



Uttrayan Financial Services Private Limited

ICRA assigns MFI grading of M3+ to Uttrayan Financial Services Private Limited

Grading

Instrument	Grading Action
MFI Grading	M3+ Assigned

ICRA has assigned an MFI grading of M3+ (pronounced M Three plus) to Uttrayan Financial Services Private Limited (UFSP) ¹. The grading is valid till November 2016. The grading indicates that in ICRA's current opinion, the graded MFI's ability to manage its microfinance activities in a sustainable manner is Moderate. ICRA's MFI Grading is not a comment on any specific debt servicing capability of the MFI.

The grading factors in UFSP's track record of around 14 years in microfinance segment (initially as a society), moderate scale of operations (portfolio of Rs. 70.7 crs. as on Sep 2015 compared to Rs. 24.25 crs. as on Sep-14) while maintaining asset quality indicators (0+ dpd of 0.36% as on Sep-15), reasonable funding mix from eight lenders (as on Sep 30, 2015) and improvement in profitability during H1FY16 post two consecutive year (FY15 and FY14) of losses ². The grading is however constrained by UFSP's regionally concentrated nature of operations with the portfolio being concentrated across 10 districts of West Bengal and Assam (single branch in Assam) and challenges associated with high pace of growth. However management plans to diversify into the state of Bihar and open another branch in Assam to reduce the geographical concentration risks. UFSP's net worth (Rs. 6.17 crs. as on Sep-15) remains small with networth in relation to managed advances at 8.73% (as on Sep-15) ³, which would make sustaining current scale of operations difficult in absence of fresh external capital. The company plans to grow at a CAGR of 60-70% over the next three years and would need to raise additional equity capital of around Rs. 18 crore - Rs. 20 crore over this period (291% - 357% of Sep-15 net worth) and tie up funding sources to meet its growth plans. ICRA has noted that the company has plans to raise around 50% of its requirements capital from individual investors in the near term. The grading also takes note of the UFSP's experienced management team and adequate loan origination systems. However, the company's systems, processes and internal audit mechanisms are evolving and it is important to establish strong control mechanisms going ahead along with policies to manage the company's liquidity. Going forward, ability of the company to access external capital to maintain prudent capitalisation levels, improve the systems while scaling up operations and maintaining good loan origination, and strengthening the monitoring and internal audit systems, would be critical from a grading perspective.

The grading also factors in risks associated with the unsecured lending business, and UFSP's monoline nature of operations along with political and operational risks arising out of cash handling. Though access to credit bureaus is a positive, however, with the increase in regulatory maximum permissible ticket size from Rs 50,000 earlier to Rs 1 lakh, MFIs would need to carefully assess the debt repayment capacity of borrowers so as to limit the risk of over leveraging and the consequent threat to portfolio credit quality.

UFSP witnessed improvement in financial flexibility during the last 12 months driven by increase in number of lenders (2 BC lines and improved fund flow from one NBFC). However the cost of borrowings remain high (14.5%-15%) due to large reliance on NBFC funding. The company had funding relationships from 8 lenders, with bank funding comprising 43% as on Sep 2015 and NBFCs accounting for 51% of on-book debt. As for liquidity, UFSP's back up funding lines are not sufficient to sustain the current scale of operations and the company would need to tie-up larger lines from banks at competitive rates to reach

¹ For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² Post considering dividends on OCPS

³ incl. off BS book and Rs. 3crs. 9% Optionally Convertible Preference Shares from SIDBI as debt



the planned scale of operations. However the co. has a comfortable asset liability maturity profile due to well matched maturity of assets and liabilities. Going forward, regular flow of funds would be crucial to grow its portfolio at the planned pace.

UFSPL charges an IRR of 26% and 1% as percent as processing fees for its micro finance loans and loans under Yes Bank (Business Correspondent model). However IRR of 23% with nil processing fee is charged to the customers for loans under IDBI BC. With increasing portfolio size and the improved efficiencies of scale, UFSPL reported PBT/AMA of 3.1% during H1FY16 as compared to 0.4% during FY15. Although the company reported moderation in opex/ avg. managed advances from 10.4% to 8.1% during the same period the same remains high. Going forward, UFSPL's incremental profitability indicators are likely to improve on the back of improving efficiencies provided the company is able to grow its portfolio and maintain asset quality.

Company profile

Uttrayan Financial Services Pvt. Ltd. (UFSPL) was incorporated in April 1995 as Chotanagpur Trade and Investments Private Limited and is registered as a NBFC to carry out financing business. In October 2008, the company was taken over by its current promoters (Mr Kartick Biswas and Mr Apu Dhar) with the objective of carrying out micro-finance activities. Subsequently, the company was rechristened as UFSPL. UFSPL is engaged in the business of lending to individual women borrowers under 'Group based individual lending' model and is operating across 10 districts in West Bengal and Assam (single branch in Assam), operating from 55 branches as on Sep-14. Its corporate and registered office is in West Bengal. The company also acts as a Business Correspondent for IDBI Bank and Yes Bank for Microfinance operations. UFSPL reported a provisional profit before tax (PBT) of Rs. 1.29 crore during H1FY16 on a total advances (managed + own) of 70.7 crs. as compared to profit after tax of Rs. 0.16 crore (before dividend on OCPS) in FY15 on total advances of Rs. 51.6 crore as on Mar-15. UFSPL had a capital adequacy of 22.18% and Gross NPAs of 0.54% as on Sep 2015.

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