

October 14, 2022

UC Inclusive Credit Pvt Ltd: Long-term rating upgraded to [ICRA]BBB (Stable)/ [ICRA]A3+ assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	100.00	0.0	-
Bank facilities – Long term/Short term (fund based – Others)	0.0	100.0	Upgraded to [ICRA]BBB (Stable) from [ICRA]BBB- (Stable)/ [ICRA]A3+ assigned
Total	100.00	100.00	

*Instrument details are provided in Annexure I

Rationale

The rating action takes into consideration the scaling up of UC Inclusive Credit Pvt Ltd's (UCIC) operations, with its loan portfolio growing to Rs. 317.6 crore as of June 2022 from Rs. 189.0 crore as of March 2021. The growth is expected to continue in the medium term with the loan portfolio growing at a compound annual growth rate (CAGR) of ~50% during FY2023 and FY2025. The rating action also factors in the stable asset quality maintained by UCIC, with incremental slippages under control, and recoveries from some of the overdue accounts keeping its non-performing advances (NPAs) at healthy levels. As of June 2022, UCIC's 0+ as well as 90+ days past due (dpd) delinquencies stood at 0.35%.

The ratings also factor in UCIC's experienced senior management team and adequate capitalisation profile, supported by a gearing of 2.7x (provisional) as on June 30, 2022. However, given its envisaged growth plans at a CAGR of ~50% during FY2023-2025, the company would have to secure external capital to keep its gearing under control, going forward. The ratings remain constrained by UCIC's concentrated exposure to entities with modest risk profiles. While 73.4% of UCIC's loan portfolio comprised unrated exposures, the balance included investment grade category exposures of 18.0% and non-investment grade category exposures of 8.6%. Further, considering the wholesale nature of its exposure to non-banking financial companies (NBFCs) and corporates, the portfolio is quite concentrated with the top 10 entities accounting for about 25% of the assets under management (AUM) as on June 30, 2022.

ICRA also notes that the portfolio is primarily concentrated towards the financial services segment, which accounted for 70.8% of the overall book as on June 30, 2022 vis-à-vis 82.9% as on March 31, 2021. Going forward, the company's ability to continue reducing the concentration of the top exposures and maintaining its asset quality performance at healthy levels, as it scales up its loan portfolio, would be key from a rating perspective.

Key rating drivers and their description

Credit strengths

Experienced management team; access to UCAP'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 is currently managed by Mr. Abhijit Ray (co-founder), who serves as the Managing Director, and Mr. Shrihari Kulkarni, who is the Chief Risk Officer. Mr. Ray has nearly 29 years of experience in development finance, commercial banking, microfinance and investment banking. Mr. Kulkarni has more than 30 years of experience in varied sectors such as development banking, equity investments, and corporate finance in social impact sectors. Mr. Ray has been associated with

Unitus Capital Private Limited (UCAP) for over a decade. ICRA notes that the company has a four-member board of directors and a board observer representing one of the equity investors. UCIC was incubated by Unitus Capital Founders (also the holding company of UCAP) and can leverage the Group's relationships for business growth.

Adequate capitalisation profile supported by moderate gearing – The company's capital structure is adequate, with a gearing of 2.7x as on June 30, 2022 (3.3x as on March 31, 2022 and 1.7x as on March 31, 2021) and a capital-to-risk weighted assets ratio (CRAR) of 31.5% as on June 30, 2022 (26.5% as on March 31, 2022 and 39.4% as on March 31, 2021). Given the envisaged growth plans, with at a CAGR of ~50% during FY2023-2025, timely capital infusion would be required to maintain a comfortable capital structure. ICRA expects UCIC to raise equity capital on a timely basis to keep its leverage at 3.5-4.0x in the medium term.

Credit challenges

Moderate scale, notwithstanding recent growth; concentrated exposure to entities with modest risk profiles – UCIC was incorporated in June 2016. After receiving an NBFC licence from the Reserve Bank of India (RBI) in August 2017, it commenced its lending operations in February 2018. The company's portfolio increased and stood at Rs. 317.60 crore as on June 30, 2022 compared to Rs. 188.9 crore as on March 31, 2021. While unrated exposures account for 73.4% of UCIC's loan portfolio, exposures in the investment grade and non-investment grade categories account for 18.0% and 8.6%, respectively. Further, considering the wholesale nature of its exposure to NBFCs and corporates, the portfolio is quite concentrated with the top 10 entities accounting for about 25% of the AUM as on June 30, 2022. The ability to scale up its balance sheet profitably while maintaining a tight control over the asset quality and exposure concentration would be key from a rating perspective.

