

Press Release

Unity Small Finance Bank Limited



November 11, 2021

Rating Assigned

Non-convertible Debenture	Rs.375.00 Cr.
Long Term Rating	ACUITE PP-MLD A- (Rating under watch with developing implications) (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE PP-MLD A-**' (**read as ACUITE Principal Protected Market Linked Debentures A Minus**) on the Rs.375.00 Cr. principal protected market linked debentures of Unity Small Finance Bank Limited (UNITY SFB). The rating is kept '**under watch with developing implications.**'

Unity Small Finance Bank Limited (UNITY SFB), incorporated on Aug 25, 2021 was granted a Small Finance Bank licence on October 12, 2021 by Reserve Bank of India (RBI). UNITY SFB is formed as the consortium of Centrum Financial Services Ltd. (CFSL) , MSME lending arm of Centrum Group and Resilient Innovations Private Ltd. (RIPL) ('Bharat Pe'). As a part of the arrangement to operationalize this license, all the assets and liabilities of CFSL and Centrum Microcredit Limited (CML) have been transferred to UNITY SFB for 51% stake with effect from November 1, 2021 while Bharat Pe has infused capital as cash for its 49% stake. CFSL is the promoter company for UNITY SFB and Bharat Pe with balance 49% stake is classified as 'Person acting in Concert'.

The rating takes into account the parentage of UNITY SFB (51% held by Centrum Group as the promoter and 49% by RIPL as 'Person Acting in Concert') as well as the benefits it is expected to derive from the management's experience in MSME and MFI lending. While Centrum Group brings with it the lending expertise and infrastructure, Bharat Pe brings with it the digital capabilities which shall facilitate scaling up of loan portfolio. Bharat Pe has emerged as a formidable player in digital payments space and has raised over US\$ 650 million in equity and debt, till date.

UNITY SFB's initial capital is Rs.1,105 Cr. as on November 01,2021. While higher initial capital provides ample room to the entity for smooth transition from NBFC to SFB given that the entity may need some time to scale up its retail deposits base, the capital position shall be contingent upon the terms and conditions of the proposed merger with Punjab and Maharashtra Co-operative Bank (PMC Bank).

The rating is constrained by the extremely weak financial position of PMC bank as evident from the reported negative networth, which can have a significant bearing on the capital position and solvency profile of UNITY SFB post amalgamation. However, Acuité understands that several regulatory dispensations and temporary relaxations may be provided to UNITY SFB to facilitate this amalgamation. The full details of the amalgamation scheme are currently not available and is currently under consideration of RBI and Government of India. Acuité also expects the profitability of UNITY SFB to be constrained in the near to medium term till the costs associated with maintenance of regulatory requirements (maintenance of CRR, SLR, Liquidity ratio), impending merger with PMC Bank and rise in initial operating expenses stabilize. Acuité understands that UNITY SFB shall adhere to regulatory requirements pertaining to capital adequacy and liquidity from November 01,2021.

The rating has been put under watch with developing implications since the complete details related to the scheme of amalgamation of PMC bank into UNITY SFB are not known at this stage. The aggregate quantum of liabilities to be borne by the amalgamated small finance bank and the extent of regulatory dispensation, if any that will be available is uncertain at this stage. Acuité believes that the success and the effectiveness of the amalgamation scheme will depend largely on the associated terms and conditions.

Acuité will continue to engage with UNITY SFB's management to understand the contours of the

amalgamation plan and monitor its progress. Acuité will resolve the watch once clarity emerges on the takeover of assets and liabilities of PMC Bank and its impact on the credit profile of UNITY SFB is ascertained.

About Unity Small Finance Bank Limited:

The Reserve Bank of India (RBI) issued a Small Finance Bank licence on October 12,2021 to the consortium of the CFSL, lending arm of Centrum Group and Resilient Innovations Private Ltd. (RIPL) ('Bharat Pe'). The new SFB has been incorporated as 'Unity Small Finance Bank Limited (UNITY SFB) on August 25,2021 with registered office in New Delhi. As a part of arrangement to operationalize this license, all the assets and liabilities of CFSL and CML has been transferred to UNITY SFB for 51% stake with effect from November 1, 2021 while Bharat Pe has infused capital for its 49% stake. CFSL, is the promoter company for UNITY SFB and Bharat Pe with balance 49% stake is classified as 'Person acting in Concert'. Going forward, PMC Bank is proposed to be amalgamated with UNITY SFB.

