Small Finance Bank

Date: August 04, 2023

To,
Department of Corporate Services
BSE Limited,
1st Floor, P.J. Towers,
Dalal Street, Mumbai - 400 001

Dear Sir/(s),

Scrip Code – 959462 & 959476

Subject: Intimation under Regulation 55 and Regulation 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

We wish to inform you that ICRA Limited has vide their letter dated August 02, 2023, reaffirmed the credit rating of the Bank at [ICRA] A- (Stable) and withdrew the ratings for the matured/redeemed instruments.

Kindly note that there is no change from the previous ratings. However, pursuant to the repayment/maturity of the Non-Convertible Debentures & Bank facilities, the ratings assigned have been withdrawn. The summary of the revision in ratings are as follows:

Instrument	**Previous Rated Amount (Rs. in crores)**	**Current rated Amount (Rs. in crores)**	**Rating Action**
Issuer Rating	NA	NA	[ICRA]A-(Stable) reaffirmed;
Non-convertible Debenture	10.00	-	[ICRA]A-(Stable) reaffirmed and withdrawn;
Bank Facilities (LT/ ST – Fund based)[1]	37.09	37.09	[ICRA]A- (Stable) reaffirmed /[ICRA]A1; reaffirmed and withdrawn[2]
Bank Facilities (LT/ ST – Fund based)[1]	96.01	-	[ICRA]A-(Stable)/[ICRA]A1 reaffirmed and withdrawn;
Certificate of Deposit	25.00	-	[ICRA]A1 reaffirmed and withdrawn;

Note: 1. LT – Long term; ST – Short term; 2. Short term rating has been reaffirmed and withdrawn

Further, ICRA Limited has vide its letter dated July 18, 2023, assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Unity Small Finance Bank Limited {Unity SFB; rated [ICRA]A- (Stable)}. The PTCs are backed by a pool of Rs. 163.50 Crore secured loan against property (LAP) receivables (underlying pool principal of Rs. 87.21 Crore)

The summary of the rating action is as follows:

Trust Name	**Instrument**	**Current rated Amount (Rs. in crores)**	**Rating Action**
Marathon	Series A1 PTC	81.10	Provisional [ICRA]AA-(SO); Assigned

The rating rationale issued by ICRA Limited vide its letters dated August 02, 2023 and July 18, 2023 are enclosed herewith.

We request you to kindly take the above on your record.

Thanking you.
Yours faithfully,
For Unity Small Finance Bank Limited

ARCHANA ALOK GOYAL Digitally signed by ARCHANA ALOK GOYAL Date: 2023.08.04 16:11:33 +05'30'

Archana Goyal
Company Secretary & Compliance Officer
Membership no.: A16004

Encl: a/a

UNITY SMALL FINANCE BANK LIMITED :
CIN : U65990DL2021PLC385568
Email : info@unitybank.co.in

REGISTERED OFFICE :
40, Basant Lok,
Vasant Vihar,
New Delhi 110057
Tel No. 011-47414100

CORPORATE OFFICE :
Centrum House, CST Road,
Vidyanagari Marg, Kalina,
Santacruz (E),
Mumbai 400098
Tel No. 022-42159000

August 02, 2023

Unity Small Finance Bank Limited: Ratings reaffirmed; Ratings withdrawn for matured/redeemed instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]A- (Stable); reaffirmed
Non-convertible debenture	10.00	-	[ICRA]A- (Stable); reaffirmed and withdrawn
Bank facilities (LT/ST – Fund based)	37.09	37.09	[ICRA]A- (Stable) reaffirmed/ [ICRA]A1 reaffirmed and withdrawn$
Bank facilities (LT/ST – Fund based)	96.01	-	[ICRA]A- (Stable)/[ICRA]A1; reaffirmed and withdrawn
Certificates of deposit	25.00	-	[ICRA]A1; reaffirmed and withdrawn
Total	**168.10**	**37.09**	

**Instrument details are provided in Annexure I; LT – Long term; ST – Short term; $ Short term rating has been reaffirmed and withdrawn*

