

## Press Release

### Ugro Capital Limited

September 25, 2019

#### Rating Reaffirmed and Assigned



<b>Commercial Paper Programme*</b>	Rs. 100.00 Cr.
<b>Bank Loan Rating</b>	Rs. 100.00 Cr.
<b>Non-Convertible Debentures</b>	Rs. 100.00 Cr.
<b>Long Term Rating</b>	ACUITE A/Stable (Assigned and Reaffirmed)
<b>Short Term Rating</b>	ACUITE A1 (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed a long-term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs. 100.00 Cr bank facilities and assigned '**ACUITE A**' (read as **ACUITE A**) on the Rs. 100.00 Cr non-convertible debentures of UGRO CAPITAL LIMITED (Ugro). The outlook is '**Stable**'.

Acuite has reaffirmed short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 100.00 Cr Proposed Commercial Paper Programme of UGRO CAPITAL LIMITED (Ugro).

Ugro, was originally incorporated as Chokhani Securities Limited in 1993, as a non-systemically important non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). In 2018, pursuant to a change in management, the company was renamed as UGRO Capital Limited. The company's equity shares are listed on the Bombay Stock Exchange (BSE).

Ugro is promoted by Mr. Shachindra Nath, who is a seasoned finance professional with more than two decades of experience in the financial services sector. He is also currently the Executive Chairman and Managing Director of the company. Ugro's registered office is at Mumbai and has branches across the eight metro cities in the country. The company is engaged in lending to the MSME segment and in eight specifically identified sectors i.e. Healthcare, Education, Chemicals, Food Processing/FMCG, Hospitality, Electrical Equipment's and Components, Auto Components and Light Engineering.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Ugro to arrive at this rating.

#### Key Rating Drivers

##### Strengths

- **Support of Marquee investors**

Ugro is a NBFC listed on BSE. Its promoter, Mr. Shachindra Nath, who is an experienced financial sector professional holds 12.94 per cent of the total shareholding. The public holding of 87.06 per cent includes diverse investors such as private equity players, insurance companies and family offices. The institutional investors include ADV Partners, NewQuest Asia Investments III Limited, PAG (PE firm with focus on the Asia-Pacific region), Samena Capital (a MENA focused PE investment group), amongst others. The investors also include Indigrowth Abakkus, Chhattisgarh Investments Limited, and PNB Metlife India Insurance Company Limited and family offices that include ex-promoters of Himatsingka Seide Limited, Mr. Aditya Himatsingka, Mr. Ashutosh Taparia of Famy Care Limited and Mr. Rakesh Malhotra of SAR group. These investors have already infused capital of ~Rs. 650 Cr in FY2019 and have plans to further invest ~Rs. 270 Cr in FY2020.

As per Ugro's Articles of Association, an investor with more than 10 per cent of shareholding is eligible for a board representation. Consequently, Newquest Group, Samena Capital and ADV Partners have their representatives on the board. The board representation by these global investors adds significant value to the operations of Ugro, especially in view of the initial stage of its operations. UGRO's Articles of Association requires the company to always have majority independent directors on its Board.

Acuite believes that the demonstrated ability of the company to raise a significant quantum of equity capital from a diversified profile of institutional investors supports its business risk profile and also augments its ability to raise further growth capital, over the near to medium term.

• **Experienced management team:**

Ugro's board comprises of 12 directors with vast experience in banking, investments and structured finance, corporate finance and other financial services. The board is headed by Chairman and Managing Director, Mr. Shachindra Nath. Mr. Nath has over two decades of experience in BFSI across insurance, asset management, lending and capital markets sectors. Ugro's CEO, Mr. Abhijit Ghosh, has over two decades of experience in banking and financial services. The independent directors include Mr. Satyananda Mishra (Ex-Chairman, SIDBI), Mr. Rajeev K Agarwal (Ex-Whole time director SEBI) and Mr. Abhijit Sen (Ex-CFO Citi-India) amongst others. The board of directors play an active role in overseeing the company's operations including strategic decisions and policy formulation, and risk management including credit approvals and portfolio monitoring through various committees.

The second line of management team comprises of people with experience in financial services and lending sector each having more than a decade of relevant experience. The extensive experience of the board and management team has helped Ugro put in place robust systems and procedures.

Acuite believes that Ugro will benefit from its experienced management team as it scales up its business volumes.

