

Press Release

Ugro Capital Limited

December 24, 2020



Rating Reaffirmed and Assigned

| | |
|------------------------------------|--|
| Commerical Paper Programme* | Rs. 100.00 Cr. |
| Bank Loan Rating | Rs. 100.00 Cr. |
| Non-Convertible Debentures | Rs. 450.00 Cr. |
| Long Term Rating | ACUITE A/ Outlook: Stable (Reaffirmed and Assigned) |
| Short Term Rating | ACUITE A1 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs. 100.00 Cr bank facilities and on the Rs. 450.00 Cr non-convertible debentures of Ugro Capital Limited (Ugro). The outlook is '**Stable**'

Acuité has reaffirmed the short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs. 100.00 Cr Commercial Paper Programme of Ugro Capital Limited (Ugro).

The rating factors in experienced management and the ability of the management to attract funding from marquee investors. The rating also factors in the high capitalization levels and low gearing levels. The capital adequacy ratio stood at 85.77 percent as on September 30, 2020 and 88.25 percent as on March 31, 2020 coupled with low gearing of 0.41 times as on September 30, 2020 and 0.28 times March 31, 2020. Ugro has a networth of Rs. 943.92 Cr. as on September 30, 2020 out of which it has built on-book loan portfolio of Rs. 932.09 Cr .The rating derives comfort from the business model which 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.

The rating is, however, constrained due to 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 loan book stood at Rs. 79.57 Crore as on March 31, 2019 which has grown to Rs. 860.90 Crore as on March 31, 2020 and Rs. 977.96 Crore as on September 30, 2020. Going forward, the ability of company to scale up its loan book, while containing its asset quality and operating expenses will be key monitorable.

About the company:

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, commercial paper and non-convertible debentures 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

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

Key Rating Drivers

Strengths

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

Ugro commenced lending 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 include private equity players, insurance companies and family offices. The institutional investors include ADV Partners, NewQuest Asia Investments III Limited, PAG (PE firm with a focus on the Asia-Pacific region), Samena Capital (a MENA focused PE investment group), DBZ Cyprus 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. 943.92 Cr. as on September 30, 2020 and Rs. 921.52 Cr. as on March 31, 2020 against which Ugro had earning assets of Rs. 1,128.13 Cr and Rs. 1,038.48 Cr respectively. The company's capital adequacy ratio stood at 85.77 percent as on September 30, 2020 and 88.25 percent as on March 31, 2020. The high capital adequacy (i.e. low gearing, 0.41x as on September 30, 2020 and 0.28x as on March 31, 2020) provides Ugro adequate headroom to raise additional borrowings to support its future growth trajectory.

Acuité 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 subsectors.

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 a 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.

Acuité 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**

Ugro commenced its lending 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. 1,284.40 Cr in FY2020 and Rs. 326.20 Cr. in H1FY2021. The disbursements through a network of nine branches, pools brought out 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 company also plans to expand its branch network in Tier III and Tier IV cities across India. As on March 31, 2020, total outstanding loan portfolio was Rs. 860.90 Cr. which grew to Rs. 977.96 Cr as on September 30, 2020. Ugro's Gross Non-performing Assets (GNPAs) stood at Rs. 20.26 Cr. (i.e. 2.07 percent of its loan portfolio) as on September 30, 2020 which increased from 8.18 Cr (i.e. 0.95 percent of its loan portfolio) as on March 31, 2020. Since most of these exposures were initiated in FY2020 the seasoning of the loan book is yet to be demonstrated and it will remain key monitorable.

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 FY2020 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 1.90 percent Return on Average Assets (RoAA) as on March 31, 2020, despite having low gearing levels. Going forward, the operating costs are expected to be higher on account expansion of branch and employee network. Acuité 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 faced pressures on their cash flows due to the nationwide lockdowns. Over the near term, Ugro could face challenges, in terms of higher credit costs on its existing exposures in certain sectors like 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, Acuité 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

- Growth in AUM, profitability and asset quality
- Maintaining granularity in the portfolio
- Maintenance of adequate Liquidity

Material Covenants

Ugro is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client vide mail dated December 23, 2020. 'Ugro is adhering to all terms and conditions stipulated as covenants by all its lenders/investors'.

