November 10, 2021

UC Inclusive Credit Pvt Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Facilities	100.00	100.00	[ICRA]BBB-(Stable); reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in UC Inclusive Credit Private Limited's (UCIC) experienced senior management team and its present low leverage. UCIC is part of the Unitus Capital Group. Unitus Capital Private Limited (UCAP), a group company of UCIC, has an established presence in the Indian debt and equity markets with long-standing relationships with various stakeholders in the financial services segment. UCIC is expected to leverage UCAP's established relationships for its near-to medium-term business expansion.

UCIC is engaged in the wholesale/corporate lending business and provides loans to entities in sectors such as agriculture, education, financial inclusion, healthcare, clean tech and women empowerment. The company currently has a comfortable capital profile characterised by a gearing of 1.8x (provisional) as on June 30, 2021. However, given its envisaged growth plans at a CAGR of ~50% over the period of FY2021-2023, the company would have to secure external capital to keep its gearing under control going forward.

The rating remains constrained by UCIC's moderate scale of operations and concentrated nature of its loan book. While the overall portfolio grew by ~30% in FY2021, the scale of operations remains moderate with assets under management (AUM) of Rs.189 crore as on March 31, 2021. The AUM declined to Rs.165 crore in June 2021 on account of reduced disbursements because of the second wave of Covid 19 pandemic; the AUM improved in Q2 FY2022 and stood at Rs.199 crore as on September 30, 2021.

Further, the portfolio is primarily concentrated towards the financial services segment, which accounted for 81% of the overall book as on September 30, 2021 financial services segment contributed to 90% of the overall portfolio as on March 30, 2020). The top 10 exposures accounted for about 32% of the loan book as on September 30, 2021 (40.8% of the loan book as on June 30, 2020). UCIC's asset quality has been impacted in Q4 FY2021/Q1 FY2022 on account of a few overdues; PAR 0 stood at 3.7% in January 2021 which increased to 6.7% in June 2021 and stood at 5.3% as of September 2021. PAR 90 stood at 4.0% as of September 2021. The pressure on the asset quality in FY2021 impacted the company's pre-tax return on average managed assets (RoMA), which moderated to 1.6% from 4.8% in FY2020; the pre-tax RoMA stood at 5.1% (provisional) in Q1 FY2022. Going forward, the company's ability to maintain the asset quality and keep the credit costs under control will be key rating monitorables.

Key rating drivers and their description

Credit strengths

Experienced management team; access to Unitus Capital's established relationships: UCIC's senior management team has adequate experience in the banking and financial services sector and has established relationships with various stakeholders. The company has recently promoted the Co-founder and Head of Business (Mr. Deepak Srinivas) as the Chief Business Officer and the Head of Risk, Compliance and Monitoring (Mr. Shrihari Kulkarni) has been promoted as Chief Risk Officer. The company's Managing Director and Chief Business Officer have been associated with Unitus Capital Private Limited (UCAP) for over a decade. They, along with the chairman – Mr. Narayan Ramachandran – have established relationships with various stakeholders in the financial services space. ICRA notes that the company has expanded its board and currently has a four-member board of directors and a board observer representing one of the equity investor.

UCIC was incubated by Unitus Capital Founders (also the holding company of UCAP) and can leverage the Group's relationships for business growth. However, it is less likely to get any liquidity or capital support from the Group going forward.

Low leverage at present: The company's capital structure is comfortable and is characterised by a low gearing of 1.8x as on June 30, 2021 (1.3x as on June 30, 2020). The gearing stood at about 2x as of September 2021. Given the envisaged growth plans with advances reaching about Rs.500 crore by March 2023, a timely infusion of capital would be required to maintain a comfortable capital structure. ICRA expects UCIC to raise equity capital in Q4 FY2022/H1 FY2023. The leverage is expected to be capped at around 3.5-4.0x in the medium term.

Credit challenges:

Moderate scale and concentrated exposure to entities with modest risk profiles: UCIC was incorporated in June 2016. After receiving a non-banking financial company (NBFC) licence from the Reserve Bank of India (RBI) in August 2017, UCIC commenced its lending operations in February 2018. The company's portfolio increased and stood at Rs. 189 crore as on March 31, 2021 compared to Rs. 146 crore as on March 31, 2020. However, disbursements were impacted in Q1 FY2022 on account of the second wave of the pandemic, leading to a decline in the loan portfolio to about Rs.165 crore as on June 30, 2021. Driven by a steady increase in disbursements in Q2 FY2022, the portfolio increased to Rs. 199 crore as on September 30, 2021. The portfolio is expected to scale up to about Rs. 300-350 crore by March 2022 and about Rs. 500 crore by March 2023.

UCIC's internal control and risk management practices are currently evolving as it is in the process of implementing the required systems and processes in view of the envisaged business scale-up. The company is expected to implement its loan origination and loan management systems by FY2022. At present, the company has a total team strength of 18 full-time members, including the senior management, and is likely to expand with the business scale-up.

