

Press Release

Unacco Financial Services Private Limited

January 15, 2021

Rating Assigned



Total Facilities Rated	Rs.90.00 Cr.
Long Term Rating	ACUITE BB/ Stable (Assigned)

*Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.90.00 crore bank facilities of Unacco Financial Services Private Limited (UFSPL).

The rating continues to reflect the experience of the management along with an established presence in the operating areas through other group companies. The strength is partially offset by modest scale of operations, geographic concentration and competition inherent from other established players of the market.

About UFSPL:

Assam based, Unacco Financial Services Private Limited (UFSPL) was incorporated in 1992 as a Non-Deposit taking Non-Banking Finance Company-Micro Finance Institution (NBFC-MFI). UFSPL provides microcredit, through joint liability group (JLG) model, as a source of financial services for small entrepreneurs and small businesses where access to banking and related services are lacking. UFSPL is head quartered in Guwahati, Assam. The company has its operations spread across 53 branches in Assam, Mizoram, Tripura, West Bengal, Manipur, Meghalaya, Arunachal Pradesh and Sikkim.

Analytical Approach:

Acuité has considered the standalone view on UFSPL's business and financial risk profile to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

UFSPL is promoted by Mr. Irabanta Singh, who has over a decade experience in microfinance industry. He is adequately supported by other board members, Mr. Prabal Kuma Mitra, who is ex-deputy managing director from SBI; Mr. Sunil Shah, a practicing Chartered Accountant holding experience with various banks and NBFC MFI's; W. Prabin Singh, nominee director from NEDFI, who has over a decade experience in MFI operations; and Mrs. Sucheta Devi, Nominee Director from DEWT. The extensive experience of the promoters is reflected through established relationship with its customers and bankers.

UFSPL is engaged in microfinance lending in Assam since 2008, and has established its presence since then by way of extending credit to Joint liability groups (JLG). The company has expanded its operations to 7 other states named Mizoram, Tripura, West Bengal, Manipur, Meghalaya, Arunachal Pradesh and Sikkim. It currently operates through a network of 53 branches spread across 31 districts. UFSPL is associated with 61,507 customers forming 18,854 JLG's. UFSPL's loan portfolio stood at Rs.102.68 crore on Sep 30, 2020.

Acuité believes that UFSPL will continue to benefit from its established position and the management's experience in microfinance lending.

• **Modest scale of operations albeit moderate asset quality**

UF SPL began its operations in MFI sector in FY2007. Its overall loan portfolio stood at Rs.109.44 Cr as on March 31, 2020 which grew from Rs.73.33 Cr as on March 31, 2018. The growth in loan portfolio was mainly on account of additions in network of branches to 53 as on Sep 30, 2020 from 29 branches as on Mar 31, 2018. This has resulted in a steady growth in its loan portfolio.

UF SPL primarily focuses on lending to Joint Liability Group's (JLG) of women. The stringent credit assessment and monitoring processes in place have enabled the company to maintain moderate asset quality in previous years. However, as on March 31, 2020, the GNPA and NNPA has increased to 3.47% and 0.57% from 0.16% and 0% as on March 31, 2019, respectively. This sharp rise in GNPA was on account of pandemic COVID-19 and natural calamity like floods in key operating area. The company is expecting it to recover in near to medium term. The company had demonstrated a healthy collection efficiency in pre-covid period and recovery can be seen in last 5 months ending at October, 2020.

Going ahead, Acuite believes that the ability of the company to demonstrate growth in its loan assets while maintaining asset quality will be crucial to the credit profile of the company.

Weaknesses

• **High geographic concentration**

UF SPL's operations are concentrated in Assam accounting for 73 per cent of its total portfolio as on 30 Sep, 2020 followed by Tripura and West Bengal both at 7 per cent as on 30 Sep 2020. While the company is gradually expanding into other states such as Mizoram and Manipur, there is an overall concentration of the lending business in the north eastern part of the country. Generally, the risk profile of a microfinance company with a geographically diversified portfolio is more resilient as compared to that of an entity with a geographically concentrated portfolio.

• **Susceptibility of operating performance to regulatory environment and access to funding at competitive prices**

UF SPL's overall portfolio stood at Rs. 102.68 cr as on Sep 30, 2020 as against Rs.109.44 cr as on March 31, 2020 and Rs. 113.42 Cr. as on March 31, 2019. The ROAA has also declined to 1.36 per cent for March 31, 2020 from 3.22 per cent for FY2019, due to increase in operating expense in FY2020.

UF SPL is susceptible to the changes in the regulatory framework and policies pertaining to Capital Adequacy and Provisioning norms. Further, recent NBFC crisis, coupled with cautious and selective approach adopted by banks and financial institutions has resulted in difficulties faced by players like UF SPL to raise funding at competitive rates thereby pressurising profitability as seen in the past.

Acuite believes that the ability of UF SPL to grow its loan book, while maintaining its profitability, will be a key monitorable.

Rating Sensitivities

- Movement in earnings and profitability metrics
- Changes in the regulatory environment

Material Covenants:

None

Liquidity Position: Adequate

UF SPL has adequately matched cash flow as on Sep 30, 2020, with cumulative positive mismatch for up to 1 year bucket. Most of the loans are of upto two years tenure, while the borrowings are upto tenure of three years, leading to positive mismatches over the near to medium term. The company has unencumbered cash balance of Rs. 6.51 Cr as on March 31, 2020.

