

Press Release

United Overseas Finance Limited

May 10, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 12.00 Crore.
Long Term Rating	SMERA BB-/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 12.00 crore bank facilities of United Overseas Finance Limited (UOFL). The outlook is '**Stable**'.

Tamil Nadu-based, United Overseas Finance Limited, incorporated in 1982 is a non-deposit taking non-banking financial company (NBFC –ND) managed by Mr. Prakash Chand Jain along with his three sons. The company is engaged in financing for first and second hand vehicles. The company has presence in 11 districts across Tamil Nadu and Pondicherry collectively.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

UOFL primarily focuses on financing of vehicles, mainly commercial vehicles (CVs). The management possesses more than three decades of experience in NBFC industry. Earlier, promoters were in the business of financing used CVs under three proprietary concerns. In order to scale-up the business, it was decided to merge the businesses of these concerns by acquiring an NBFC, Chordia Finance Private Ltd, which subsequently became UOFL.

- **Comfortable capitalization**

UOFL has comfortable capitalization as reflected in the capital adequacy ratio (CAR) of 39.98 per cent as on 31 March, 2017 as against CAR of 44.83 per cent in the previous year. Its net worth and gearing were at Rs 10.30 crore and 1.58 times, respectively, as on March 31, 2017. Its gearing is expected to remain below 2 times in the near term on account of muted growth in the loan book.

Weaknesses

- **Modest scale of operations**

UOFL's credit risk profile remains constrained by modest scale of operations. The outstanding loan book was Rs.30.71 crore on 31st March, 2017 compared to Rs.26.50 crore on 31 March, 2016. The loan book declined to Rs. 28.10 crore as on Dec 31, 2017 due to intense competition. UOFL is primarily focused on financing used CVs which constitute around 70% of the loan book and new CV financing constitutes around 20% of the loans. SME financing constitutes around 10% of the book. The average ticket size ranges between Rs. 8.00 to Rs.12.00 Lakhs. It is looking to diversify into micro finance business but the exposure is not likely to exceed more than 10% of the outstanding loans in the near to medium term. The company's ability to grow its loan book while maintaining its asset quality shall be vital in improving its credit profile.

- **Decline in profitability indicators**

UOFL's net interest margins (NIMs) declined to 7.70 percent in 2016-17 from 9.27 percent in 2015-16 due to intense competition. UOFL reported return on average assets (ROAA) of 2.13 percent in 2016-

17 as against 2.19 per cent in 2015-16 as the decline in NIMs was offset by the decline in operating expenses and lower provisioning costs. The provisioning cost has remained low as reflected in low gross non-performing assets of 0.50 per cent as on 31 March, 2017. This is primarily because the company focuses on recovery from delinquencies in early buckets which helps in lowering the ultimate credit cost.

While the company has reported NIM (provisional) of 10.01 percent for April 2017 to Dec 2017 period, its ability to sustain high NIMs amid intense competition remains a key monitorable.

• Geographic concentration risk

The company's loan portfolio is also exposed to risks associated with the high degree of geographical concentration arising out of its limited branch spread. It has 10 branches operating in Tamil Nadu and 1 in Puducherry. UOFL's ability to geographically diversify its loan portfolio by increasing its branch spread shall be a key credit monitoring factor.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of UOFL to arrive at the rating.

Outlook: Stable

SMERA believes that UOFL will maintain a Stable outlook over the medium term on account of its experienced management, healthy asset quality and comfortable capitalization levels. The outlook may be revised to 'Positive' in case of sustained increase in loan book while maintaining its asset quality and profitability. Conversely, the outlook may be revised to 'Negative' in case of substantial deterioration in asset quality and profitability.

About the Rated Entity - Key Financials

	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	31.90	27.83	27.51
Total Income	Rs. Cr.	2.20	2.43	3.42
PAT	Rs. Cr.	0.63	0.61	0.60
Net Worth	Rs. Cr.	10.30	9.66	9.05
Return on Assets (RoAA)	(%)	2.13	2.19	2.40
Return on Net Worth(RoNW)	(%)	6.36	6.47	6.91
Total Debt/Tangible Net Worth (Gearing)	Times	1.58	1.32	1.45
Gross NPA	(%)	0.85	1.22	1.09

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- DefaultRecognition-<https://www.smerra.in/criteria-default.htm>
- Non-BankingFinancingEntities-<https://www.smerra.in/criteria-nbfc.htm>
- FinancialRatiosAndAdjustments-<https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Feb-2017	Cash Credit	LT	11.00	SMERA BB-/Stable (Assigned)
	Proposed Term Loan	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB-/ Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB-/ Stable (Reaffirmed)

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ABOUT SMERA

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