

Press Release

Unimoni Financial Services Limited

March 31st, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	324.00	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)	Revised from IVR A- (IVR Single A Minus) (Under Credit Watch with developing implications)
2.	Long Term Fund Based Facility – Working Capital Demand Loan	546.00	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)	Revised from IVR A-/ (IVR Single A Minus) (Under Credit Watch with developing implications)
3.	Long Term Fund Based Facility – Term Loan	44.35	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)	Revised from IVR A-/ (IVR Single A Minus) (Under Credit Watch with developing implications)
4.	Short Term Fund Based Facility - Overdraft	20.00	IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)	Revised from IVR A2+ (IVR Single A Two Plus) (Under Credit Watch with developing implications)
5.	Short Term Non Fund Facility – Treasury Limit	15.00	IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)	Revised from IVR A2+ (IVR Single A Two Plus) (Under Credit Watch with developing implications)
6.	Long Term /Short Term Non Fund Based Facility – Bank Guarantee	10.00	IVR BBB- (IVR Triple B Minus) & IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)	Revised from IVR A-/ (IVR Single A Minus) & IVR A2+ (IVR Single A Two Plus) (Under Credit Watch with developing implications)
	Total	959.35		

Detailed Rationale

The revision in rating is primarily on account of deterioration in the financial profile with losses continuing in 9MFY20, majorly due to the increase in operating expenses on business expansion into newer segments and relatively lower resource mobilization due to the current challenging environment for the NBFCs. Also, the rating is revised with reference to the ongoing allegations placed against Dr. BR. Shetty's (founding-promoter) complex share arrangements and Finabl's current cash flow position.

The rating derives strength from significant synergies across various product offering, diversified business model and improved capitalization levels. However, the rating strengths are partially offset by deterioration in financial and operational indicators, product concentration in the lending business and vulnerability to adverse gold price movement.

Key Rating Sensitivities

The credit watch with developing implications indicates that the ratings may be affirmed, downgraded or upgraded upon resolution. The rating watch will be resolved upon more clarity on the corporate governance of the company and also upon receiving of Audited financials of FY20.

List of key rating drivers with detailed description

Key Rating Strengths

Significant synergies across various product offering:

Since its inception, UFSL has diversified into varied business avenues, namely gold loans, foreign exchange services, money transfer, wallet services and insurance in order to diversify its revenue base. The business strategy is based on leveraging on Finabl (promoter managed company) to explore cross-selling opportunities across various verticals and exploiting the synergies within the various groups. In India, UFSL is a trusted partner to more than 2.5 million customers, served by 3500+ employees through 350+ branches across 300+ locations. They are present in 21 states of India.

Diversified business model:

UFSL, initially started as a money transfer agent for UAE Exchange Centre LLC (Abu Dhabi) and since then has expanded into diverse business areas. Over the last few years, the company has established its market position by scaling up its lending portfolio from Rs.

503.68 crore in FY17 to Rs. 819.19 crore in FY19 and further the loan book as on September 30, 2019 stands at Rs. 910.85 crore. The loan portfolio is currently operated across 21 states in FY19. Due to its reasonable presence in South-India, it has helped them develop a strong brand name in the industry. The company has adopted prudent lending practices as seen in its average LTV of ~75%. It has sustained net interest margin (NIM) of 15.04% in FY19 compared to 11.96% in FY18.

Improved Capitalisation Levels:

The existing shareholder (UX Holdings Limited) has infused Rs. 94.99 crore in the company by the way of share capital which has led to a substantial improvement in the capital structure and the overall financial position of the company. The overall CAR improved from 17.92% in FY19 to 24.99% for H1FY20. The company has mainly relied on working capital limits for its growth in the lending business. It reported gearing of 2.96x as on September 30, 2019 (Estimated) compared to 4.12x as on March 31, 2019.

Key Rating Weaknesses

Deterioration in financial and operational indicators:

Even with the modest improvement in business operations (lending profile), the company saw a hit in the profitability indicators and reported losses post March 2019. This decline is largely due to operating costs incurred on account of increase in operational and finance cost in FY19. The company hired additional staff in order to improve its LAP lending business, also undertook rebranding of all its branches from UAE to Unimoni. The profitability deteriorated in H1FY20 reporting losses of Rs. 10.84 Crore which has now seen a further decline with losses amounting to Rs. 16.27 Crore for the period ended December 2020 (Estimated). Adding to this, the delinquency levels have worsened; i.e. GNPA (%) of 1.47% for 9MFY20 compared to 0.74% in FY19 and NNPA (%) of 0.78% for 9MFY20 compared to 0.17% in FY19. Also, the outcome of the allegation placed against Dr. BR. Shetty's which sheds light against its complex share arrangement and Finabl'r's financial position are key rating factors and continue to remain a key sensitivity.

