

## Press Release

### Ugro Capital Limited

December 24, 2020



### Rating Reaffirmed and Assigned

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

\* Refer Annexure for details

### Rating Rationale

Acuite 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**'

Acuite 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 disbursement 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

Acuite 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.

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 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 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.

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**

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. 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 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, 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

- 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

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

	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)

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-Convertible Debentures	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:

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