

Press Release

United Overseas Finance Limited

January 21, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	12.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

The rating takes into account experienced promoter, adequate capital structure with networth and CAR of Rs.12.56 Cr. and 35.29% respectively as on September 30,2021(Provisional). The rating is constrained by small scale of operations with loan portfolio of Rs.35.59 Cr. as on September 30,2021 (Rs.30.66 Cr. as on March 31,2021). The earnings profile remained modest with PAT declining to Rs.0.26 Cr. during FY2021 from Rs.0.40 Cr. during FY2020. While UOFL has geographical presence in Tamil Nadu and Puducherry, it had temporarily halted operations in Puducherry during FY2021 on account of Covid-19 pandemic and outstanding portfolio as March 31,2021 was entirely across Tamil Nadu. While the company is gradually resuming the operations, Acuité believes the ability of the company to scale its operations by mobilizing additional funding (debt/equity) while containing asset quality slippages in the current operating environment amid Covid-19 resurgence will be crucial.

About the company

Tamil Nadu based United Overseas Finance Limited (UOFL) is a non-deposit taking Non-Banking Financial Company. The company commenced its operations in 2007 and 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, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

Experienced promoter:

UOFL commenced its operations in 2007, 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. Earlier, the promoter was in the business of financing Used CVs under three proprietary concerns. UOFL's loan portfolio stood at Rs.30.66 crore as on March 31,2021 as against Rs. 28.51 crore as on March 31, 2020 . The loan portfolio stood at Rs.35.59 Cr. as on September 30,2021. 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. Acuité believes that UOFL will continue to benefit from the experience of the promoter in the commercial vehicle segment.

Adequate capital structure:

UOFL has an adequate capital structure comprising of net worth and CAR of Rs. 12.25 crore and 35.12 percent respectively as on March 31, 2020 (Rs.12.00 crore and 37.43 per cent respectively as on March 31, 2020). The improvement in networth is solely driven by internal accruals. Consequently, the gearing (debt to equity) stood at 1.86 times as on March 31,2021 (1.73 times as on March 31,2020). The networth and CAR stood at Rs.12.56 crore and 35.29% respectively as on September 30,2021 (Provisional).

Acuité believes that the capital structure will remain adequate with gearing not expected to rise significantly in the near term on account of small scale of operations.

Weakness

Small scale of operations; scalability of business yet to be demonstrated:

UOFL has been in the used commercial vehicle financing space since 2007. The company has small scale of operations as seen in the loan portfolio of Rs.30.66 crore as on March 31,2021 (Rs.28.51 crore as on March 31, 2020). The company is primarily focused on mortagage loans and vehicle financing which constitute around 90% of the loan book and balance 10% microcredit loans as on March 31,2021. The operations were impacted in the intial period of FY2021 due to challenges faced by the borrowers on account of Covid-19 pandemic with the company temporarily halting operations in Puducherry. The loan portfolio stood at Rs. 35.59 Cr. as on September 30,2021. While the company is gradually resuming the operations, Acuité believes the ability of the company to scale its operations by mobilizing additional funding (debt/equity) while maintaining its asset quality in the current operating environment will be key rating sensitivity.

Modest Earnings Profile

The company's profitability remained subdued during FY2021 with PAT delcining to Rs.0.26 Cr. during FY2021 from Rs.0.40 Cr. during FY2020 mainly on account of lower net interest income as disbursements slowed down coupled with higher finance costs. However, the impact of lower net interest income was partially offset by lower operating expenses with opex to earinng assets improving to 3.48% during FY2021 from 4.35% during FY2020. Resultatantly, ROAA stood at 0.75% as on March 31,2021 as against 1.18% as on March 31,2020. For H1FY2022, UOFL

Geographical concentration and weak asset quality

The operations of UOFL are exposed to concentration risks. UFOL 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. During FY2021, the company had temporarily halted operations in Puduchery due to impact of Covid-19 with portfolio outstanding as on March 31,2021 entirely across Tamil Nadu. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of UOFL. On asset quality front, while the delinquencies in 90dpd+ improved to 2.05% of AUM as on March 31,2021 from 4.28% of AUM as on March 31,2020, those in 30 dpd+ rose to 25.93% of AUM as on March 31,2021 from 24.87% of AUM as on March 31,2020. As on September 30,2021, though delinquencies in 30dpd+ and 90dpdp+ reduced to 19.90% and 0.60% respectively, Acuité believes that containing additional slippages in the current operating environment amid Covid-19 resurgence while maintaining the growth in loan portfolio will be crucial.

Rating Sensitivity

- Continued Promoter Support/Capital Infusion
- 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 Position: Adequate

The company's cash and cash equivalents stood at Rs.0.65 Cr. as on December 31,2021 and debt obligations for three months ended March 2022 stood at Rs.0.30 Cr.

Outlook: Stable

Acuité believes that UOFL's business risk profile is expected to remain 'Stable' outlook over the medium term supported by its experienced promoter and adequate capital structure. 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.

Key Financials - Standalone / Originator

	Unit	FY21 (Audited)	FY20 (Audited)
Total Assets	Rs. Cr.	35.48	33.14
Total Income*	Rs. Cr.	1.60	1.96
PAT	Rs. Cr.	0.26	0.40
Net Worth	Rs. Cr.	12.25	12.00
Return on Average Assets (RoAA)	(%)	0.75	1.18
Return on Average Net Worth (RoNW)	(%)	2.12	3.38
Total Debt/Tangible Net Worth (Gearing)^\wedge	Times	1.86	1.71

*Total income equals to Total Income net off interest expense

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Oct 2020	Cash Credit	Long Term	10.00	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
06 Aug 2019	Proposed Bank Facility	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BB- Stable (Reaffirmed)
10 May 2018	Cash Credit	Long Term	10.00	ACUITE BB- Stable (Reaffirmed)
	Proposed Term Loan	Long Term	2.00	ACUITE BB- Stable (Reaffirmed)
20 Feb 2017	Cash Credit	Long Term	11.00	ACUITE BB- Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	1.00	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
<p>Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in</p>	<p>Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in</p>
<p>Shrey Khandelwal Senior Analyst-Rating Operations Tel: 022-49294065 shrey.khandelwal@acuite.in</p>	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.