Rationale

The ratings reaffirmation factors in the established presence of Unity Small Finance Bank Limited's (Unity SFB) promoter group in the financial services industry, the bank's healthy upfront capitalisation and the relaxations provided by the Reserve Bank of India (RBI) on priority sector lending (PSL) norms, the timeline for the initial public offering (IPO), etc. While reaffirming the ratings, ICRA continues to factor in the expectation of sub-optimal internal capital generation over the medium term, given the elevated operating expenses in the early stages of operations. Further, the accounting treatment of the fair valuation of the assets and liabilities of the erstwhile PMC Bank would continue to weigh down on capital build-up in the near to medium term. Thus, the bank is expected to require capital support to support its growth momentum in the near to medium term.

While Unity SFB's deposit base witnessed strong traction in the last year, its ability to continue building a granular deposit franchise at competitive rates would be critical for realising its growth plans and would remain important for its earnings trajectory. Its ability to scale up its operations while maintaining healthy asset quality would remain important for improving its operating leverage and earnings profile. The ratings also factor in the risks associated with the unsecured nature of microfinance loans, which is likely to remain a focus area for the bank for growth as well as to meet its PSL targets. ICRA also notes that while the reported gross non-performing assets (GNPAs) stood high as of March 31, 2023, on account of PMC Bank's stressed portfolio, these have been significantly provided for and the asset quality remains comfortable with net NPAs (NNPA) of 0.3%.

The Stable outlook on the long-term rating reflects ICRA's expectation that the bank will be able to grow its liability base, improve its scale of operations and report profitable operations (after fair value charges) after the next couple of years. The outlook also factors in the requisite capital-raising plans to offset the impact of the fair valuation of the erstwhile PMC Bank's liabilities on the capital and to fund the growth.

The outstanding ratings on the Rs. 96.01-crore bank facilities, Rs. 25.00 crore certificates of deposit, Rs. 10.00 crore non-convertible debentures and short-term fund based bank facilities have been reaffirmed and withdrawn as there is no amount outstanding against the same. The ratings have been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (click here for the policy).

Key rating drivers and their description

Credit strengths

Established presence of promoters in financial services industry – Centrum Group, comprising Centrum Capital Limited (CCL; the holding company of the Group) and its subsidiaries, is a diversified financial services provider with a presence in fee-based businesses such as investment banking, broking, wealth management, insurance broking and asset management. The Group has an established position in debt capital markets with a clientele across public sector units, banks, state-level undertakings, private corporates and various provident funds. It ventured into the distribution of insurance products and the asset management business in FY2018. It also has a small equity broking operation under Centrum Broking Limited. In FY2019, the Group shifted its focus to grow its fund-based businesses and set up a non-banking financial company (NBFC; Centrum Financial Services Limited; CFSL), a housing finance company (Centrum Housing Finance Limited; CHFL) and a microfinance institution (Centrum Microcredit Limited; CML). Later, the lending portfolio of CFSL and CML were transferred to Unity SFB through a slump sale by the Centrum Group and CFSL became the promoter of Unity SFB with a 51% stake.

Resilient Innovations Private Limited (RIPL)/BharatPe, which is an investor with a 49% stake in Unity SFB, is a fintech company that provides services like payment solutions and financing solutions to small merchants and kirana store owners. It is expected to bring in technology support to help set up the platform for Unity SFB's digital bank plans.

Comfortable capital position, though weak profitability will drive growth-led requirements – Unity SFB commenced active operations from November 1, 2021, with an upfront equity base of Rs. 1,105.10 crore. Thereafter, PMC Bank was amalgamated with Unity SFB in accordance with the RBI's scheme for the recovery/resolution of the same. ICRA notes that the fair valuation of the liabilities has been accretive from a capital adequacy perspective. As on March 31, 2023, Unity SFB had a comfortable capitalisation profile with a Tier I ratio of 27.16% (38.77% as on March 31, 2022), comfortably above the regulatory requirement. The overall capital adequacy with a capital-to-risk weighted assets ratio (CRAR) of 48.99%, as on March 31, 2023, is supported by the relaxations provided by the RBI in terms of inclusion of certain restructured and fair-valued liabilities in the total CRAR. The liabilities will be marked up gradually to the face value over the coming years and would consequently have an adverse impact on the bank's net worth during this period. Further, considering the envisaged portfolio growth and low internal capital generation expected in the near term, Unity SFB will need growth capital for which the shareholders have committed to infuse Rs. 1,900 crore over the next few years.