Asset quality affected on account of a few overdues: UCIC had nil delinquencies till Q3 FY2021. In January 2021, one of its exposure (2.8% of the AUM in September 2021) in the microfinance sector defaulted on its payments and became a non-performing asset (overdue for more than 180 days) in July 2021. Three more accounts turned delinquent in Q1 FY2022 (2.5% of the AUM in September 2021) of which one account (about 1.2% of the AUM as of September 2021) was in the 90-180 bucket. The overall PAR 90 stood at about 4% as of September 2021. The gross NPA (on 180+ days past due) stood at 2.8% as of September 2021. ICRA notes that the GNPA as of September 2021 was higher than the stipulated negative rating trigger. The company has augmented its overall provisions during FY2021 in view of the build-up in overdues; the overall provisions stood at 2.3% of the AUM in March 2021 vis-a-vis 0.8% in March 2020

ICRA notes that UCIC has been cautious in its disbursements in Q1 FY2022 given the pandemic and has been reducing its exposure to companies in the microfinance sector. UCIC is exposed to borrowers with modest credit profiles as it predominantly lends to small-and mid-sized NBFCs, NBFC-MFIs and corporates. It currently has exposure to more than 65 entities.

Exposure to the financial services sector accounted for about 81% of its portfolio as on September 30, 2021 (down from 87% as of September 2020). ICRA notes that the company's exposure to the financial sector shall be significant in the near term. About 64% of UCIC's loan portfolio comprises entities that do not have a credit rating. Considering the wholesale nature of its exposure to NBFCs and corporates, the portfolio is quite concentrated with the top 10 entities accounting for about 32% of the AUM as on September 30, 2020. The ability to profitably scale up its balance sheet while maintaining a tight control over the asset quality would be key from a rating perspective.

Increase in credit costs and provisions impacted profitability in FY2021 The pressure on the asset quality in FY2021 impacted the company's pre-tax return on average managed assets (RoMA), which moderated to 1.6% from 4.8% in FY2020; the pre-tax RoMA stood at 5.1% (provisional) for Q1 FY2022. The portfolio delinquencies led to higher provision & credit cost of 1.7% in FY2021 vis-a-vis 0.9% in FY2020. Going forward, UCIC's ability to keep credit costs under control would be crucial for incremental profitability.

Liquidity position: Adequate

As on October 01, 2021, UCIC had cash and liquid investments of about Rs. 30.2 crore. The company's total debt obligations during October 2021 to March 2022 (including interest) is Rs. 41.6 crore. The liquidity profile is adequate considering the on-balance sheet liquidity and average monthly collections of about Rs. 17 crore. UCIC's borrowing profile comprises a mix of loans from banks and financial institutions. Borrowings from banks stood at 49.2% as of August 2021 compared to 40.9% as of March 2020. The share of borrowings from other financial institutions stood at 51% of the total outstanding borrowings as of August 2021. The weighted average cost on outstanding borrowings stood at ~11% as of August 2021.

Rating sensitivities

Positive factors – ICRA could upgrade or revise the outlook to Positive if UCIC demonstrates a steady business scale-up while keeping its gross non-performing assets (GNPAs) under 0.5%. Diversification in its lender profile and a sustained good earnings performance would also be crucial for a positive rating action.

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

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
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, lines of credit, and subordinated debt with ticket sizes up to Rs. 10.0 crore. The company's portfolio stood at Rs. 199 crore as on September 30, 2021, and at Rs. 189.0 crore as on March 31, 2021. UCIC was incubated by Unitus Capital Founders(UCF). UCF also held 99.99% holding entity in Unitus Capital Private Limited (UCAP) – an investment banking entity focused on operating in the Indian debt and equity markets.

Key financial indicators (audited)

	FY2020	FY FY2021	Q1 FY2022(P)
Total Income (Rs. crore)	16.2	23.6	7.4
Profit after Tax (Rs. crore)	4.0	2.3	2.0
Net Worth (Rs. crore)	66.9	69.2	71.2
Total Managed Portfolio (Rs. crore)	145.8	189.0	164.7
Total Managed Assets (Rs. crore)	170.8	200.9	204.2
Return on Managed Assets (%)	3.5%	1.3%	3.9%
Return on Net Worth (%)	7.7%	3.4%	11.1%
Gearing (times)	1.5	1.7	1.8
Gross NPA (%) (180+ days past due basis)	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 (FY2022)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020	FY2019
					Nov-10-2021	Nov-09-2020	Oct-03-2019	NA
1	Bank Facilities	LT	100.0	100.0	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank Facilities	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Bank Facilities	15-Feb-19 to 26-Oct-21	9.55% to 12.75%	25-Dec-21 to 27-Apr-24	42.61	[ICRA]BBB- (Stable)
-	Bank Facilities - Unallocated	-	-	-	57.39	[ICRA]BBB- (Stable)

Source: *Company*

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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