• **Business model based on high level of digitization and adherence to robust systems and process**

Ugro's business model is based on technology adoption at each and every stage, right from initial screening of the borrower to monitoring of the exposures, at the post disbursement stage. Ugro's average ticket size is Rs. 2-3 Cr with maximum single party exposure of Rs. 5 Cr. Hence, the portfolio is expected to be granular in nature and with high degree of technological support for effective monitoring of the portfolio. Ugro's target clientele are SME/MSME units from eight identified sectors, which are Healthcare, Education, Chemicals, Food Processing/FMCG, Hospitality, Electrical Equipment's and Components, Auto Components and Light Engineering. Ugro has identified these sectors from an in-depth study and recommendations from external advisory agencies. These sectors are further divided into 37 sub-sectors.

The credit underwriting process and platforms are designed to ensure quick turnaround, without compromising on quality of the loan appraised. The company has put in place credit tools such as scorecards, which help in arriving at the credit decision. The management has developed detailed questionnaires for each sub segment, which help in identifying the key credit issues and sharpening the quality of credit decision.

The systems and process are evaluated and reviewed from time to time to improve their efficacy to the credit process. The company has put in place safeguards to minimize the possibility of dilution of these processes. These include clauses in the Article of Association such as the right of appointment/termination of key managerial personnel directly to the board and ensuring granularity of the portfolio with loan of more than 1 per cent of its Net Worth or to any related party requiring majority board approval and a unanimous consent of its Asset Liability Committee.

Acuite believes that the adherence to stringent systems and process may impact the pace of growth of Ugro; however, it will translate into better asset quality over the near to medium term.

**Weaknesses**

• **Low seasoning of portfolio**

Ugro commenced its operations only in January, 2019, since then, the company's pace of disbursement has increased from Rs. 6.02 Cr in January, 2019 to Rs. 120.86 Cr in August, 2019. The company's overall AUM stood at Rs. 515.31 Cr as on August 31, 2019 (Provisional) as against Rs. 79.65 Cr as on March, 2019. The portfolio is yet to witness any significant seasoning and therefore, the asset quality remains to be tested. The operating environment is also challenging for its borrowers i.e. the MSME segment with a slowdown in economic growth and inadequate access to funding.

Acuite, nevertheless, believes that the top management of Ugro has put in place robust norms and process for ensuring a healthy growth of business. The management is expected to focus on profitable growth rather than aggressive expansion of the loan book. For which it has entered into co-lending arrangements with NBFC's for onward lending. It is also currently exploring options of co-lending, since these arrangements results in higher yields and optimal deployment of capital especially at a time when the company is in the initial stage of its operations and may face challenges in raising debt from banks.

Acuite believes that the company's ability to scale up its operations, while maintaining healthy asset quality and profitability will be a key rating sensitivity.

#### Rating Sensitivity Factors

- Growth in AUM, profitability and asset quality.
- Maintaining granularity in the portfolio
- Gearing beyond 2X
- Maintenance of adequate Liquidity

#### Liquidity Position – Adequate

As per the asset liability management (ALM) statement dated June 30, 2019, Ugro has positive mismatch in all of its maturity buckets. The company is in initial stage of operations, and hence the loan book of the company is mostly funded through equity. Ugro is in the process of raising debt from various banks and institutions.

Presently the company has cash and cash equivalents of Rs. 309 Cr. (Balance as on August 31, 2019) these cash will be gradually deployed in the loan book expansion. The company is exploring options such as co-lending to augment its AUM growth till it raises external debt from banks and institutions.

Going forward the company has plans to maintain adequate liquidity in the form of unencumbered bank deposits/balances or liquid funds to cover three months of requirements (i.e. debt obligations and sanctions pending disbursements).

#### Outlook: Stable

Acuite believes Ugro will maintain a 'Stable' outlook given its experienced management team and comfortable capitalization. The outlook may be revised to 'Positive' if there is significant scale up of the operations, while maintaining profitability and healthy asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the company faces asset quality or profitability related challenges.

#### About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Prov.)
Total Assets	Rs. Cr.	669.98
Total Income*	Rs. Cr.	41.80
PAT	Rs. Cr.	1.46
Net Worth	Rs. Cr.	651.59
Return on Average Assets (RoAA)	(%)	0.41
Return on Average Net Worth (RoNW)	(%)	0.42
Total Debt/Tangible Net Worth (Gearing)	Times	0.02
Gross NPA	(%)	NIL
Net NPA	(%)	NIL

\*Total income equals to Net interest income plus other income

Previous year figures are not reflected in the table since, the change in shareholding and management from Chokhani Securities Limited took place in FY2019.

#### 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06 August 2019	Term Loan	Long Term	15.00	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A/Stable (Assigned)
	Proposed Term Loan	Long Term	75.00	ACUITE A/Stable (Assigned)
	Proposed Commercial Paper	Short Term	100.00	ACUITE A1 (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
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A/Stable (Reaffirmed)
Proposed Commercial Paper	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Reaffirmed)
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A/Stable (Assigned)

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### About Acuite Ratings & Research:

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