

Press Release

Unity Small Finance Bank Limited

November 11, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	375.00	PP-MLD ACUITE A- Stable Reaffirmed Remove from Rating Watch	-
Total Outstanding Quantum (Rs. Cr)	375.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 outlook is revised from **'under watch with developing implications'** to **'Stable'**.

Rationale for the rating

The revision in outlook is primarily driven by successful implementation of the scheme of amalgamation with Punjab and Maharashtra Cooperative Bank (PMC). PMC was amalgamated with Unity Small Finance via the scheme of amalgamation approved by the Reserve Bank of India (RBI) with effect from January 25, 2022. USFB is promoted by the Centrum Group in partnership with Bharatpe holding 51 percent and 49 percent respectively. 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, 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.

The rating takes into account the adequate capitalization levels and comfortable liquidity profile of the bank. The bank reported healthy capitalizations marked by a networth of Rs. 1796.92 Cr. as on September 30, 2022. The bank also reported adequate CAR levels of 62.75 percent as on September 30, 2022. Staggered payment mechanism, which allows the depositor's settlement to happen over a period of 10 years provides sufficient liquidity cushion to the bank, accordingly bank had a cash and cash equivalents of Rs. 523.24 Cr. and a liquidity coverage ratio (LCR) of 677.90 percent as on September 30, 2022. Acuite takes a note of the provision coverage ratio maintained by the bank on the overall advances including legacy book of PMC bank at 95.02 percent as on September 30, 2022.

The rating is constrained by limited track record of operation as a small finance bank, modest deposit franchise and small scale of operations. Even though the new schemes of USFB are attracting new customers, however it is in initial stage of building the deposit franchise. The rating is further constrained by losses reported by the bank. These losses are expected to continue for a couple of years on account of fair value treatment provided for the restructuring done for the liabilities. However, the bank is making operational profits in spite of high opex which are expected to remain elevated in near to medium term.

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'. PMC bank was amalgamated with Unity Small Finance Bank in accordance with the RBI scheme.

Analytical Approach

Acuité has adopted a standalone approach to analyse the business and financial profile of UNITY SFB.

Key Rating Drivers

Strength

- **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.

The new SFB was incorporated as 'UNITY SFB' on August 25, 2021 and has a networth of Rs.1796.92 Cr. as on September 30, 2022 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. Centrum group experience in MSME & MFI segment has helped the bank to grow its overall AUM. The AUM grew from Rs 2419.12 Cr. as on March 31, 2022 to Rs. 3148 Cr. as on September 30, 2022. The portfolio of the bank consists of loans towards Microfinance, SME, supply chain, MSME and PMC legacy book. USFB plans to focus on Microfinance, SME, SCF & MSME and would run down the portfolio of the PMC bank. USFB has maintained an overall PCR of 95.02 percent on the advances as on September 30, 2022. The net of the collections, the overall book of USFB is growing at ~Rs. 120 Cr. per month.

- **Experienced Management & Board**

The bank has put in place an experienced board & management team comprising professionals having significant expertise in their relevant domains. At the helm of affairs is Mr. Inderjit Camotra CEO and MD 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 3 decade of rich experience in the Banking & Financial Service Industry is the President of the SFB. Mr. Saurabh Srivastava around 2 decades of experience in Corporate Finance across various Indian and Foreign Financial Institutions is the Chief Risk Officer (CRO). Mr. Abhishek Baxi with around 2 decades 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's board is further supported by seasoned bankers comprising Mr. Vinod Rai (Independent Chairman), He is a former Comptroller and Audit general of India. Mr Rai has wide experience working in various capacities at both the central and state government. Mr. Subhash Kutte (Independent Director), 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 (Independent Director) 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 (Independent Director) carrying experience of nearly twenty five years across various functions in financial services industry. Ms. Renu Basu (Independent Director), a Sales and Marketing professional with over 3 decades of work experience in Customer Management, Revenue Management, Brand Building and Digital Marketing

- **Adequate Capitalization Levels:**

Unity Small Finance Bank reported healthy capitalization levels marked by a networth of Rs. 1796.92 Cr. and an outstanding debt of ~ Rs.272.36 Cr which resulted in gearing of 0.15 times as on September 30, 2022. The bank has repaid the grandfather borrowing of Centrum group of ~Rs. 1200 Cr. The bank also reported adequate CAR levels of 62.75 percent as on September 30, 2022. The bank is doing net additions to deposits to the tune of ~ Rs. 80 Cr. every month. Going forward financial losses might impact the capitalization levels of the SFB.

- **Staggered payment mechanism and comfortable liquidity profile:**

The depositor's settlement will happen over a period of 10 years, which supports the bank's ALM. As per the scheme of amalgamation the depositors upto 5 lacs would be paid upfront from the funds received via DICGC. The bank has paid 97 percent of the retail depositors (Depositors under 5 lacs). The pay back to DICGC has to be done at the end of 20 years.

As on September 30, 2022, the bank has a cash and cash equivalent of Rs. 523.24 Cr. The bank has investments of Rs. 2704 Cr. as on September 30, 2022 which consist of investments in Government securities, Shares, Debentures And bonds. The bank had an LCR of 677.90 percent and 977.27 percent as on September 30, 2022 and March 31, 2022 respectively indicating comfortable liquidity position.

