February 20, 2024

UC Inclusive Credit Pvt Ltd: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term (fund based – Others)	244.17	244.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Bank facilities – Short term (fund based – Others)	5.83	6.00	[ICRA]A2; upgraded from [ICRA]A3+
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in UC Inclusive Credit Pvt Ltd's (UCIC) strengthened capitalisation profile as well as the steady improvement in its earnings profile over the past two years. The company has scaled up its loan portfolio[1] steadily, reaching Rs. 627.5 crore as of December 2023 (Rs. 510.2 crore as of March 2023), and raised about Rs. 73 crore of capital in November 2023 from existing and new investors. This is expected to support the envisaged growth in the near term. Following the capital infusion, UCIC's managed gearing improved to 2.8x as of December 2023 from 4.2x as of March 2023; similarly, the capital-to-risk weighted assets ratio (CRAR) improved to 32.35% as of December 2023 from 22.47% as of March 2023. The company's earnings has improved steadily, with its net profitability[2] at 2.7% (provisional; annualised) in 9M FY2024 and 1.8% in FY2023, supported by better operational efficiency and controlled credit costs as it steadily scaled up its operations. UCIC had nil gross non-performing assets (GNPAs) and net NPAs (NNPAs) as of December 2023. However, it faced some softer bucket delinquencies with the 0+ days past due (dpd) and 30+ dpd at 1.9% and 1.0%, respectively, as of December 2023.

The ratings remain constrained by UCIC's moderate scale and the concentrated exposures to entities with modest risk profiles, though the same has been on a reducing trend over the years. The top 10 entities accounted for 14.0% of the loan portfolio as on September 30, 2023. Further, about 85% of the portfolio comprised unrated/non-investment grade exposures. The share of the financial services sector in the assets under management (AUM) has been declining over the years, though it still accounts for a major portion at 53.1% of the portfolio as of December 2023 (62.9% as of December 2022).

The Stable outlook on the rating reflects ICRA's expectation that UCIC will maintain an adequate earnings and capital profile over the near-to-medium term as it scales up its loan portfolio.

Key rating drivers and their description

Credit strengths

Track record; access to UCAP's established relationships – UCIC received its non-banking financial company (NBFC) licence from the Reserve Bank of India (RBI) in August 2017 and commenced its lending operations in February 2018. The company focuses on wholesale lending, especially impact sectors. It has built up its portfolio steadily over the last six years, supported by prudent underwriting and risk filters. 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 a team of 32 personnel led by

[1] *Loan portfolio includes assigned portfolio of Rs. 7.1 crore as of December 2023*

[2] *Profit after tax as a percentage of its average managed assets; PAT/AMA*

Mr Abhijit Ray (Managing Director, UCIC), who has almost three decades of experience in development finance, commercial banking, microfinance and investment banking. Mr. Ray has been associated with Unitus Capital Private Limited (UCAP) for over a decade. ICRA notes that the company has a five-member board of directors and one board observer representing one of the equity investors; the company is in the process of onboarding a nominee director and a board observer representing the new investor. UCIC was incubated by Unitus Capital Founders (UCF; also UCAP's holding company) and it leverages the Group's relationships for its business growth.

Strengthened capitalisation profile, supported by recent equity infusion – UCIC raised about Rs. 73 crore of capital in November 2023 (including Rs. 65-crore equity infusion from a new investor), strengthening its capitalisation profile. Following this, its CRAR improved to 32.35% as of December 2023 (22.5% as on March 31, 2023 and 26.5% as on March 31, 2022) and the managed gearing declined to 2.8x (4.2x as on March 31, 2023 and 3.2x as on March 31, 2022). Given the envisaged plans of increasing the portfolio at a compound annual growth rate (CAGR) of ~50% during FY2024-FY2026, incremental capital infusion would be required to maintain an adequate capital structure. ICRA expects UCIC to raise equity capital on a timely basis to keep its managed gearing below 4.5x over the medium term.

Adequate earnings profile – UCIC's net profitability has improved steadily over the past two years, with PAT/AMA at 2.7% (provisional; annualised) in 9M FY2024 and 1.8% in FY2023 compared to 1.2% in FY2022. This was driven by the lower operating expenses (1.7% in 9M FY2024 and 2.3% in FY2023 vis-à-vis 2.9% in FY2022) as the company scaled up its operations steadily. Credit costs also moderated to an extent as there were no significant slippages into the NPA category. Going forward, UCIC's ability to improve the net interest margin and keep the credit costs under control, amid the envisaged portfolio growth, would be a key monitorable.

Credit challenges

Moderate scale of operations – UCIC's scale of operations remains moderate, with a loan portfolio outstanding of Rs. 627.5 crore as of December 2023 (Rs. 510.2 crore as of March 2023) compared to Rs. 305.2 crore as of March 2022. Nevertheless, given the lower base and supported by healthy disbursements, it has maintained robust portfolio growth at a CAGR of 23.9% during FY2020-FY2023. The same is expected to continue over the medium term (CAGR of ~50% during FY2024-FY2026). The company has been enhancing its team by hiring resources for key positions; the current team size is 32. 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. Going forward, Its ability to strengthen its management team, systems and controls further, to support the envisaged growth, would be crucial.

