

Press Release

United Overseas Finance Limited

October 23, 2020

Rating Review



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

*Refer annexure for details

Rating Rationale

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

About UOFL

Tamil Nadu based United Overseas Finance Limited (UOFL) is a non-deposit taking Non-Banking Financial Company. The company is engaged in financing used medium and heavy commercial vehicles (CVs) and providing SME loans against property. In FY2019, UOFL also commenced extending micro-credit loans to women borrowers through Joint Liability Group (JLG) model. UOFL is promoted by Mr. Prakash Chand Jain and his sons. The family was earlier engaged in the business of financing used CVs under proprietary concern and in 2007 they acquired an existing NBFC - Chordia Finance Private Limited and renamed it to United Overseas Finance Limited. The company has a presence in 12 districts across Tamil Nadu and Puducherry collectively through its direct sales agents and has four branches for operating its micro-financing activities as on March 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established presence used vehicle financing segment

UOFL commenced its operations in 2017, financing used commercial vehicles and providing SME loans against property. In May 2018, the company also commenced extending micro-credit to women borrowers under Joint Liability Group (JLG) model. UOFL caters to the rural and semi-urban areas of Tamil Nadu. The company is promoted and managed by Mr. Prakash Chand Jain and his sons. Mr. Jain has over three decades of experience in commercial vehicle financing. UOFL's loan portfolio stood at Rs. 28.51 crore as on March 31, 2020 (Rs. 30.35 crore as on March 31, 2019). The company's main office is located in Chennai and has its representatives spread across the 12 districts and has 4 branches operating its micro-credit business.

Acuite believes that UOFL will continue to benefit from its established presence and experience of the promoters in the commercial vehicle segment.

• Comfortable capital structure

UOFL has a comfortable capital adequacy ratio of 41.61 percent as on March 31, 2020 (34.14 per cent as on March 31, 2019) comprising of Tier I capital and modest net worth of Rs. 11.86 crore as on March 31, 2020 (Rs.11.60 crore as on March 31, 2019). The gearing (debt to equity) has remained comfortable at 1.73 times for FY2020.

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

Weaknesses

• Subdued level of business operations; scalability of business yet to be demonstrated

UOFL has been in the used commercial vehicle financing space since 2007. The company registered a subdued level of business operations as seen in the loan portfolio of Rs. 28.51 crore as on March 31, 2020 as compared to Rs. 30.35 crore on March 31, 2019. The company's profitability margin also declined during the period as reflected in its Return on Average Assets (RoAA) of 0.77 percent as on March 31, 2020 (provisional) from 2.05 percent as on March 31, 2019 mainly on account of reduced interest spreads and net interest margin which declined to 5.44 percent as on March 31, 2020 from 8.52 percent as on March 31, 2019. Further, the impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted access to funds, collections and disbursement processes.

Acuite believes, going forward, the ability of the company to mobilize additional funding through debt /equity and its ability to deploy the funds profitably while maintaining its asset quality will be key rating sensitivity.

• Geographical concentration and elevated stress in asset quality

The operations of UOFL are exposed to concentration risks. UOFL has a presence in Tamil Nadu and Puducherry. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of UOFL.

The impact of Covid-19 may also impair the scalability of business operations, which has currently disrupted collections and disbursement processes. Although UOFL has demonstrated moderate asset quality in the past with Gross Non-Performing Assets (GNPA) at 1.78 percent as on March 31, 2019, rise in delinquency is expected due to impact of Covid-19 as the credit profiles of some of the borrowers could be impaired for a much longer time.

Acuite believes that containing additional slippages while maintaining the growth in loan portfolio will be crucial.

Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metrics
- Changes in regulatory environment

Material Covenants

UOFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

Liquidity: Adequate

UOFL's overall liquidity profile remains adequate in near to medium term. UOFL's borrowings stood at ~Rs. 20.55 crore as on March 31, 2020 (provisional) comprising bank borrowings in the form of a term loan of Rs. 2.5 and unsecured loans from promoters and relatives of Rs. 8.6 crore. UOFL has an average lending tenure of ~12 to 36 months. The company avails a cash credit facility of Rs. 10 crore for its funding requirements and is almost fully utilized.

Outlook: Stable

Acuite believes that UOFL's business risk profile is expected to remain 'Stable' outlook over the medium term supported by its established presence in its area of operations. The outlook may be revised to 'Positive' in case of significantly higher than expected growth in AUM while maintaining asset quality,

profitability and liquidity. The outlook may be revised to 'Negative' in case of any challenges in scaling up of operations or in case of significant deterioration in asset quality, thereby impacting profitability metrics.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Provisional)	FY19 (Actual)
Total Assets	Rs. Cr.	32.95	34.17
Total Income*	Rs. Cr.	1.71	2.73
PAT	Rs. Cr.	0.26	0.66
Networth	Rs. Cr.	11.86	11.60
Return on Average Assets (RoAA)	(%)	0.77	2.05
Return on Net Worth (RoNW)	(%)	2.19	5.89
Total Debt/Tangible Net Worth (Gearing)	Times	1.73	1.49
Gross NPA's	(%)	4.28	1.78
Net NPA's	(%)	-	-

* Total income equals to Net interest income plus other income

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-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Aug-2019	Cash Credit	Long Term	10.00	ACUITE BB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB-/ Stable (Reaffirmed)
10-May-2018	Cash Credit	Long Term	10.00	ACUITE BB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB-/ Stable (Reaffirmed)

*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	Not Available	Not Applicable	Not Available	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 Acuite Ratings & Research:

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