

## Press Release

### Utrayan Financial Services Private Limited

February 28, 2023



### Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 50.00 Cr. bank facilities of Utrayan Financial Services Private Limited (UFSPL). The outlook is '**Stable**'.

### Rating Rationale

The rating factors in the company's experienced management team and increased scale of operations. The company's AUM increased to Rs 201.74 Cr as on March 31, 2022 as compared to Rs 173.13 Cr as on March 31, 2021. The increase in AUM was on account of healthy disbursements in FY2022, with the total disbursements increasing to ~Rs 229.24 Cr. in FY2022 as compared to ~Rs 161.23 Cr. in FY2021. The AUM has further increased to Rs 215.21 Cr as on December 31, 2022 on account of growth in the off-book portfolio. Off-book portfolio constitutes ~19 percent of the total AUM as on December 31, 2022 (~3 percent as on March 31, 2022). The company reported sound asset quality with GNPA at 1.69 percent and Nil NNPA as on December 31, 2022. The rating is, however, constrained by UFSPL's geographically concentrated portfolio with the top 2 states (West Bengal and Bihar) contributing ~75 percent of the overall AUM as on December 31, 2022. The rating also factors in relatively high leveraged capital structure with a gearing of 4.25 times as on December 31, 2022 (5.24 times as on March 31, 2022).

Acuite believes, going forward, the ability of the company to maintain comfortable capitalization levels along with stable asset quality in the light of continuously evolving economic scenario will be a key monitorable.

### About the company

Private Limited incorporated in 1995) is RBI registered NBFC-MFI engaged in extending microfinance to through Joint Liability Group model.

UFSPL is promoted by Mr. Kartick Biswas (Founder and Managing Director) and Mr. Apu Dhar (Director). In 2001 Mr. Kartick Biswas established a society named Sahara Utrayan with an objective to alleviate poverty through economic intervention and social empowerment. The existing promoters then acquired an NBFC - Chotanagpur Trade and Investments Private Limited in 2008 and later renamed it as Utrayan Financial Services Private Limited and transferred business of Sahara Utrayan in 2009. UFSPL was registered as a NBFC-MFI in 2014. Over the years, company has expanded its operations from West Bengal to other states 9 states as on December 31, 2022.

### Analytical Approach

Acuite has considered the standalone financial and business risk profile of UFSPL to arrive at

the rating.

## **Key Rating Drivers**

### **Strength**

#### **Established track record of Promoters**

Utrayan Financial Services Private Limited (UFSPL) is a Kolkata based Non-Banking Finance Company – Microfinance Institution (NBFC-MFI). UFSPL is promoted by Mr. Kartick Biswas, Founder and Managing Director and Mr. Apu Dhar, Director. The promoters have over two decades of experience in the financial services industry and has played a vital role in building the company's current scale and presence in West Bengal. Mr. Biswas and Mr. Dhar are adequately supported with 4 other non-executive directors, Mr. Bijon Choudhury – ex DGM UCO Bank, Mr. Anindya Sen – ex Sr. Vice President (Eastern Zone) Axis Bank, Mr. Kanchan Chakrabarti – ex DGM United Bank of India, Mr. Sridhar Venkata Subramania Rallabandi – former Chief Risk Officer in Laxmi Vilas Bank and 1 nominee director Mr. Prasenjit Chowdhury engaged with SIDBI. The members of the boards have over 3 decades of experience in banking and financial services across various functions like credit, treasury, risk management amongst others. Over the years, UFSPL has successfully expanded its operations to 92 branches across 10 states. The company's AUM has grown to Rs. 215 Cr. as on December 31, 2022 as compared to Rs. 202 Cr. as on March 31, 2022.

Acuité believes that the company's growth prospects will be supported by the promoters experience in the industry along with their demonstrated track record of resource raising ability.

#### **Sound Asset Quality**

UFSPL primarily focuses on lending to Joint-Liability Group (JLG) lending model to offer loans to women borrowers primarily engaged in income generating activities. The company has been able to maintain sound asset quality parameters since a significant portion of the company's lending is towards clients with repayment track record. The company reported sound asset quality with GNPA at 1.69 percent and Nil NNPA as of December 31, 2022.

