

Press Release

United Overseas Finance Limited (UOFL)

February 20, 2017

Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs.12.00 Cr |
| Long Term Rating | SMERA BB-/Stable (Assigned) |

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (**read as SMERA double B minus**) on the abovementioned bank facilities of United Overseas Finance Limited (UOFL). The outlook is '**Stable**'.

UOFL is a Chennai based non-deposit taking non-banking financial company (NBFC -ND).

List of key rating drivers and their detailed description

Strengths:

Experienced management and long track record of operations: UOFL was incorporated in 1982 by Mr. Prakash Jain who possesses experience of over three decades in the NBFC industry.

Comfortable net interest margin: UOFL reported comfortable Net Interest Margin (NIM) of 9.25 per cent in FY2016 (16.65 per cent in FY2015) on account of its presence in the high-yielding asset portfolio. SMERA, however, expects moderation in the NIM over the medium term on account of the highly competitive nature of the NBFC sector. UOFL continued to report modest Return on Average Assets (RoAA) which stood at 2.19 per cent in FY2016 as compared to 2.40 per cent in FY2015.

Weaknesses:

Competitive and fragmented industry: UOFL is exposed to stiff competition from other NBFCs.

Small scale of operations: The company reported outstanding loan portfolio of Rs.26.50 crore as on 31 March, 2016 as compared to Rs.25.86 crore as on 31 March, 2015. SMERA believes that the ability to grow its loan-book while maintaining low delinquency levels shall remain a key credit monitorable.

Weak asset quality: UOFL reported marked increase in its overall portfolio delinquency levels on account of overall slowdown in the rural economy. The gross NPA ratio deteriorated to 1.47 per cent as on 31 March, 2016 from 0.04 per cent on 31st March, 2015. SMERA expects the asset quality to remain subdued on account of continued slowdown in the economy due to demonetisation.

Considering the secured nature of the loan portfolio, SMERA expects UOFL to face headwinds in recovery on account of the complex regulatory environment coupled with downward pressure on commercial vehicle prices.

Geographic concentration risk: The company is exposed to geographic concentration risk as operations are limited to Chennai and Pondicherry.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Non-banking financing companies- <https://www.smera.in/criteria-nbfc.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook on UOFL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management and healthy asset quality. The outlook may be revised to 'Positive' in case of sustained growth in its loan book while maintaining its asset quality and NIM. Conversely, the outlook may be revised to 'Negative' in case of substantial deterioration in capitalisation levels and/or increase in loan book stress.

About the Rated Entity

UOFL, incorporated in 1982, is a Chennai-based non-deposit taking NBFC -ND engaged in the financing of used commercial vehicles. The company was promoted and managed by Mr. Prakash Jain and has operations across 20 districts in Chennai and Pondicherry.

In FY2016, UOFL reported Profit after Tax (PAT) of Rs.0.49 crore on Net Interest Income (NII) of Rs.4.93 crore as compared to PAT of Rs. 0.52 crore on NII of Rs.5.02 crore in FY2015. The net worth of the company increased from Rs.6.97 crore as on 31 March, 2015 to Rs.9.69 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable): CRISIL has suspended the outstanding rating of United Overseas Finance Limited vide press release dated November 22, 2016 due to its inability to carry out a rating surveillance in the absence of requisite information from the company.

Any other information: None

Rating History for the last three years:

| Name of Instrument /Facilities | FY2017 | | | FY2016 | | FY2015 | | FY2014 | |
|--------------------------------|--------|--------------------|-----------------------------|--------|--------|--------|--------|--------|--------|
| | Scale | Amount (Rs. Crore) | Rating with Outlook | Date | Rating | Date | Rating | Date | Rating |
| Cash Credit | LT | 11.00 | SMERA BB-/Stable (Assigned) | - | - | - | - | - | - |
| Proposed Long Term | LT | 1.00 | SMERA BB-/Stable (Assigned) | - | - | - | - | - | - |

***Annexure - Details of instruments rated:**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|-----------------------------|
| Cash Credit | N.A | N.A | N.A | 11.00 | SMERA BB-/Stable (Assigned) |
| Proposed Long Term | N.A | N.A | N.A | 1.00 | SMERA BB-/Stable (Assigned) |

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

| Analytical | Rating Desk |
|--|--|
| Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Shashank Shukla, Rating Analyst, Tel: 011-4973 1302 Email: shashank.shukla@smera.in | Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in |

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.