Subdued profitability in FY2022; expected to improve, going forward – UCIC's net profitability remained modest at 1.2% in FY2022 (1.3% in FY2021) vis-à-vis 3.5% in FY2020, given its lower net interest margins at 5.2% in FY2022 (6.1% in FY2021) vis-à-vis 9.0% in FY2020. The operating expenses improved moderately to 2.9% in FY2022 (3.0% in FY2021) from 3.3% in FY2020 as the portfolio scaled up. However, the profitability was supported to an extent by the comfortable credit & provision costs of 0.8% in FY2022 (1.7% in FY2021) vis-à-vis 0.9% in FY2020. Going forward, UCIC's ability to improve its interest margins, while keeping the operating expenses and credit costs under control amidst the portfolio growth expectations, would be a key monitorable.

Liquidity position: Adequate

As on July 31, 2022, UCIC had cash and liquid investments of about Rs. 27 crore. The company's total debt obligations and operating expenses during August 2022 to January 2023 (including interest) is Rs. 69.58 crore. The liquidity profile is adequate considering the on-balance sheet liquidity and average monthly collections of about Rs. 20 crore. UCIC's borrowing profile comprises a mix of loans from banks, development financial institutions and NBFC's. Borrowings from banks stood at 34.2% as of June 2022 compared to 34.6% as of March 2021. The share of borrowings from development financial institutions and NBFC's stood at 17.6% and 48.2% respectively of the total outstanding borrowings as of June 2022. The weighted average cost on outstanding borrowings stood at 11.5% as of August 2022.

Rating sensitivities

Positive factors – ICRA could upgrade or revise the outlook to Positive if UCIC demonstrates a steady scale-up in its business, while keeping its delinquencies under control, an improvement in its profitability indicators and an adequate capitalisation profile.

Negative factors – Pressure on UCIC's ratings could arise if there is a material deterioration in the asset quality with gross NPAs (GNPAs)>2.5% or if the leverage exceeds 4x on a sustained basis. Weakening in the liquidity and earnings profile could also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for NBFCs
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

UC Inclusive Credit Pvt Ltd (UCIC), incorporated in June 2016, is a non-deposit taking non-banking financial company registered with the RBI. It provides 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. 317.60 crore as on June 30, 2022 and Rs. 305.19 crore as on March 31, 2022. UCIC was incubated by Unitus Capital Founders (UCF). UCF also has 99.99% equity in Unitus Capital Private Limited (UCAP), which is an investment banking entity focused on operating in the Indian debt and equity markets.

Key financial indicators (audited)

UCIC	FY2020	FY2021	FY2022
Total income	16.2	23.6	32.5
Profit after tax	4.0	2.35	3.31
Net worth	66.9	69.21	77.70
Loan book	145.8	189.0	305.2
Total assets	170.8	200.9	338.2
Return on assets	3.5%	1.3%	1.2%
Return on net worth	7.7%	3.5%	4.5%
Gearing (times)	1.5	1.73	3.26
Gross NPA	0.0%	0.0%	0.0%
Net NPA	0.0%	0.0%	0.0%
CRAR	44.9	39.44%	26.52%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Oct 14, 2022	Nov 10, 2021	Nov 09, 2020	Oct 03, 2019
1 Bank facilities	Long term	-	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2 Bank facilities – Long term/Short term (fund based – Others)	Long term/Short term	100.0	100.0	[ICRA]BBB(Stable) / [ICRA]A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities – Long term/Short term (fund based – Others)	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: www.icra.in

Annexure I: Instrument details

Banker Name	Instrument Name	Date of Issuance/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	16.44	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	8.13	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	21.65	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	6.01	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	25.33	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	7.50	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	5.00	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	0.45	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	0.00	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Bank facilities – Long term/Short term (fund based – Others)	NA	NA	NA	0.83	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Unallocated	NA	NA	NA	8.67	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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.

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