Outlook: Stable

Acuite believes that UFSPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment. The outlook may be revised to 'Positive' in case of higher than expected growth in loan book while improvement in key operating metrics and asset quality. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital structure.

About the Rated Entity - Key Financials:

Parameters	Unit	FY20 (Actual)	FY19(Actual)
Total Assets	Rs. Cr.	130.79	134.82
Total Income*	Rs. Cr.	13.94	11.60
PAT	Rs. Cr.	1.80	3.54
Net Worth	Rs. Cr.	27.75	25.95
Return on Average Assets (ROAA)	(%)	1.36	3.22
Return on Average Net Worth (RONW)	(%)	6.72	14.74
Total Debt/Tangible Net Worth (Gearing)	Times	3.54	4.03
Gross NPA	(%)	3.47	0.16
Net NPA	(%)	0.57	0.00

* Total income equals to Net interest income plus other income

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

Crisil, vide its press release dated June 22, 2020 had denoted the rating of UNACCO FINANCIAL SERVICES PRIVATE LIMITED as 'CRISIL B/Stable (Issuer Not Cooperating; Migrated from BB/ Stable)' on account of lack of adequate information required for monitoring of ratings.

Brickworks, vide its press release dated December 06, 2019 had denoted the rating of UNACCO FINANCIAL SERVICES PRIVATE LIMITED as 'CRISIL BB/Stable (Issuer Not Cooperating)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Entities in Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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)

Not Applicable

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Term Loan	22-Oct-2018	11.00%	29-Aug-2021	2.24	ACUITE BB/ Stable (Assigned)
-	Term Loan	30-Nov-2018	12.50%	30-Jan-2021	2.04	ACUITE BB/ Stable (Assigned)
-	Term Loan	07-Mar-2019	13.40%	25-Mar-2022	8.00	ACUITE BB/ Stable (Assigned)

-	Term Loan	03-Oct-2018	8.00%	27-Feb-2022	0.58	ACUITE BB/ Stable (Assigned)
-	Term Loan	05-Oct-2017	8.00%	13-Mar-2021	0.61	ACUITE BB/ Stable (Assigned)
-	Term Loan	03-Oct-2018	8.00%	27-Feb-2022	0.73	ACUITE BB/ Stable (Assigned)
-	Term Loan	01-Jul-2019	8.00%	17-Jul-2022	4.70	ACUITE BB/ Stable (Assigned)
-	Term Loan	01-Jul-2019	8.00%	11-Feb-2023	0.83	ACUITE BB/ Stable (Assigned)
-	Term Loan	05-Oct-2017	8.00%	13-Apr-2021	0.30	ACUITE BB/ Stable (Assigned)
-	Term Loan	05-Oct-2017	12.25%	21-Feb-2021	0.24	ACUITE BB/ Stable (Assigned)
-	Term Loan	03-Oct-2018	12.25%	28-Jun-2022	1.15	ACUITE BB/ Stable (Assigned)
-	Term Loan	01-Jul-2019	12.25%	11-Feb-2023	0.83	ACUITE BB/ Stable (Assigned)
-	Term Loan	10-Mar-2019	12.25%	19-Mar-2022	3.49	ACUITE BB/ Stable (Assigned)
-	Term Loan	01-Jul-2019	12.25%	29-Aug-2022	2.50	ACUITE BB/ Stable (Assigned)
-	Term Loan	Not Available	12.25%	Not Available	1.00	ACUITE BB/ Stable (Assigned)
-	Term Loan	01-Jul-2019	12.25%	23-Dec-2022	1.89	ACUITE BB/ Stable (Assigned)
-	Term Loan	19-Mar-2019	14.50%	15-Mar-2022	7.06	ACUITE BB/ Stable (Assigned)
-	Term Loan	28-Jan-2019	16.50%	28-Feb-2021	3.29	ACUITE BB/ Stable (Assigned)
-	Term Loan	22-Feb-2018	14.50%	09-Mar-2023	15.00	ACUITE BB/ Stable (Assigned)
-	Term Loan	08-Jun-2018	14.00%	26-Jun-2023	10.00	ACUITE BB/ Stable (Assigned)
-	Term Loan	29-Mar-2018	14.75%	18-Apr-2021	1.00	ACUITE BB/ Stable (Assigned)
-	Term Loan	24-Sep-2018	14.35%	27-Sep-2021	5.72	ACUITE BB/ Stable (Assigned)
-	Term Loan	18-Sep-2019	13.75%	21-Sep-2021	5.10	ACUITE BB/ Stable (Assigned)
-	Term Loan	11-Jun-2019	15.00%	17-Jun-2021	2.33	ACUITE BB/ Stable (Assigned)
-	Term Loan	03.07.2019	15.15%	17-Apr-2021	3.19	ACUITE BB/ Stable (Assigned)
-	Term Loan	01.10.2019	15.50%	11-Jul-2021	2.36	ACUITE BB/ Stable (Assigned)
-	Term Loan	06-Sep-2019	6.43%	13-Nov-2022	1.86	ACUITE BB/ Stable (Assigned)
-	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.96	ACUITE BB/ Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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