying strategies.

Alpha Holdings is an asset management firm founded in 2013, creating and managing proprietary strategies among various asset classes like equity, debt, commodities, structured credit along with advisory business to provide investment solutions for the clients. Objective of the institution is to generate better risk adjusted returns for the investors. Alpha Holdings manages an asset under management (AUM) of around ₹5,298 crore (PY: ₹3,511 crore) as on March 2023 through PMS, AIF or NBFC route with more than 150 employees under its workforce. Under NBFC route, AAFSPL manages ₹1,623 crore (PY: ₹976 crore) distributed among EQAR and CAR strategies.

Brief Financials (₹ crore)	FY22(A)	FY23 (A)	Q1FY24 (U/A)*
Total income	1.85	281.19	143.03
PAT	0.04	43.82	36.05
Total assets	4.37	922.68	1655
ROTA (%)	0.01	3.40	6.58

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Ratios annualised

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%) *	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore) ^	Rating Assigned along with Rating Outlook
Principal protected - Market linked debentures (EQAR C)	INE0L6807039	19-Aug-2022	-	03-Sep-2025	90.80	CARE PP-MLD BBB; Stable
Principal protected-Market linked debentures (EQAR D)	INE0L6807054	18-Nov-2022	-	04-Dec-2025	207.00	CARE PP-MLD BBB; Stable
Proposed principal protected-Market linked debentures	-	-	-	-	702.20	CARE PP-MLD BBB; Stable

* Linked to performance of underlying strategy
^ Face Value

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities*	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Market linked debentures	LT	1000.00	CARE PP-MLD BBB; Stable				

*Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market linked debentures	Highly complex

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in