Asset quality remains satisfactory with high provision on legacy stressed assets – As on March 31, 2023, the GNPA ratio stood high at 45.8% because of the legacy stressed assets of erstwhile PMC Bank. Excluding these, the GNPA stood at 3.2% as on March 31, 2023 (62.9% as on March 31, 2022). The NNPA ratio was comfortable at 0.3% (8.2% as on March 31, 2022) due to the high provision coverage on PMC Bank's legacy NPAs as well as the low net slippages on the freshly originated book (since November 2021). The bank's ability to incrementally maintain healthy asset quality in the portfolio to keep the credit costs under control would be critical, while any recoveries from PMC Bank's portfolio would be a positive. Unity SFB's ability to grow as well as diversify its portfolio and reduce geographical concentration would also be a key monitorable for its credit profile.

Credit challenges

Growing scale of operations; loan book expansion, while maintaining healthy asset quality, remains critical – As on March 31, 2023, Unity SFB's net loan book stood at Rs. 4,468 crore, up 85% YoY, with microfinance loans (MFI; inclusive banking) forming 28% of the overall net loan book and micro, small and medium enterprise (MSME) and supply chain finance loans (business banking) accounting for 66%. PMC Bank's legacy loan book declined to 6% of overall advances from 22% as on March 21, 2022, mainly on account of higher provisioning. Going forward, the bank would be focusing on MSME lending, inclusive banking, loan against property, unsecured business loans, supply chain finance, digital finance and working capital loans. BharatPe is also expected to play a transactional role in Unity SFB, which would help it scale up its loans and deposits.

As a sizeable portion of Unity SFB's portfolio comprises microfinance loans, the portfolio remains vulnerable to asset quality shocks as witnessed after demonetisation and during the Covid-19 pandemic. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact the bank's operations and its financial position. Moreover, risks associated with other segments, such as unsecured business loans, digital finance, etc, are relatively higher, given the marginal profile of the borrowers with limited ability to absorb income shocks. Unity SFB's ability to onboard borrowers with a good credit history, while scaling up its operations, would be key for managing high growth rates.

Profitability expected to remain sub-optimal in the near to medium term – Despite its low-cost restructured liabilities, the operating profitability remained sub-optimal at 1.97% of average total assets (ATA), partly due to the higher cost of incremental deposits and the elevated operating expenses incurred to revamp and scale up the branch network. Further, credit costs stood at 1.26% of ATA in FY2023 due to the higher provisioning on account of the management overlays in PMC Bank's legacy portfolio. Accordingly, Unity SFB reported a return on assets (RoA) of 0.35% in FY2023, before the impact of fair value charges of liabilities of erstwhile PMC Bank. In addition to the muted net profitability levels, the fair value charges on restructured liabilities, which are charged directly to the reserves, are expected to limit meaningful capital accretion in the medium term.

Unity SFB reported a net profit of Rs. 35 crore in FY2023, before fair value charges of Rs. 249 crore, leading to a net adverse impact of Rs. 214 crore on the net worth, against a charge of Rs. 150 crore to reserves in FY2022. The annual fair value charge to the net worth is expected to remain at a similar level of Rs. 250-280 crore in the coming years and the ability to generate sufficient profitability through core operations will be key for offsetting the impact of these charges on the net worth and to support future growth. Going forward, the bank's ability to improve its profitability levels would also depend on the scale-up of the loan book and the ability to raise deposits at competitive rates, thereby improving its operating profitability, while keeping slippages and credit costs at lower levels. This would remain a monitorable.

