

## Press Release

### Ugro Capital Limited

May 08, 2020

#### 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. 300.00 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 and assigned long-term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs. 100.00 Cr bank facilities and on the Rs. 300.00 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. It is 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. Ugro's equity shares are listed on the Bombay Stock Exchange (BSE).

Ugro is headed by Mr. Shachindra Nath, a seasoned finance professional, with more than two decades of experience in the financial services sector. He is the Executive Chairman and Managing Director of the company. Ugro's registered office is at Mumbai and it has branches across the nine metro cities in the country. Ugro lends to the MSME segment 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

- **Experienced management team supported by marquee investors:**

Ugro commenced operations in 2019 with a focus on lending towards the Micro Small and Medium Enterprises (MSME) segment. The company 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 other members of the management team have experience of over two decades in BFSI sector.

Ugro's management team is supported by marquee investors. Ugro's investors includes 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 infused capital of ~Rs. 650 Cr in FY2019 and ~Rs. 240 Cr in FY2020.

The ability to attract capital from a diverse set of investors in its initial stage of operations points to the

credibility of the top management team. It also reflects the confidence in the business model and strategy. Ugro's net worth stood at Rs. 910 Cr as on March 31, 2020 (Provisional) against which Ugro had earning assets of Rs. 953 Cr. The company's capital adequacy ratio stood at 83.26 percent as on December 31, 2019 (Provisional). The high capital adequacy (i.e. low gearing) provides Ugro adequate headroom to raise additional borrowings to support its future growth trajectory.

Acuite believes, that the experienced management team, presence of marquee investors and healthy capitalisation levels will support Ugro's fund raising plans over the near to medium term.

• **Business model based on high level of digitization and adherence to pre-defined policies:**

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 disbursal 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 while adherence to stringent underwriting standards may impact the pace of growth of Ugro; it will aid Ugro to maintain its asset quality in a steady operating environment.

## **Weaknesses**

• **Current challenges in operating environment to impact near term growth; subdued profitability expected to continue on the back of high operating overheads:**

Ugro commenced its operations in January 2019 with a focus on lending towards MSME segment across eight identified sectors. The company has been gradually building a granular loan portfolio with a maximum single borrower exposure restricted to ~Rs. 5 Cr. It adopted an organic as well as inorganic growth strategy to expand its loan book in FY20. Ugro disbursed Rs. 1284 Cr in FY20 (Provisional) of which Rs. 1068 Cr. comprised of disbursements through its network of 9 branches and balance Rs. 217 Cr comprised pools brought from other NBFCs, share in co-origination arrangements with NBFCs and loans to NBFCs for onward lending. Going forward, the management plans to focus on origination from branch network as a key driver of its growth strategy. The management is also eyeing certain segments like supply chain financing, wherein it will have tie ups with anchor units and provide short term financing to their select vendors. As on March 31, 2020 (Provisional), total outstanding loan portfolio was Rs. 861 Cr, of which Rs. 686 Cr. related to MSME portfolio originated by Ugro through its branch network while the balance Rs. 175 Cr comprised of the originations under the other three segments. Since most of these exposures were initiated in FY20 the seasoning of the loan book is yet to be demonstrated. Ugro's Gross Non-performing Assets (GNPAs) stood at Rs. 7.24 Cr. (i.e. 0.84 percent of its loan portfolio) as on March 31, 2020 (Provisional).

Ugro has focused on maintaining a granular loan book, hence, the operating costs are expected to be high comprising establishment expenses and employee (marketing, credit, recovery, operations etc.) cost. During FY20 these costs accounted for ~85% of Ugro's total income (i.e. net interest income and other operating income). The high operating expenses led to subdued profitability of 0.52 percent Return on Average Assets (RoAA) (Provisional), despite having low gearing levels and low credit costs.

Acuite believes that the company's philosophy of lending to certain identified sectors and selecting clients based on strict parameters may inhibit its ability to scale up its loan book over the near to medium term.

The Company's key target segment i.e. MSMEs have been facing pressures on their cash flows due to the ongoing nationwide lockdowns. The availability of deployable opportunities could be challenging till the operating environment stabilises. Over the near term, Ugro could face challenges, in terms of higher credit costs on its existing exposures. This is especially in certain more affected sectors like hospitality, chemical industry, auto ancillary industry, light engineering, etc.

Ugro's credit profile, hitherto, has been underpinned by its track record in raising resources both debt and equity from various investors/lenders. It has also demonstrated the ability to raise funds through avenues like securitisation deals to diversify its sources of funding. Hence the resource raising ability has been adequately demonstrated in the past.

Besides continued resource raising ability, Acuite believes that the future credit profile will depend upon management's ability to significantly scale up its loan book while containing its operating and credit cost in an increasingly challenging operating environment.

### Rating Sensitivity Factors

- Growth in AUM, profitability and asset quality.
- Maintaining granularity in the portfolio
- Gearing beyond 2.5X
- Maintenance of adequate Liquidity

### Material Covenants

Some of the material covenants stipulated by lenders are as below:

- Capital Adequacy Ratio to remain above 25%
- TOL/TNW to be maintained below 4x for FY2021.
- Gross NPA not to exceed 2.5% on a monthly basis and Net NPA not to exceed 1.5%
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### Liquidity Position – Adequate

As per the asset liability management (ALM) statement dated December 31, 2019, Ugro has positive mismatch in all of its maturity buckets. Presently the company has cash and cash equivalents of Rs. 209 Cr. and is adequately capitalised with a gearing of 0.28 times as on March 31, 2020 (Provisional). The company's high capitalisation levels provides high flexibility to raise additional borrowings. It also has the flexibility to raise funds through securitisation transactions.

The company has plans to maintain adequate liquidity in the form of unencumbered bank deposits/balances, liquid funds or unutilised bank lines 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	FY20 (Prov.)	FY19 (Actual)
Total Assets	Rs. Cr.	1199.97	669.98
Total Income*	Rs. Cr.	91.96	41.80
PAT	Rs. Cr.	8.85	1.46
Net Worth	Rs. Cr.	910.16	651.59
Return on Average Assets (RoAA)	(%)	0.52	0.41
Return on Average Net Worth (RoNW)	(%)	0.63	0.42
Total Debt/Tangible Net Worth (Gearing)	Times	0.28	0.02
Gross NPA	(%)	0.84	NIL
Net NPA	(%)	0.09	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-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
August 06, 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)
September 25, 2019	Term Loan	Long Term	15.00	ACUITE A/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	75.00	ACUITE A/Stable (Reaffirmed)
	Proposed Commercial Paper	Short Term	100.00	ACUITE A1 (Reaffirmed)
	Proposed Non-Convertible Debentures	Long Term	100.00	ACUITE A/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
Term Loan	22-03-2019	10.37% p.a.p.m.	03-06-2022	15.00	ACUITE A/Stable (Reaffirmed)
Cash Credit	11-03-2019	10.37% p.a.p.m.	Not Applicable	10.00	ACUITE A/Stable (Reaffirmed)
Term Loan	18.12.2019	12.50% p.a.p.m	10.07.2022	4.83	ACUITE A/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Stable (Assigned)
Term Loan	08.01.2020	12.00% p.a.p.m	28.02.2022	10.00	ACUITE A/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.17	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 (Reaffirmed)
Proposed Secured Redeemable Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A/Stable (Assigned)

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### About Acuité Ratings & Research:

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