Liquidity Position: Adequate

As per the asset liability management (ALM) statement dated September 30, 2020, Ugro has positive cumulative mismatch in all of its maturity buckets. The company has unencumbered cash and cash equivalents of ~Rs. 160 Cr. and unutilised bank lines (Cash Credit and Commercial Paper) of Rs. 15.58 Crore as on November 30, 2020. The company is adequately capitalised with networth of Rs. 943.92 Cr. coupled with a gearing of 0.41 times as on September 30, 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

Acuité 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

| | Unit | FY20 (Actual) | FY19 (Actual) |
|---|---------|------------------|------------------|
| Total Assets | Rs. Cr. | 1190.90 | 866.08 |
| Total Income (Net of Interest Expense) | Rs. Cr. | 91.47 | 42.89 |
| PAT | Rs. Cr. | 19.52 | 7.61 |
| Net Worth | Rs. Cr. | 921.52 | 832.90 |
| Return on Average Assets (RoAA) | (%) | 1.90 | 1.68 |
| Return on Average Net Worth (RoNW) | (%) | 2.23 | 1.74 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 0.28 | 0.01 |
| Gross NPAs | (%) | 0.95 | 0.00 |
| Net NPAs | (%) | 0.57 | 0.00 |

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

None

Any other information

None

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>
- Commercial Paper - <https://www.acuite.in/view-rating-criteria-54.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 the Instrument/ Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------------|--|------------|------------------|------------------------------|
| May 08, 2020 | Term Loan | Long Term | 15.00 | ACUITE A/Stable (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE A/Stable (Reaffirmed) |
| | Term Loan | Long Term | 4.83 | ACUITE A/Stable (Assigned) |
| | Proposed Term Loan | Long Term | 10.00 | ACUITE A/Stable (Assigned) |
| | Term Loan | Long Term | 10.00 | ACUITE A/Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 50.17 | 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 (Reaffirmed) |
| | Proposed Secured Redeemable Non-Convertible Debentures | Long Term | 200.00 | ACUITE A/Stable (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) |

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|--------------------|--|------------|--------|-------------------------------|
| August 06, 2019 | Proposed Commercial Paper | Short Term | 100.00 | ACUITE A1 (Reaffirmed) |
| | Proposed Non- Convertible Debentures | Long Term | 100.00 | ACUITE A/Stable (Assigned) |
| | 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 | 30.03.2019, 28.06.2019 | 9.20% | 03.06.2022 | 7.92 | ACUITE A/Stable (Reaffirmed) |
| Cash Credit | 30.03.2019 | 10.65% | Not Applicable | 10.00 | ACUITE A/Stable (Reaffirmed) |
| Term Loan | 16.01.2020, 02.07.2020 | 11.75% | 10.07.2022, 10.012.2022 | 7.76 | ACUITE A/Stable (Reaffirmed) |
| Term Loan | 15.06.2020 | 10.05% | 15.06.2025 | 9.50 | ACUITE A/Stable (Reaffirmed) |
| Term Loan | 25.02.2020 | 12.00% | 28.02.2022 | 7.14 | ACUITE A/Stable (Reaffirmed) |
| Cash Credit | 11.09.2020 | 13.00% | Not Applicable | 10.00 | ACUITE A/Stable (Reaffirmed) |
| Term Loan | 11.09.2020 | 12.00% | 31.08.2024 | 40.00 | ACUITE A/Stable (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 7.68 | ACUITE A/Stable (Reaffirmed) |

Non-Convertible Debentures and Commercial Paper

| ISIN | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|----------------|---|------------------|----------------|----------------|-----------------------------|---------------------------------|
| INE583D07026 | Secured Non- Convertible Debentures | 08.06.2020 | 10.00% | 08.06.2023 | 50.00 | ACUITE A/Stable (Reaffirmed) |
| INE583D07042 | Secured Non- Convertible Debentures | 26.06.2020 | 10.00% | 26.12.2021 | 50.00 | ACUITE A/Stable (Reaffirmed) |
| INE583D07059 | Secured Non- Convertible Debentures | 11.09.2020 | 10.25% | 09.03.2021 | 35.00 | ACUITE A/Stable (Reaffirmed) |
| INE583D07067 | Secured Non- Convertible Debentures | 21.10.2020 | 9.88% | 21.04.2022 | 20.00 | ACUITE A/Stable (Reaffirmed) |
| Not Applicable | Proposed Secured Non- Convertible Debentures | Not Applicable | Not Applicable | Not Applicable | 145.00 | ACUITE A/Stable (Reaffirmed) |
| Not Applicable | Proposed Secured Non- | Not Applicable | Not Applicable | Not Applicable | 150.00 | ACUITE A/Stable (Assigned) |

| | | | | | | |
|----------------|---------------------------|----------------|---------------------|----------------|-------|------------------------|
| | Convertible Debentures | | | | | |
| INE583D14014 | Commercial Paper | 15.07.2020 | 7.95% | 15.07.2021 | 10.00 | ACUITE A1 (Reaffirmed) |
| Not Applicable | Commercial Paper | 11.12.2020 | 7.05% (9 Months) | 09.09.2021 | 21.00 | ACUITE A1 (Reaffirmed) |
| Not Applicable | Proposed Commercial Paper | Not Applicable | Not Applicable | Not Applicable | 69.00 | ACUITE A1 (Reaffirmed) |

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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 6,000 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 Mumbai.

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