Analytical Approach:

Acuité has adopted a standalone approach to analyse the business and financial profile of UNITY SFB. The rating also takes into consideration support expected from the investors, Centrum Group through CFSL and Resilient Innovations Private Limited (RIPL) ('Bharat Pe')

Key Rating Drivers

Strengths

- Strong Parentage and synergies**

The Reserve Bank of India (RBI) had issued a Small Finance Bank licence on October 12,2021 to the consortium of the Centrum Financial Services Ltd. (CFSL), lending arm of Centrum Group and Bharat Pe. Centrum Group offers comprehensive services across Investment Banking (Equity & Debt), Stock Broking (Institutional & Retail), Wealth Management to HNIs and Family Offices and Affordable Housing finance in tier 2 & 3 cities. Its Asset Management business offers funds across Private Debt and Venture Capital. Bharat Pe has raised over US\$ 650 million in equity and debt, till date. The company's list of marquee investors includes Tiger Global, Ribbit Capital and Sequoia Capital. Recently, the company ventured into consumer fintech with the launch of its innovative products- 12% Club and postpe.

The new SFB was incorporated as 'UNITY SFB' on August 25,2021 and has commenced its business with capital of Rs.1,105 Cr. as against regulatory requirement of minimum initial networth of Rs.200 Cr. for SFBs. As a part of arrangement to operationalize this license, all the assets and liabilities of CFSL and CML has been transferred to UNITY SFB for 51% stake with effect from November 1, 2021 while Bharat Pe has infused capital for its 49% stake. CFSL is the promoter company for UNITY SFB and Bharat Pe with balance 49% stake is classified as 'Person acting in Concert'.

While higher initial capital provides ample room to the SFB for smooth transition from NBFC to SFB, the capital structure and adequacy shall be contingent upon the terms and conditions of PMC Bank merger given that UNITY SFB will need some time to scale up its retail deposits base. Nonetheless, it is expected that some regulatory dispensations and relaxations in terms of moratorium and staggered payment mechanism can be provided by RBI and Government of India to aid this amalgamation.

- Experienced Management & Board**

The group has put in place an experienced management team comprising professionals having significant expertise in their relevant domains. At the helm of affairs is Mr. Inderjit Camotra, currently holding position of Executive Director of CFSL, who has been appointed as Interim CEO of UNITY SFB and has vast experience having worked at reputed banks. Mr Ranjan Ghosh, Ex-Global Head of Commercial Banks & Asset Financing, Standard Chartered Bank and having close to 30 years of rich experience in the Banking & Financial Service Industry is the President of the SFB. Mr. Saurabh Srivastava having over 15 years of experience in Corporate Finance across various Indian and Foreign Financial Institutions is the Chief Risk Officer (CRO). Mr. Abhishek Baxi with more than 17 years of extensive experience in Accounts & Finance, Budgeting & Costing, Investor Relations, Financial & Regulatory Reporting, Internal Controls and Compliance is the Chief Financial Officer

(CFO). Mr. Sanjay Rele (Head Financial Markets & Treasury), a seasoned Treasury professional with career spanning over 2 decades across various banks and has carried out key functions across different Treasury functions in India and Overseas markets.

UNITY SFB has ensured that seasoned bankers would be representing the Board of Independent directors comprising of Mr. Subhash Kutte, who is currently associated with RBL as Senior Advisor having experience of over four decades and has worked in various capacities with RBL Bank, Mr. Basant Seth with experience of nearly two decades who was earlier associated with SBI as Independent Director, Syndicate Bank as Chairman and Managing Director (CMD) and SIDBI as Deputy Managing Director and Mr. Sandip Ghose carrying experience of nearly twenty five years across various functions in financial services industry.