Product concentration in the lending business:

As on March 31, 2019 the gold loans constituted around ~90% of the total loan portfolio which has increased marginally to ~92% as on September 30, 2019 (Estimated). As a part of new business strategy, the company ventured into small business loan (SBL) segment. However with after-effects of the defaults of big NBFCs (in the year 2018) and increasing delinquency levels, the company decided to suspend their portfolio for the particular segment. The outstanding SBL stood at Rs. 60.37 crore as on September 30, 2019 (Estimated).

Vulnerability to adverse gold price movement:

UFSL's credit profile remains susceptible to adverse and sharp movements in gold prices. Any steep decline in gold prices is expected to adversely impact the company's asset quality and business profile. To counter with, the company has placed adequate regular monitoring mechanism of marked to margin on a daily basis which states that if the amount exceeds 85% then the customer will be asked to pay the differential amount and if it exceeds 90% with the customer not paying the margin difference, then the same is moved to the auction pool.

Analytical Approach & Applicable Criteria

Standalone

Rating methodology for Non-Banking Finance companies

Financial ratios and Interpretation (Financial Sector)

Liquidity

Unimoni's working capital utilization remained moderate for the last six months' period ended October 2019. With the current business model, the company has been relying majorly on bank borrowings to fund its lending business. Also, the ALM profile as on December 31st, 2019 is fairly matched across all time buckets. Overall, liquidity position is expected to be Adequate.

About the Company

Promoted by Mr. B.R. Shetty, Unimoni Financial Services Limited (UFSL) (erstwhile UAE Exchange & Financial Services Limited) was incorporated in the year 1995 as a Public Limited Company (unlisted), headquartered in Kochi. Presently, it is classified as a 'Systemically Important Non-Deposit taking NBFC (NBFC-ND-SI)'. UFSL initially started

as a money transfer agent for UAE Exchange Centre LLC (Abu Dhabi) and since then has expanded into diverse business areas. Currently, it is engaged in providing services of inward money transfer, money changing, loan business (Gold loans & Loan against Property), insurance services and prepaid payment instruments systems including domestic money transfer.

Financials

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	251.69	301.08
Finance Cost	56.63	85.59
PAT	10.81	8.20
Total Debt	622.24	765.03
Tangible Networkth	178.00	185.11
Total Loan Assets	629.25	819.19
Ratios (%)		
a. PAT Margin	4.29	2.72
b. Overall Gearing Ratio	3.47	4.12
c. Total CAR (%)	21.59	17.92
d. Gross NPA (%)	1.35	0.74
e. Net NPA (%)	0.25	0.17

* Classification of financial numbers is as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (24/02/20)	Date(s) & Rating(s) assigned in 2019-20 (20/01/20)	Date(s) & Rating(s) assigned in 2018-19
1	Long Term Fund Based Facility – Cash Credit	Long Term	324.00	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)	IVR A- (IVR Single A Minus) (Under Credit Watch with developing implications)	IVR A-/ Stable Outlook (IVR Single A Minus with Stable Outlook)	-
2	Long Term Fund Based Facility – WCDL	Long Term	546.00	IVR BBB- (IVR Triple B Minus) (Under Credit Watch	IVR A- (IVR Single A Minus) (Under Credit Watch	IVR A-/ Stable Outlook (IVR Single A Minus	-

				with developing implications)	with developing implications)	with Stable Outlook)	
3	Long Term Fund Based Facility – Term Loan	Long Term	44.35	IVR BBB-(IVR Triple B Minus) (Under Credit Watch with developing implications)	IVR A-(IVR Single A Minus) (Under Credit Watch with developing implications)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	-
4	Short Term Fund Based Facility - Overdraft	Short Term	20.00	IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)	IVR A2+ (IVR Single A Two Plus) (Under Credit Watch with developing implications)	IVR A2+ (IVR Single A Two Plus)	-
5	Short Term Non Fund Facility – Treasury Limit	Short Term	15.00	IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)	IVR A2+ (IVR Single A Two Plus) (Under Credit Watch with developing implications)	IVR A2+ (IVR Single A Two Plus)	-
6	Long Term /Short Term Non Fund Based Facility – Bank Guarantee	Long Term & Short Term	10.00	IVR BBB-(IVR Triple B Minus) & IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)	IVR A-(IVR Single A Minus) & IVR A2+ (IVR Single A Two Plus) (Under Credit Watch with developing implications)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook & IVR A2+ (IVR Single A Two Plus)	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	--	--	--	324.00	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)
Long Term Fund Based Facility – WCDL	--	--	--	546.00	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)
Long Term Fund Based Facility – Term Loan	--	--	March 2022 – February 2025	44.35	IVR BBB- (IVR Triple B Minus) (Under Credit Watch with developing implications)

Short Term Fund Based Facility - Overdraft	--	--	--	20.00	IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)
Short Term Non Fund Facility – Treasury Limit	--	--	--	15.00	IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)
Long Term /Short Term Non Fund Based Facility – Bank Guarantee	--	--	--	10.00	IVR BBB- (IVR Triple B Minus) & IVR A3 (IVR Single A Three) (Under Credit Watch with developing implications)