

Press Release

United Overseas Finance Limited

August 06, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the bank facilities of Rs. 12.00 crore bank facilities of UNITED OVERSEAS FINANCE LIMITED (UOFL). The outlook is '**Stable**'.

Tamil Nadu-based, UOFL was incorporated in 1982 as a non-deposit taking non-banking financial company (NBFC-ND). The company is promoted and managed by Mr. Prakash Chand Jain. It is engaged in financing for first and second hand vehicles and SME loans. In FY2019, the company began lending towards micro loans in Joint liability groups. The company has presence in 12 districts across Tamil Nadu and Pondicherry collectively through its direct sales agents and has two branches which operate for micro finance activities, it has a borrower base of 1,171 borrowers as on March 31, 2019.

Analytical Approach

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

Key Rating Drivers

Strengths

Established presence

UOFL was established in 1982 by Mr. Prakash Chand Jain. Mr. Prakash Chand Jain has over three decades of experience in financial services sector. The company has, over the last three decades, established its presence across 12 districts of Tamil Nadu and Puducherry in commercial vehicle financing segment. The company has over the years diversified its products and currently, lends towards SME loans and micro financing loans. The overall loan portfolio stood at Rs. 30.35 crore as on March 31, 2019 as against Rs. 25.75 crore as on March 31, 2018.

Acuite believes that UOFL will continue to benefit from its established presence and the promoter's strong understanding of the commercial vehicle sector.

Comfortable capital structure

UOFL has comfortable capital adequacy ratio of 34.14 per cent as on March 31, 2019 (35.31 per cent as on March 31, 2018) and modest net worth of Rs.11.60 crore as on March 31, 2019 (Rs. 17.05 crore as on March 31, 2018). The gearing (debt to equity) has remained comfortable at 0.63 for FY2018 as against 0.65 in FY2017.

Acuite believes that the capital structure will remain stable, notwithstanding the expected increase in the debt levels over the near to medium term.

Weaknesses

Modest scale of operations

The company's portfolio stood at Rs.30.35 crore on 31 March, 2019 compared to Rs.25.75 crore on 31 March, 2018. The average ticket size in the secured loans sector (commercial vehicle and SME loans) ranges between Rs. 8.00-12.00 Lakhs. In FY2019, the company commenced lending towards micro finance activities through the joint liability group model, the company's portfolio outstanding towards micro finance activities stood at Rs. 2.47 crore as on March 31, 2019. Lending towards micro finance activities is expected to contribute towards the growth of the company going forward. However, since the company is not a

registered MFI its lending towards this segment will remain below 10% of the total portfolio.

Acuite believes that the ability of the company to grow its loan book, while maintaining healthy asset quality will be a key rating monitorable.

Geographic concentration

UOFL's operations are concentrated in Tamil Nadu and Puducherry, and operates through a network of representatives placed in 12 districts. Generally, the risk profile of a NBFC company with a geographically diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio.

Acuite believes that geographical concentration in its portfolio will continue to weigh on its credit profile over the near to medium term.

Intense competition

The company faces competition from its peer companies which will have a bearing on its ability to maintain its net interest margins and thereby profitability. The company will have to generate adequate returns and maintain its operating costs to maintain optimal level of Return on Average Assets.

Liquidity Position: Adequate

UOFL's borrowings comprises mainly in the form of cash credit and promoter's borrowings, which are long term in nature as compared to loans which are extended for a period of 3 to 5 years, leading to an adequate liquidity position.

Outlook: Stable

Acuite believes that UOFL will maintain a 'Stable' outlook over the medium term supported by its established presence in the lending segment. The outlook may be revised to 'Positive' in case of higher than expected growth in AUM while maintaining asset quality and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	34.17	30.47	30.71
Total Income (Net of Interest Expense)	Rs. Cr.	2.73	2.15	2.20
PAT	Rs. Cr.	0.66	0.64	0.63
Net Worth	Rs. Cr.	11.60	10.94	10.30
Return on Average Assets (RoAA)	(%)	2.05	2.06	2.13
Return on Average Net Worth (RoNW)	(%)	5.89	6.05	6.36
Total Debt/Tangible Net Worth (Gearing)	Times	1.49	1.24	1.58
Gross NPAs	(%)	1.79	1.41	0.40

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

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Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-May-2018	Cash Credit	Long Term	10.00	ACUITE BB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB-/ Stable (Reaffirmed)
20 Feb 2017	Cash Credit	Long Term	11.00	ACUITE BB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	1.00	ACUITE 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	ACUITE BB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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