Critical to sustain granular deposit base growth and maintain improvement in liability profile – Unity SFB started its operations from November 1, 2021 and had 123 branches and 212 offices as on March 31, 2023. The bank witnessed meaningful traction in deposits in H2 FY2023, but on a relatively small base, with the same growing by 68% to Rs. 2,685 crore as on March 31, 2023. In the next three years, the management aims to increase the number of branches to 300, while adding a substantial number of touchpoints. To improve deposit traction, its interest rate proposition remains attractive for depositors, which could support its ability to build a granular current and savings account (CASA) base and retail fixed deposits. However, its ability to gradually improve the competitiveness of its funding would be critical for a sustained increase in its operating profitability and would thus remain important from a credit perspective.

Liquidity position: Strong

The depositor's settlement plan for erstwhile PMC Bank's liabilities has staggered the liabilities over a 10-year period, which supports Unity SFB's asset-liability management (ALM) profile to some extent. As per the scheme of amalgamation released by the RBI, deposits up to Rs. 5 lakh would be paid upfront to all eligible depositors and will be funded through the proceeds from Deposit Insurance and Credit Guarantee Corporation (DICGC). The bank received funds, aggregating Rs. 3,830 crore, from DICGC. This was settled with PMC Bank's depositors in FY2023, while the first tranche of subsequent payments to retail depositors, aggregating Rs. 148 crore, has also been paid out. The payout to DICGC is to be made over a 20-year period. This long maturity profile gives Unity SFB the flexibility to plan and phase the payments as per cash accruals.

Supported by the restructured longer-term liabilities, the bank's average liquidity coverage ratio for Q4 FY2023 was high at 767%, with statutory liquidity ratio (SLR) investments of Rs. 1,437 crore and non-SLR investments of Rs. 998 crore. Its structural liquidity statement (SLS), as on March 31, 2023, did not have negative cumulative mismatches in any bucket for up to one year. With growth in the loan book and deposits, the share of these long-term liabilities in the overall liability mix will keep declining. Hence, Unity SFB's ability to maintain high granularity and renewal rates for new deposits will be critical for its liquidity profile.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the long-term rating if Unity SFB is able to sustain the build-up of the granular liability franchise while improving its funding cost and profitability. Diversifying the asset mix, while scaling up and maintaining the asset quality, and maintaining a prudent capitalisation profile will remain imperative.

Negative factors – The bank's ratings could be downgraded on account of a longer-than-expected path to generate meaningful growth capital, leading to pressure on the capitalisation profile. The weakening of the liquidity profile could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Unity SFB is the 12th small finance bank (SFB) in India, promoted by the consortium of Centrum Group and Resilient Innovations Private Limited. The RBI granted in-principle approval to CFSL, to set up an SFB under the general guidelines for the on-tap licensing of SFBs in the private sector, as a part of the revival/reconstruction of PMC Bank in June 2021. The licence to set up the SFB was issued in October 2021.

BharatPe acquired a 49% stake in Unity SFB while CFSL holds 51%. Further, as a part of this transaction, the entire business (assets and liabilities) of CFSL and CML was transferred to Unity SFB via a slump sale. CFSL serves as the holding company for Unity SFB with no other operations. Currently, Unity SFB primarily has the existing small and medium-sized enterprise (SME)/MSME/supply chain/microfinance asset base of CFSL and CML and receives digital platform and technology support from BharatPe. Unity SFB commenced active operations from November 1, 2021 with an upfront equity base of Rs. 1,105 crore. As the second leg of this transaction, PMC Bank was amalgamated with Unity SFB in accordance with the RBI's scheme for the recovery/resolution of the same. This was completed on January 24, 2022.