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 (MFIs) and corporates. As of December 2023, 81% of its loan portfolio comprised unrated exposures, while the balance included a mix of investment grade category exposures (14%) and non-investment grade category exposures (5%). Further, considering the wholesale nature of the company's exposure to NBFCs and corporates, the portfolio is quite concentrated with the top 10 entities accounting for 14.0% of the portfolio as of September 2023. UCIC's ability to scale up its balance sheet profitably while maintaining tight control over the asset quality and exposure concentration would be key.

Liquidity position: Adequate

As on December 31, 2023, UCIC had a cash balance of Rs. 81.7 crore. Its total debt obligations between January 2024 and June 2024 (including interest) is Rs. 186.7 crore. The liquidity profile is adequate, considering the on-balance sheet liquidity and monthly collections. As per the asset-liability maturity profile on September 30, 2023, UCIC has positive cumulative mismatches across all buckets. Its borrowing profile comprises a mix of loans from banks, development financial institutions and NBFCs. Borrowings from banks stood at 30.6% as of December 2023 compared to 65.4% as of March 2021. The share of borrowings from development financial institutions and NBFCs was 62.0% of the total outstanding borrowings as of December 2023, followed by non-convertible debentures (NCDs; 3.8%), external commercial borrowings (ECBs; 2.3%), and direct assignment (1.3%).

Rating sensitivities

Positive factors – A steady scale-up in the business, while sustaining an adequate earnings profile and keeping the delinquencies under control, could lead to a rating upgrade.

Negative factors – Pressure on UCIC's ratings could arise if there is a material deterioration in the asset quality with GNPAs of more than 2.5% or if the managed gearing is above 4.5x 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	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials

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 Reserve Bank of India (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. 627.5 crore as on December 31, 2023 and Rs. 510.3 crore as on March 31, 2023. 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	FY2021	FY2022	FY2023	9M FY2024*
Total income	23.6	32.5	55.4	67.6
Profit after tax	2.3	3.3	8.0	13.0
Total managed assets	200.9	338.2	553.3	736.1
Return on managed assets	1.3%	1.2%	1.8%	2.7%
Managed gearing (times)	1.7	3.2	4.2	2.8
Gross NPA	0.0%	0.0%	0.0%	0.0%
CRAR	39.44%	26.52%	22.47%	32.35%

*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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Feb 20, 2024	Mar 27, 2023	Oct 14, 2022	Nov 10, 2021	Nov 09, 2020
1	**Bank facilities – Long term (fund based – others)**	LT	244.00	244.00	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	-	-	-
2	**Bank facilities – Short term (fund based – others)**	ST	6.00	6.00	**[ICRA]A2**	**[ICRA]A3+**	-	-	-
3	**Bank facilities**	LT	-	-	-	-	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
4	**Bank facilities – Long term/Short term (fund based – others)**	LT/ST	-	-	-	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-	-

LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities – Long term (fund based – others)	Simple
Bank facilities – 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Bank facilities – Long term (fund based – others)**	Sep 2020 to Dec 2023	10.20% to 12.25%	Apr 2024 to Apr 2026	244.00	[ICRA]BBB+(Stable)
NA	**Bank facilities – short term (fund based – others)**	Feb 2023 to Jul 2023	11% to 12%	Feb 2024 to Jul 2024	6.00	[ICRA]A2

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.

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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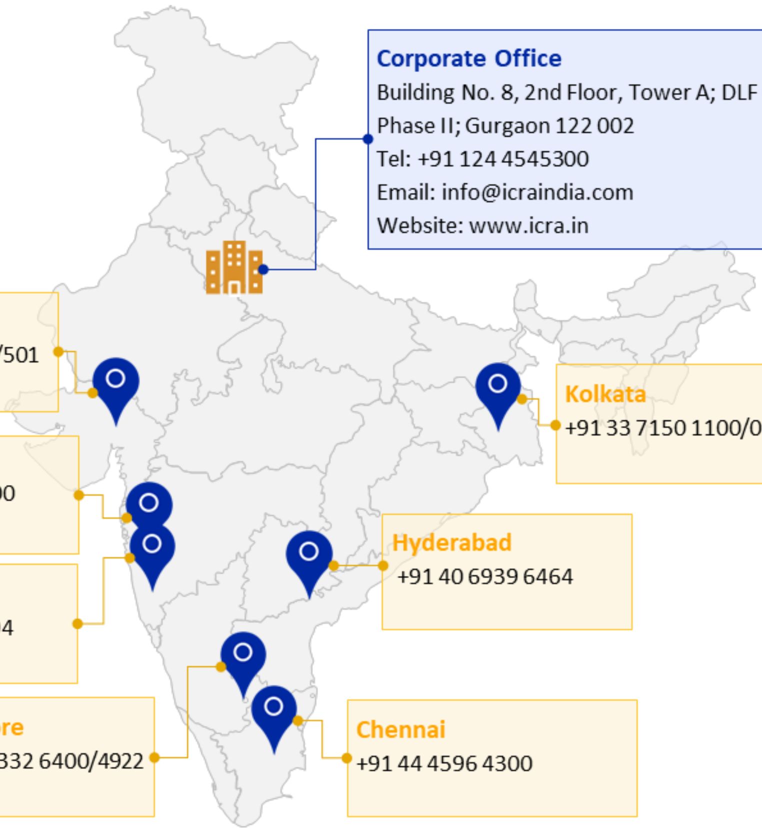

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