



## DRAFT RATING RATIONALE

7 June 2020

### Unnati Microfin Private Limited

## Brickwork Ratings reaffirms the ratings on Unnati Microfin Private Limited at 'BWR BB+' and places the rating on Credit Watch with Negative Implications

### Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2019)	Present
Fund based (Term Loans)	50.00	50.00	Long Term	BWR BB+/Stable	BWR BB+ Reaffirmed Rating placed under Credit Watch with Negative Implications
<b>Total</b>	<b>50.00</b>	<b>50.00</b>	<b>INR Fifty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the long term rating of the bank loan facilities of Unnati Microfin Private Limited (Unnati) at BWR BB+' and places the rating under Credit Watch with Negative Implications. The rating continues to factor adequate capitalisation, moderate resource profile and adequate asset quality. The rating is however, constrained by small scale of operations with limited growth in portfolio and continued geographic concentration in Maharashtra which has been significantly impacted due to the COVID-19 pandemic.

The rating is placed under Credit Watch with Negative Implications, given the uncertainty regarding the extent of impact of COVID-19 on the credit profile of underlying borrowers of Unnati and the resultant impact on the company's collections, asset quality and liquidity.



## KEY RATING DRIVERS

### Credit Strengths

**Adequate capitalisation:** The company is adequately capitalised with total CRAR and tier I CRAR of 25.97% and 19.90% respectively as on 31 December 2019. The company has been able to reduce its gearing from 6.57 times as on 31 March 2018 to 4.18 times as on 31 Dec 2019. The company had raised equity of Rs 4 Crs in FY19. Accrual to net worth remains low due to low profitability. Net worth stood at Rs 11.65 Crs and net worth to net non-performing assets coverage stood at around 10 times as on 31 Dec 2019.

**Adequate asset quality:** The company's asset quality is adequate with gross non-performing assets (GNPA) and net non-performing assets (NNPA) of 1.21% and 0.63% respectively as on 31 March 2020 against 1.25% and 0.61% respectively as on 31 March 2019. BWR expects the asset quality to deteriorate in the near term due to the impact of COVID-19 on the credit profile of underlying borrowers. The company's ability to improve collections and manage its asset quality is a key rating monitorable.

### Credit Risks:

**Small scale of operations:** Unnati operates in 2 states with 25 branches across 8 districts. Unnati has an active borrower base of 39,327 borrowers as on 31 March 2020. Unnati's portfolio has remained almost stagnant in the last 18-24 months with limited growth due to challenges faced by the company in raising additional funds. There has been a marginal increase in portfolio from Rs 64.90 Crs as on 31 March 2018 to Rs 71.72 Crs as on 31 March 2019 and further to Rs 77.90 Crs as on 31 Mar 2020.

**Geographic Concentration:** The company currently operates in two states viz. Maharashtra and Gujarat. However, Maharashtra accounts for around 93% of its total loan portfolio. This exposes Unnati to a high geographic concentration risk. Also, Maharashtra is one of those states which has been significantly impacted by COVID-19 pandemic. Company will need to diversify its geographic presence, going forward.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of Unnati. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).



## **RATING SENSITIVITIES**

The ability of the company to improve its liquidity position, increase its total portfolio book, maintain its asset quality, improve its profitability and maintain healthy capitalisation are key rating sensitivities.

**Positive:** Steady portfolio growth backed by stable asset quality, improvement in profitability, healthy capitalisation and adequate liquidity are key rating drivers.

**Negative:** A sharp deterioration in asset quality, liquidity or profitability are key rating sensitivities.

## **LIQUIDITY POSITION: STRETCHED**

The company gives loans to micro borrowers for a tenure of 24 months. The company borrows in the form of term loans for a tenure of 2-3 years. This results in a favourable ALM position for the company. The company has repayment obligations of Rs 28 Crs between June to December 2020. Against this, the company has collections of Rs 46.41 Crs during the same period. Apart from this, the company had liquidity of Rs. 3.34 Crs and undrawn sanctions of Rs 15.5 Crs as on 31 May 2020. The company had got approval from 18 out of its 20 lenders for the first phase of moratorium till May 2020. The company has requested a principal moratorium from all its lenders for another 3 months till 31 August 2020. The liquidity is stretched and is dependent on collection efficiency for the next few months.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.



## COMPANY PROFILE

Unnati Microfin Private Limited (Unnati) is a Mumbai based, RBI registered NBFC-MFI, which commenced microfinance operations in April 2012. It was promoted by Mr. Hanumant Ranjane & his wife Mrs Sonali Ranjane by acquiring a RBI registered NBFC, Temperate Finance Private Limited and changed its name to Shree Om Credit Company Private Limited. Subsequently in March 2016 its name was changed to Unnati Microfin Private Limited. It received its NBFC-MFI license from RBI in Jan 2016. Mr. Hanumant Ranjane along with its family members own majority stake (76.7%) in Unnati as on 31 December 2019. Unnati offers microfinance loans under a joint liability group model.

## KEY FINANCIAL INDICATORS

Key Parameters	Units	FY18	FY19	9M-FY20
Result Type		Audited	Audited	Provisional
Total Income	Rs in Crs	10.27	12.67	11.48
Net Profit	Rs in Crs	0.27	0.42	0.36
Tangible Net Worth	Rs in Crs	6.87	11.26	11.60
Gearing	In times	6.57	3.56	4.18
Total AUM	Rs in Crs	64.90	71.72	75.26
Gross NPA	%	0.94	1.25	1.53
Net NPA	%	0.32	0.61	0.79
Total CRAR	%	21.65	29.90	20.72

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)**

Facilities	Current Rating			Rating History for the past 3 years			
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2019	2018	2017	
Term Loans	Long Term	50.00	BWR BB+ Credit Watch with Negative Implications	20.2.19	BWR BB+ Stable	NA	NA
<b>Total</b>		<b>50.00</b>	<b>INR Fifty Crores Only</b>				

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Banks & Financial Institutions](#)

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**Unnati Microfin Private Limited**

**ANNEXURE I - Details of Bank Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Lender</b>	<b>Type of Facilities</b>	<b>Amount Rated (Rs. in Crs)</b>
1	MAS Financial Services Ltd.	Term Loan	1.84
2	MAS Financial Services Ltd.	Term Loan (Subordinated debt)	3.00
3	Reliance Commercial Finance	Term Loan	0.29
4	Electronica Finance LTD.	Term Loan	3.83
5	IntelleGrow (Jain Sons Finlease Limited)	Term Loan	1.11
6	Ananya Finance For Inclusive Growth Pvt Ltd	Term Loan	6.42
7	NABFINS (NABARD Financial Services Ltd)	Term Loan	1.54
8	UCO Bank	Term Loan	1.70
9	Capital First Ltd / IDFC First Bank	Term Loan	6.05
10	Dhanlaxmi Bank Ltd	Term Loan	2.50
11	Visu Leasing and Finance Pvt Ltd (Incred)	Term Loan	1.71
12	Shriram City Union Finance Ltd	Term Loan	0.47
	<b>Total Existing Term Loans</b>		30.46
13	Proposed	Term Loan	19.54
	<b>Total Amount Rated</b>		50.00

Additional information is available at [www.brickworkratings.com](http://www.brickworkratings.com). The ratings above were solicited by, or on behalf of, the issuer, and therefore, Brickwork Ratings has been compensated for the provision of the ratings.



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