Key financial indicators (standalone)

	FY2022	FY2023
Net interest income	47	560
Profit before tax	-157	13*
Profit after tax	-150	35*
Net advances	2,419	4,468
Total assets	10,811	8,761
CET I	38.77%	27.16%
Tier I	38.77%	27.16%
CRAR	63.71%	48.99%
Net interest margin / ATA	1.05%	5.72%
PAT / ATA	-3.32%	0.35%
Return on average net worth	-18.66%	1.89%
Gross NPA %	62.9%	45.8%
Net NPA %	8.2%	0.3%
Provision coverage excl. technical write-offs	94.78%	99.59%
Net NPA / Core equity capital	13.35%	1.20%

*Source: Unity SFB, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Before fair value charges of Rs. 249 crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 17, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022			Date & Rating in FY2021
					Aug 02, 2023	Dec 08, 2022	Sep 09, 2022	Aug 05, 2022	Dec 29, 2021	Dec 17, 2021	Dec 14, 2021	-
1	Issuer rating	Long term	-	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A- &	-	-	-
2	Non-convertible debenture	Long term	10.00	-	[ICRA]A-(Stable); withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A- &	[ICRA]A- &	[ICRA]A- &	-
3	Bank facilities (LT/ ST – Fund based)	Long/Short term	37.09	37.09	[ICRA]A-(Stable)/ [ICRA]A1; withdrawn$	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A- &/ [ICRA]A1 &	-	-	-
4	Bank facilities (LT/ ST – Fund based)	Long/Short term	96.01	-	[ICRA]A-(Stable)/ [ICRA]A1; withdrawn	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A- &/ [ICRA]A1 &	-	-	-
5	Certificate of deposit	Short term	25.00	-	[ICRA]A1; withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1 &	[ICRA]A1&	[ICRA]A1&	-
6	Commercial paper programme	Short term	-	-	-	-	-	-	[ICRA]A1+ (CE); withdrawn	[ICRA]A1+(CE)	-	-

& - Under Rating Watch with Developing Implications; $ Short term rating has been reaffirmed and withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Certificate of deposit	Very Simple
Non-convertible debenture	Simple
Bank facilities (LT/ST – Fund based)	Simple
Issuer rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not issued	**Certificate of deposit**	NA	NA	NA	25.00	[ICRA]A1; withdrawn
INE0J1607016	**NCD**	Jun 29, 2020	10.60%	Jun 29, 2023	10.00	[ICRA]A- (Stable); withdrawn
-	**Bank facilities (LT/ST – Fund based)**	-	-	-	37.09	[ICRA]A- (Stable)/ [ICRA]A1 withdrawn$
-	**Bank facilities (LT/ST – Fund based)**	-	-	-	96.01	[ICRA]A- (Stable)/[ICRA]A1; withdrawn
-	**Issuer rating**	-	-	-	-	[ICRA]A- (Stable)

Source: Unity SFB; NA – Not applicable; $ Short term rating has been reaffirmed and withdrawn

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Aashay Choksey
+91 22 6114 3430
aashay.choksey@icraindia.com

Devesh Lakhotia
+91 22 6114 3404
devesh.lakhotia@icraindia.com

Vaibhav Arora
+91 124 4545 864
vaibhav.arora@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