Weakness

- **Impending merger of PMC Bank with UNITY SFB**

Punjab and Maharashtra Co-operative Bank (PMC Bank), a Multi-State Urban Co-operative Bank, was placed under moratorium in 2019 by RBI amid asset quality challenges that resulted in steep losses and consequent erosion in the bank's capital with reported negative networth. The board of directors were superseded by RBI-appointed administrator in the interests of the depositors and to secure proper management of the bank. In 2021, Centrum Financial Services Limited (CFSL) was granted in principle approval to set up a Small Finance Bank in pursuance of its offer to the Expression of Interest (EoI) to takeover PMC Bank. Further, UNITY SFB was incorporated on August 25,2021 and on October 12,2021, RBI granted SFB license to the consortium of CFSL and Bharat Pe. Acuité understands that while all the assets and liabilities of CFSL and CML stand transferred and UNITY SFB has commenced its operations, details related to the scheme of amalgamation of PMC bank into SFB are not known at this point of time as the same is underway with RBI and Government of India and consequently, the effectiveness of the integration with PMC Bank is yet to be seen and will remain as key monitorable metrics.

Acuité will continue to engage with UNITY SFB's management to understand the contours and monitor the progress regarding the merger.

- **Stabilisation and scalability of operations**

While UNITY SFB has strong parentage with capital of Rs.1,105 Cr., its profitability is expected to be subdued in the near to medium term till the costs associated with maintenance of regulatory requirements (maintenance of CRR, SLR, Liquidity ratio), impending merger with PMC Bank and rise in initial operating expenses stabilize. Acuité understands that UNITY SFB shall adhere to regulatory requirements pertaining to capital adequacy and liquidity from November 01,2021. Further, UNITY SFB's ability to sustainably scale up its operations in the backdrop of uncertainty regarding outcome of PMC merger will be key monitorable.

Rating Sensitivities

- Effectiveness of integration with PMC bank
- Capitalisation and solvency position
- Continued parent support
- Ability to profitably scale up operations

Material Covenants

Not Applicable

Liquidity Position: Adequate

Given the fresh capital infusion by Bharat Pe in UNITY SFB, liquidity position of the SFB on November 01,2021 is estimated at ~Rs.1050 Cr. Further, cash and liquid assets (unencumbered) of CML and CFSL combined stood at Rs.284.6 Cr. as on September 30,2021 as against debt obligations for six months ended March 2021 aggregating to Rs.351.4 Cr. Average monthly portfolio collections of CML and CFSL combined for the period April to August 2021 were ~Rs.187 Cr. While the current liquidity position is adequate, the near term liquidity adequacy shall hinge upon the contours of PMC Merger with respect to the depositors' repayment plan. Acuité expects some regulatory dispensations and extension of deposit moratoriums etc to aid this amalgamation. Additionally, UNITY SFB shall be issuing warrants amounting to Rs.1900 Cr. to the existing shareholders so as to ensure that adequate capital is available and on standby given the

impending finalization of terms and conditions surrounding the merger.

Outlook: Not Applicable

About the Rated Entity - Key Financials

	Unit	Nov 01, 2021# (Provisional/ Estimated)
Total Assets	Rs. Cr.	2,477
Total Income	Rs. Cr.	*
PAT	Rs. Cr.	*
Networth / Equity Infusion including security premium	Rs. Cr.	1,105
Return on Average Assets (RoAA)	(%)	*
Return on Net Worth (RoNW)	(%)	*
Total Debt/Tangible Net Worth (Gearing)	Times	1.21
Gross NPA's	(%)	*
Net NPA's	(%)	*

*Not Available

#Effective from November 2021 excluding impact of PMC Bank merger

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

None

Any other information

None

Applicable Criteria

- Banks And Financial Institutions - <https://www.acuite.in/view-rating-criteria-45.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 1 – Details of instruments rated

Lender Name	ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Available	Not Available	PP-MLDs	Not Applicable	Not Applicable	Not Applicable	375.00	ACUITE PP-MLD A- (Ratings under watch with developing implications) (Assigned)

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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 8,850 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 KanjurMarg, Mumbai.

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