

October 03, 2019

## UC Inclusive Credit Pvt Ltd: Rating of [ICRA]BBB-(Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bank lines - unallocated	100.00	[ICRA]BBB- (Stable) / Assigned
<b>Total</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating considers Unitus Capital Private Limited's (UCAP) established presence in the Indian debt and equity markets with long standing relationships with various stakeholders in the financial services segment; UCAP is the group entity of UC Inclusive Credit Pvt Ltd (UCIC). UCIC is expected to leverage on UCAP' established relationships for near to medium term business expansion. Unitus Capital Founders - the 99.99% holding entity of Unitus Capital Private Limited, is also the holding company of Unitus Capital Mauritius which in turn holds majority stake in UCIC. The rating also factors in the company's current comfortable capital structure of UCIC with leverage at 0.5x as on August 31, 2019 (unaudited) and the management's stated intent of capping gearing at 4.0x going forward. However, given its target of achieving a portfolio of about Rs.2,500 crore over the next four-five years, ICRA notes that the company's ability to raise timely and adequate equity would be crucial going forward.

Having commenced lending operations in February 2018, UCIC's current scale of operations remains small with portfolio of Rs.92.1 crore as on August 31, 2019. Accordingly, in line with the nascent stage of its operations, the company's portfolio has witnessed limited seasoning given the sizeable disbursements during Q4 FY2019 and 5M FY2020 (97.3% of the total disbursements till August 2019). ICRA notes that the company's ability to maintain effective control over asset quality would be crucial from an incremental credit costs and profitability perspective. The company's internal control and risk management practices are sufficient for the current scale of its operations. However, given the aggressive growth plans, the company would have to strengthen its monitoring systems and enhance management bandwidth. Going forward, UCIC's ability to achieve healthy risk adjusted profitability and capital structure and maintain adequate liquidity profile as the debt levels increase, would be a key monitorable.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company would achieve good quality portfolio growth while maintaining comfortable leverage and liquidity levels and improve its earnings profile.

### Credit strengths

**Leveraging on Unitus Capital's established relationships:** UC Inclusive Credit Private Limited was incubated by Unitus Capital Founders which is also the holding entity for Unitus Capital Private Limited – an investment banking company providing financial advisory and consulting services in the Indian equity/debt markets with strong presence in the financial services space. The Managing Director and the Head of Operations of UCIC have been associated with Unitus Capital Private Limited for over a decade, who along with the Chairman- Mr. Narayan Ramachandran have established relationships with various stakeholders. ICRA expects the company to benefit from the established relationships enjoyed by its senior management and UCAP across lenders, corporates, advisors and the overall investor community.

**Conservative expected capital structure:** The company's capital structure remains comfortable at 0.5x as on August 31, 2019. This has been supported by moderate growth over the last two years and capital raise to the extent of Rs.61.7 crore over the period Aug-16 to July 2019 (across three rounds August 2016, March 2019 and June/July 2019). In line with the growth target of reaching portfolio of Rs.2,500 crore over the next four-five years, the company would have to raise capital at regular intervals. Assuming internal generation of 9-11%, the company would have to raise about Rs.500.0 crore of equity to maintain gearing at <4.0x. The company's ability to raise timely and adequate equity would be crucial.

## Credit challenges

**Limited track record of operations; small scale:** Incorporated in June 2016 and after receiving NBFC license from RBI in August 2017, the company commenced its lending operations in February 2018. With portfolio of Rs.92.1 crore as on August 31, 2019, UCIC's scale of operations remains small and skewed towards financial services segment which accounts for about 90% of its portfolio as on August 31, 2019. Over the next four-five years, the company has outlined aggressive growth plans and expects to achieve AUM of Rs.2,500 crore. However, given the current high dependence on the key management personnel for credit underwriting, its ability to strengthen its management team to support envisaged growth, recruit and train employees at various levels and retain them over the medium term would be crucial from a business growth perspective.

**Low portfolio seasoning:** Given its nascent stage of lending operations, the company's portfolio has witnessed limited seasoning. At present, UCIC's asset quality is good with zero delinquencies; however, with sizeable disbursements during Q4 FY2019 and 5M FY2020 against loan tenors of 12-60 months, the portfolio is yet to season. ICRA however notes that as a measure of protecting its credit costs, the company is in discussions with global institutions for securing credit guarantees for exposures in certain sectors which would provide some cushion. However, given the average ticket size of about Rs.3.0 crore against net worth of around Rs.64.4 crore as of August 2019, and the consequent credit concentration, the company's ability to maintain good asset quality would be crucial going forward.

