March 27, 2023

UC Inclusive Credit Pvt Ltd : Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term/Short term (fund based- Others)	100.0	0.0	-
Bank Facilities- Long Term	0	244.17	[ICRA]BBB (Stable); re-affirmed/assigned
Bank Facilities- Short Term	0	5.83	[ICRA]A3+; reaffirmed/assigned
Total	**100.0**	**250.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in the improving trend in UC Inclusive Credit Pvt Ltd's (UCIC)'s earning profile as it reported a net profit of Rs. 6.3 crore in 9MFY2023 translating to a return on average managed assets (RoMA) of 2.2% (annualized) as compared to RoMA of 1.2% as of March 2022 and 1.3% as of March 2021. The profitability was supported by moderation in credit costs as well as improvement in operating efficiencies. 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 December 2022, the company had nil delinquencies in its portfolio. The sustainability of the earnings performance, as the portfolio expands, while maintaining a good asset quality would be a key rating monitorable. The company's loan portfolio stood at Rs. 384.4 crore as of December 2022 and Rs. 408.0 crore as of February 2023 as compared to Rs. 317.6 crore as of June 2022 and Rs. 189.0 crore as of March 2021. The growth is expected to continue in the medium term with the loan portfolio increasing at a compound annual growth rate (CAGR) of ~50% during FY2023- FY2025.

The ratings also factor in UCIC's experienced senior management team and adequate capitalisation profile, supported by a managed gearing of 3.0x (provisional) as on December 31, 2022. However, given its envisaged plans of growing the portfolio at a CAGR of ~50% during FY2023-FY2025, 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. As of December 2022, 78.1% of the loan portfolio comprised unrated exposures while the balance included investment grade category exposures of 14.6% and non-investment grade category exposures of 7.3%. 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 20.2% of the assets under management (AUM) as on December 31, 2022.

ICRA also notes that the share of the financial services companies stood at 62.9% of the overall book as of December 2022, as compared to 70.8% as on June 30, 2022 and 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 30 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: The company's capital structure is adequate, with a managed gearing of 3.0x as on December 31, 2022 (3.2x as on March 31, 2022 and 1.7x as on March 31, 2021) and a capital-to-risk weighted assets ratio (CRAR) of 27.5% as on December 31, 2022 (26.5% as on March 31, 2022 and 39.4% as on March 31, 2021). Given the envisaged plans of increasing the portfolio at a CAGR of ~50% during FY2023-FY2025, 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.

Profitability improved in 9M FY2023 following subdued performance in previous two fiscals: UCIC's net profitability improved in 9M FY2023 and stood at 2.2% compared to 1.2% in FY2022 (1.3% in FY2021). The improvement in was driven by moderation in the credit costs as the company reported nil delinquencies in its portfolio as of December 2022. While net interest margins reduced to 5.4% in 9M FY2023 (annualised) from 9.0% in FY2020, operating expenses improved moderately to 2.5% in 9MFY2023 (annualised) (2.9% in FY2022 and 3.0% in FY2021) as the portfolio scaled up. Going forward, UCIC's ability to improve its net interest margins, while keeping the operating expenses and credit costs under control amidst the portfolio growth expectations, would be a key monitorable.

Credit challenges

Moderate scale, notwithstanding recent growth- 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. Supported by higher disbursements in FY 2022 and 9M FY2023, the company's portfolio increased and stood at Rs. 305.2 crore as of March 2022 and Rs. 384.4 crore as on December 2022 as compared to Rs. 189.0 crore as of March 2021 and Rs. 145.8 crore as of March 2020. The loan portfolio stood at Rs. 408.0 crore as of February 2023. Given the lower base, the management will be comfortable with at a CAGR of ~50% during FY2023-FY2025. The company has been enhancing its senior management team by hiring resources for key positions. Its ability to strengthen its management team further to support the envisaged growth, recruit and train employees at various levels and retain them over the medium term would be crucial from a business growth perspective.

Concentrated exposure to entities with modest risk profiles: UCIC is exposed to borrowers with modest credit profiles as it predominantly lends to small-and mid-sized NBFCs, microfinance institutions (NBFC MFIs) and corporates. As of December 2022, 78.1% of UCIC's loan portfolio comprised unrated exposures while the balance included investment grade category exposures of 14.6% and non-investment grade category exposures of 7.3%. 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 20.2% of the AUM as on December 31, 2022. The company's 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.

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Liquidity position: Adequate

As on December 31, 2022, UCIC had cash of Rs. 26.57 crore. Its' total debt obligations between January 2023 and June 2023 is Rs. 86.4 crore. The liquidity profile is adequate considering the on-balance sheet liquidity and monthly collections. As per the Asset Liability Maturity profile on December 31, 2022, UCIC has positive cumulative mismatches across all buckets. UCIC's borrowing profile comprises a mix of loans from banks, development financial institutions and NBFC's. Borrowings from banks stood at 31.6% as of January 2023 compared to 65.4% as of March 2021. The share of borrowings from development financial institutions and NBFC's stood at 68.4% of the total outstanding borrowings as of January 2023.

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. The company lends to entities in impact-focused sectors such as agriculture, education, financial inclusion, healthcare, renewable energy, water, sanitation and women empowerment. UCIC offers term loans and lines of credit with ticket sizes up to Rs. 10.0 crore. The company's portfolio stood at Rs. 384.3 crore as on December 31, 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 equity and debt markets.

Key financial indicators (audited)

UCIC	FY2020	FY2021	FY2022	9M FY2023
Total income	16.2	23.6	32.5	39.0
Profit after tax	4.0	2.3	3.3	6.3
Net worth	66.9	69.2	77.7	102.0
Loan book	145.8	189.0	305.2	384.4
Total assets	170.8	200.9	338.2	435.4
Return on assets	3.5%	1.3%	1.2%	2.2%
Return on net worth	7.7%	3.4%	4.5%	9.4%
Managed Gearing (times)	1.5	1.7	3.2	3.0
Gross NPA	0.0%	0.0%	0.0%	0.0%
Net NPA	0.0%	0.0%	0.0%	0.0%

UCIC	FY2020	FY2021	FY2022	9M FY2023
CRAR	44.92%	39.44%	26.52%	27.47%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					March 27, 2023	Oct 14, 2022	Nov 10, 2021	Nov 09, 2020	Oct 03, 2019
1	Bank Facilities- Long Term	Long term	244.17	244.17	[ICRA]BBB(Stable)	-	-	-	-
2	Bank Facilities- Short Term	Short term	5.83	5.83	[ICRA]A3+	-	-	-	-
3	Bank facilities	Long term	-	-	-	-	[ICRA]BBB -(Stable)	[ICRA]BBB -(Stable)	[ICRA]BBB -(Stable)
4	Bank facilities – Long term/Short term (fund based – Others)	Long term/Short term	-	-	-	[ICRA]BBB(Stable)/[ICRA]A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities – Long term	Simple
Bank facilities – short term	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

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	NA	NA	NA	20.92	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	14.58	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	16.54	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	4.58	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	28.94	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	6.25	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	14.92	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	10.00	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	5.00	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	5.00	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term	NA	NA	NA	10.00	[ICRA]BBB(Stable)
NA	Bank Facilities- Long Term (Unallocated)	NA	NA	NA	107.44	[ICRA]BBB(Stable)
NA	Bank Facilities-Short Term	NA	NA	NA	0.83	[ICRA]A3+
NA	Bank Facilities-Short Term (Unallocated)	NA	NA	NA	5.00	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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.

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