Acuité believes that UFSPL's ability to maintain sound asset quality level in the near to medium term will be key monitorable.

### **Weakness**

#### **Leveraged capital structure**

UFSPL is engaged in microfinance lending providing short term loans up to 12 - 24 months. The company extends micro-credit through the Joint Liability Group (JLG) model. The company's capital structure is marked by capital adequacy ratio of 25.96 percent as on December 31, 2022. The networth of the company stood at Rs. 39.74 Cr. and total debt stood at Rs. 169.15 Cr. as on December 31, 2022. UFSPL's AUM stood at Rs. 215 Cr. as on December 31, 2022, as against Rs. 202 Cr. as on March 31, 2022. UFSPL's gearing stood at 4.26 times as on December 31, 2022 (5.24 times as on March 31, 2022). The debt comprises term loans from Banks, NBFCs and FIs. To support the growth momentum UFSPL would require further debt and considering the already leveraged capital structure the promoters may be required to infuse additional equity to support any future business growth.

Acuité believes that company's ability to manage its gearing will be a key monitorable.

#### **Risk inherent to microfinance segment**

UFSPL primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks and it majorly focusses on the rural areas. Since financial assistance to economic challenged borrowers is a sensitive issue, from government standpoint the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like UFSPL to enforce collections, etc will have an impact on its operational performance. Further, the activities of microfinance companies like UFSPL are exposed to concentration risks. UFSPL has presence in 10 states with concentration in West Bengal (53.16 percent of total AUM), Bihar (25 percent of total AUM) as on December 31, 2022. This exposes the company to high geographical

concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions.

### Modest Profitability parameters

The financial risk profile of UFSPL moderated on account of reduction in Net Interest Income during FY2022. The Net Interest Income for FY2022 decline to Rs. 15.40 Cr. from Rs. 19.58 Cr. in FY2021. For 9M-FY2023, NII stood at Rs. 10.23 Cr. This further resulted in moderation of PAT levels from Rs. 2.48 Cr in FY2021 to Rs. 1.49 Cr in FY2022 translating into RoAA of 0.69 percent in FY2022 from 1.16 percent in FY2021. PAT and RoAA for 9MFY23 stood at Rs. 1.79 Cr and 1.04 percent (annualized) respectively.

Acuité believes that the growth in AUM on account of increasing disbursements will be a key factor in the scalability of a business while maintaining the profitability.

### Rating Sensitivity

- Decline in Profitability and asset quality. -
- Further increase in gearing levels.
- Increase in geographic concentration.
- Changes in regulatory environment governing micro finance activities

### Material Covenants

UFSPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

### Liquidity Position

#### Adequate

As per the Asset Liability Management (ALM) statement dated December 31, 2022, UFSPL has no negative cumulative mismatches in all of its maturity buckets. The company has cash and bank balances of ~ Rs. 26.40 Cr. as on December 31, 2022. The company raised fresh debt of Rs. 165.50 Cr during FY2022, and Rs. 46.40 Cr during 9MFY23.

### Outlook: Stable

Acuité believes UFSPL 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 improving profitability and asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the company faces asset quality or liquidity related challenges.

### Other Factors affecting Rating

None

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	242.53	191.13
Total Income (Net of Interest Expense)	Rs. Cr.	18.62	21.73
PAT	Rs. Cr.	1.49	2.48
Net Worth	Rs. Cr.	37.95	36.45
Return on Average Assets (RoAA)	(%)	0.69	1.16
Return on Average Net Worth (RoNW)	(%)	4.02	7

(Gearing)	Times	5.24	4.03
Gross NPAs	(%)	1.45	1.57
Net NPAs	(%)	0.44	0.57

#### 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>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.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](http://www.acuite.in).

#### Rating History:

Not Applicable

#### 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	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB-   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Nitin Chavan Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nitin.chavan@acuite.in">nitin.chavan@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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