**Internal control and monitoring systems yet to stabilize:** The company's current internal control and risk management practices are adequate for the current scale of its operations. However, given the aggressive growth plans, ICRA notes that the company would have to strengthen its monitoring systems. UCIC is in the process of augmenting its information technology systems and an internal audit mechanism which would enhance the overall controls and management information systems.

**Ability to achieve risk adjusted profitability:** During the last two years, UCIC's profitability has been supported by lower employee and set up costs with incubation costs being borne by Unitus Capital Founders. For FY2019, the company reported net profit of Rs.0.1 crore on portfolio of Rs.51.3 crore as on March 31, 2019. As per unaudited results, for 5M FY2020, UCIC reported net profit of Rs.1.5 crore on advances of Rs.92.1 crore as on August 31, 2019. While the enhanced scale of business and growth in income would absorb the operating expenses, ICRA notes that the company's ability to achieve risk-adjusted profitability by maintaining good operational efficiency and asset quality would be important given the pressure on yields and higher interest outflow with increase in gearing.

## Liquidity position: Adequate

UCIC's asset liability maturity profile is reasonably well matched with advances having average tenor of 28 months while its borrowings have average maturity of 31 months. The leverage is also low at 0.5x as on August 31, 2019 (as per unaudited financials). Consequently, as on June 30, 2019, the company reported positive cumulative mismatches across buckets up to 5 years providing comfort on liquidity profile. Nevertheless, ICRA notes that the company would have to enhance its resource profile to support its growth and long term liquidity. As on August 31, 2019, the company had cash and liquid investment balances of about Rs.10.0 crore and undrawn sanction of Rs.2.0 crore.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade UCIC’s rating if the company demonstrates a steady business scale up while maintaining a comfortable capital structure with gearing consistently below 4x, good asset quality with NPA at less than 0.5% on a sustained basis and maintaining achieve healthy liquidity and earnings profile on a sustained basis.

**Negative triggers** – Pressure on UCIC’s rating could arise if there is a material deterioration in asset quality with NPA >2.5% or if leverage exceeds 5x or if there is a sizeable weakening in the liquidity and earnings profile.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Non-Banking Finance Companies</a>
Parent/Group Support	NA
Consolidation/Standalone	Standalone

## About the company

UC Inclusive Credit Private Limited (UCIC), incorporated in June 2016 is a non-deposit taking Non-Banking Financial Company registered with the RBI and is engaged in extending wholesale / corporate lending. The company lends to entities in impact focused sectors such as agriculture, education, financial inclusion, healthcare, renewable energy and women empowerment. UCIC offers term loans, line of credit, non-convertible debentures (NCD), securitized instruments and subordinated debt (loan / NCD) with ticket sizes up to Rs.5.0 crore. As on August 31, 2019, the company’s portfolio stood at Rs.92.1 crore.

UCIC was incubated by Unitus Capital Founders which is also the 99.99% holding entity of Unitus Capital Private Limited (UCPL) – an investment banking entity focused operating in Indian debt and equity markets.

## Key financial indicators

	FY 2018	FY 2019	5M FY2020 (Prov)
Total Income (Rs. Crore)	0.2	1.3	5.0
Profit after Tax (Rs. Crore)	0.1	0.1	1.5
Net Worth (Rs. Crore)	2.3	36.4	64.4
Total Managed Portfolio (Rs. Crore)	1.0	51.3	92.1
Total Managed Assets (Rs. Crore)	2.3	55.0	103.9
Return on Managed Assets (%)	2.5%	0.3%	4.6%
Return on Net Worth (%)	2.5%	0.5%	7.3%
Gearing (times)	0.0	0.5	0.5
Gross NPA (%)	0.0%	0.0%	0.0%
Net NPA (%)	0.0%	0.0%	0.0%

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					03-Oct-19				
1	Bank lines – unallocated	Long Term	100.0	-	[ICRA]BBB- (Stable)	NA	NA	NA	NA

Amount in Rs. crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank lines - unallocated	NA	NA	NA	100.00	[ICRA]BBB- (Stable)

Source: UCIC

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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