Weakness

- **Small Scale of operation and limited track record of working as an SFB**

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). The bank operates from a branch network of 111 branches as on September 30, 2022. The bank advances grew from Rs. 2419.18 Cr. as on March 31, 2022 to Rs. 3148 Cr. as on September 30, 2022. For increasing the depositor base the bank has launched various schemes, however the SFB is in initial stage of building the deposit franchise. The bank has deposits of Rs. 1586 Cr. as on September 30, 2022. Post the amalgamation of PMC with unity SFB, the bank had reported a weak asset quality. The bank reported a GNPA of 56.29 percent and an NNPA of 6.02 percent as on September 30, 2022 (GNPA with PMC book: 56.29 percent and without PMC book: 4.62 percent). However, the bank has made adequate provisions for the same, the bank's PCR stood at 95.02 percent as on September 30, 2022.

- **Subdued earning profile**

The bank has a subdued earning profile as reflected by the losses reported by the bank. The bank reported losses of Rs. 99 Cr. for H1FY2023 and Rs. 149.61 Cr. for FY2022. These losses are expected to continue for a couple of years on account of fair value treatment provided for

the restructuring done for the liabilities. However, the bank reported an operating profit of Rs. 83 Cr. for H1FY2023 and Rs. 17 Cr. for FY2022 in spite of high opex which is expected to remain elevated in near to medium term. The bank also reported a Net Interest Income (NII) of Rs. 25.75 Cr. for Q2FY2023 and Rs. 9.06 Cr. for FY2022.

Acuite takes a note of improvement in profitability metrics on account of increased revenue, reduced borrowing and one time settlement of retail depositors. Going forward, UNITY SFB's ability to sustainably scale up its banking business will be key monitorable.

ESG Factors Relevant for Rating

Small Finance banks play a significant role in promoting financial inclusion in the country including facilitation of banking services in unbanked areas. Healthy corporate governance practices are important for sustainability in a bank's long-term performance. Some of the critical governance factors in the banking sector include board independence and diversity, effectiveness of the board sub committees, shareholders' rights as well as policies on KMP compensation and business ethics. Further, for the financial services sector, data privacy, security of financial instruments and responsible investments are relevant social factors. Other material social factors involve employee management and talent retention given the manpower intensive nature of banking operations as also various initiatives for community support and development. While the banking sector has low exposure to environmental risks, energy efficiency and electronic waste management carry moderate materiality.

Unity Small Finance Bank is a major Indian small finance bank. It is under the ownership of Centrum Group and Bharatpe of India based, with about 111 branches. USFB maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding its Grievance Redressal, related party transaction, principles guiding interest rate determination, etc. The board of directors of the company comprise of MD & CEO, and six directors out of which five are independent directors. The entity has audit committee, risk management committee, nomination and remuneration committee, credit committee, IT Strategy committee and corporate social responsibility committee. It continues to work on several community development initiatives through its corporate social responsibility. The bank makes all efforts towards conservation of energy, protection of environment and ensuring safety.

Rating Sensitivity

- Capitalisation and solvency position
- Continued parent support
- Ability to profitably scale up operations

Material Covenants

None

Liquidity Position

Adequate

The depositor's settlement will happen over a period of 10 years. As per the scheme of amalgamation the depositors upto 5 lacs would be paid upfront from the funds received via DICGC. The bank has paid 97 percent of the retail depositors (Depositors under 5 lacs).

As on September 30, 2022, the bank had Investments of Rs. 2704.77 Cr. which consist of investments in Government securities, Shares, Debentures and bonds. The bank had Cash and Cash equivalents of Rs. 523.24 Cr. as on as against outstanding debt of Rs. 272.36 Cr. as on September 30, 2022. Collection efficiency of the bank was at 97.21 percent as on September 30, 2022.

Acuite also takes a note of healthy LCR which stood at 677.90 percent and 977.27 percent as on September 30, 2022, and March 31, 2022 respectively.

Outlook: Stable

Acuite believes that Unity Small Finance Bank will maintain a 'Stable' outlook on the back of continuing support from the Centrum Group & BharatPe and its adequate capital position. The outlook may be revised to 'Positive' in case Unity Small Finance Bank is able to demonstrate a significant and sustainable recovery in profitability and significant improvement in the banking operations. The outlook may be revised to 'Negative' in case the bank faces challenges in maintaining the adequacy in its capital position and witnesses increased asset quality challenges.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)
Interest Income	Rs. Cr.	116.00
Interest Expense	Rs. Cr.	106.94
Profit After Tax (PAT)	Rs. Cr.	(149.61)
Deposits	Rs. Cr.	3822.37
Net Advances	Rs. Cr.	2419.13
Investments	Rs. Cr.	2771.05
Capital Adequacy	(%)	63.71
Return on Average Assets (RoAA)	(%)	(2.97)
Gross NPA	(%)	62.94
Net NPA	(%)	8.14

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

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Nov 2021	Non Convertible Debentures	Long Term	375.00	ACUITE PP-MLD A- (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	112.26	PP-MLD ACUITE A- Stable Reaffirmed Remove from Rating Watch
Not Applicable	Not Applicable	Proposed principal protected market linked debentures	Not Applicable	Not Applicable	Not Applicable	Complex	262.74	PP-MLD ACUITE A- Stable Reaffirmed Remove from Rating Watch

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Shashank Sinha Management Trainee-Rating Operations Tel: 022-49294065 shashank.sinha@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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