

Press Release

Unacco Financial Services Private Limited

July 01, 2021

Rating Downgraded



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|--------------------------------|--|
| Total Facilities Rated* | Rs.90.00 Cr. |
| Long Term Rating | ACUITE C/ACUITE D (Downgraded from ACUITE BB/ Stable) |

*Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE D**' (read as **ACUITE D**) and '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.90.00 crore bank facilities of Unacco Financial Services Private Limited (UF SPL).

Reason for rating downgrade

The rating downgrade is on account of ongoing delays in the account. The cash credit account is overdrawn since the month of June, 2021 and it is classified as SMA -0. The company has been facing challenges to collect dues from operating area, Assam due to which liquidity position of the company is severely impacted.

About UF SPL:

Assam based, Unacco Financial Services Private Limited (UF SPL) was incorporated in 1992 as a Non-Deposit taking Non-Banking Finance Company-Micro Finance Institution (NBFC-MFI). UF SPL 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. UF SPL 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:

Acuite has considered the standalone view on UF SPL's business and financial risk profile to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

UF SPL 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.

UF SPL 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. UF SPL is associated with 61,507 customers forming 18,854 JLG's. UF SPL's loan portfolio stood at Rs.102.68 crore on Sep 30, 2020.

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

Weaknesses

- **Delays in debt servicing**

The repayment of the term loans is overdue since June, 2021 in one of the bank and classified as SMA-0. This is mainly due the stretched liquidity and impact of lockdown on the micro finance institutions.

- **High geographic concentration**

UFSPL'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**

UFSPL'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.

UFSPL 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 UFSPL to raise funding at competitive rates thereby pressurising profitability as seen in the past.

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

Rating Sensitivities

- Curing of Default

Material Covenants:

None

Liquidity Position: Poor

The company has poor liquidity marked by overdue in term loan repayments which are yet to be regularised. Due to the ongoing pandemic the collection efficiency has taken a hit which has impacted the liquidity. Acuite believes the liquidity position of the company will continue to remain poor over the medium.

Outlook: Not Applicable

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 |

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|---|-------|------|------|
| 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)

| Date | Name of Instrument/ Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-------------|-----------------------------------|-----------|-----------------|------------------------------|
| 15-Jan-2021 | Term Loan | Long Term | 2.24 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 2.04 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 8.00 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.58 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.61 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.73 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 4.70 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.83 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.30 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.24 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 1.15 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 0.83 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 3.49 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 2.50 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | | ACUITE BB/ Stable (Assigned) |

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|--|------------------------|-----------|-------|------------------------------|
| | Term Loan | Long Term | 1.00 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 1.89 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 7.06 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 3.29 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 15.00 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 10.00 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 1.00 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 5.72 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 5.10 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 2.33 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 3.19 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 2.36 | ACUITE BB/ Stable (Assigned) |
| | Term Loan | Long Term | 1.86 | ACUITE BB/ Stable (Assigned) |
| | Proposed Bank Facility | Long Term | 1.96 | ACUITE BB/ Stable (Assigned) |

***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 C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 30-Nov-2018 | 12.50% | 30-Jan-2021 | 2.04 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 07-Mar-2019 | 13.40% | 25-Mar-2022 | 8.00 | ACUITE D (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 03-Oct-2018 | 8.00% | 27-Feb-2022 | 0.58 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 05-Oct-2017 | 8.00% | 13-Mar-2021 | 0.61 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 03-Oct-2018 | 8.00% | 27-Feb- 2022 | 0.73 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 01-Jul-2019 | 8.00% | 17-Jul-2022 | 4.70 | ACUITE C (Downgraded from ACUITE BB/Stable) |

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|---|-----------|---------------|--------|---------------|-------|--|
| - | Term Loan | 01-Jul-2019 | 8.00% | 11-Feb-2023 | 0.83 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 05-Oct-2017 | 8.00% | 13-Apr-2021 | 0.30 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 05-Oct-2017 | 12.25% | 21-Feb-2021 | 0.24 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 03-Oct-2018 | 12.25% | 28-Jun-2022 | 1.15 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 01-Jul-2019 | 12.25% | 11-Feb-2023 | 0.83 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 10-Mar-2019 | 12.25% | 19-Mar-2022 | 3.49 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 01-Jul-2019 | 12.25% | 29-Aug-2022 | 2.50 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | Not Available | 12.25% | Not Available | 1.00 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 01-Jul-2019 | 12.25% | 23-Dec-2022 | 1.89 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 19-Mar-2019 | 14.50% | 15-Mar-2022 | 7.06 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 28-Jan-2019 | 16.50% | 28-Feb-2021 | 3.29 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 22-Feb-2018 | 14.50% | 09-Mar-2023 | 15.00 | ACUITE D (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 08-Jun-2018 | 14.00% | 26-Jun-2023 | 10.00 | ACUITE D (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 29-Mar-2018 | 14.75% | 18-Apr-2021 | 1.00 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 24-Sep-2018 | 14.35% | 27-Sep-2021 | 5.72 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 18-Sep-2019 | 13.75% | 21-Sep-2021 | 5.10 | ACUITE C (Downgraded from ACUITE BB/Stable) |

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|---|------------------------|----------------|----------------|----------------|------|--|
| - | Term Loan | 11-Jun-2019 | 15.00% | 17-Jun-2021 | 2.33 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 03.07.2019 | 15.15% | 17-Apr-2021 | 3.19 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 01.10.2019 | 15.50% | 11-Jul-2021 | 2.36 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Term Loan | 06-Sep-2019 | 6.43% | 13-Nov-2022 | 1.86 | ACUITE C (Downgraded from ACUITE BB/Stable) |
| - | Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 1.96 | ACUITE C (Downgraded from ACUITE BB/Stable) |

Contacts

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|---|--|
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About Acuité Ratings & Research:

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