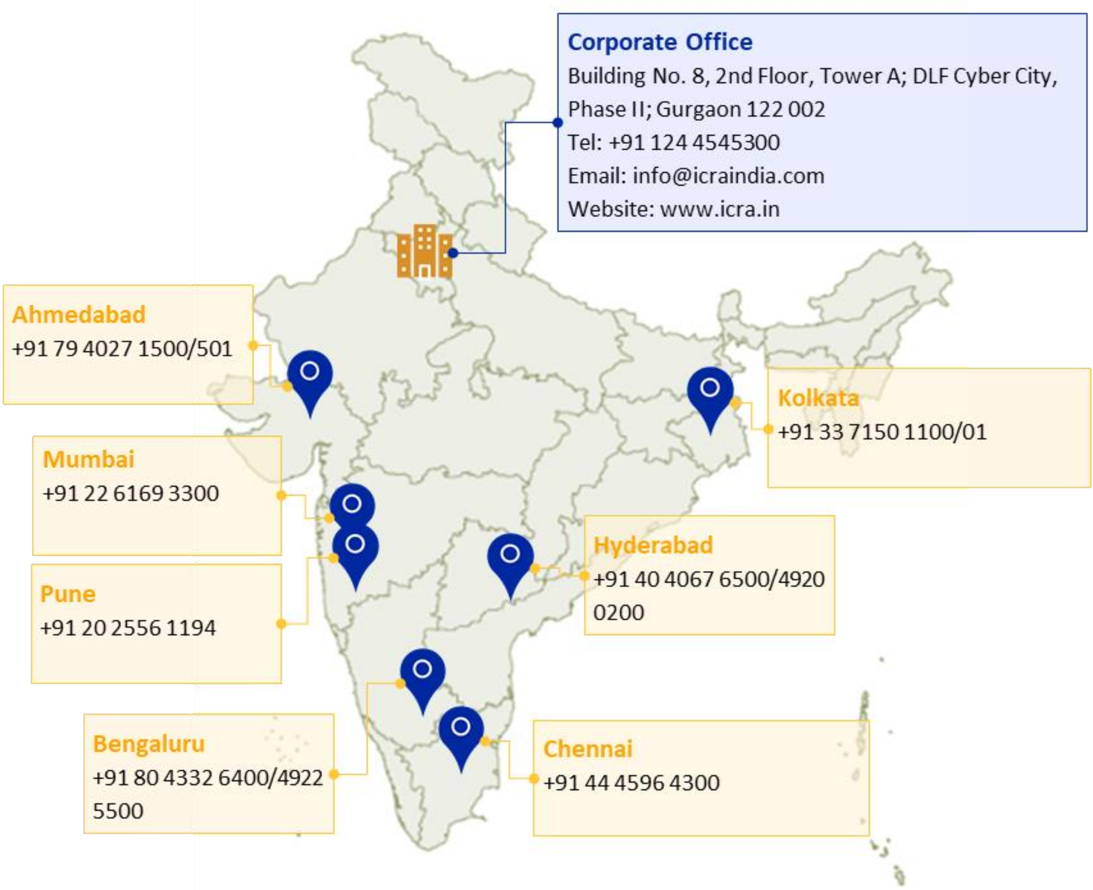
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

July 18, 2023 (Revised)

Unity Small Finance Bank Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 PTC backed by secured LAP receivables issued by Marathon

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Marathon	Series A1 PTC	81.10	Provisional [ICRA]AA-(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Unity Small Finance Bank Limited {Unity SFB; rated [ICRA]A- (Stable)}. The PTCs are backed by a pool of Rs. 163.50-crore secured loan against property (LAP) receivables (underlying pool principal of Rs. 87.21 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 3.0% of the initial pool principal to be provided by Unity SFB (originator), (ii) subordination of 7.0% of the pool principal for Series A1 PTC (in the form of equity tranche), (iii) the entire excess interest spread (EIS) in the structure (45.8% of pool principal), as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, principal subordination and CC
- Absence of overdue contracts as on pool cut-off date; ~97% of the contracts in the initial pool have never been delinquent
- Average seasoning of ~14 months

Credit challenges

- High geographical concentration with top 3 property states accounting for ~76% of the contracts in the initial pool
- While the pool yield is fixed, the interest rate on the PTCs is linked to the repo rate, leading to interest rate risk in the structure
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 7.0% of the pool principal, which will be in the form of an equity tranche (Series A2 PTC). The EIS available after meeting the promised payouts (as per the waterfall mechanism) to Series A1 PTC will be passed on as the expected yield to Series A2 PTC. Series A2 PTC payouts are completely subordinated to Series A1 PTC and the EIS will be available as support for principal payment to Series A2 PTC only after Series A1 PTC has been fully paid. A CC of 3.00% of the initial pool principal (Rs. 2.62 crore), to be provided by Unity SFB, would act as further CE in the transaction. Further, the transaction has a liquidity facility amounting to 2.00% of the initial pool principal outstanding, i.e. Rs. 1.74 crore, to be maintained in the form of a fixed deposit or a bank guarantee or in any other form mutually agreed by the originator and investor. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the liquidity facility first followed by the CC to meet the shortfall.

As per the transaction structure, the monthly promised cash flows for Series A1 PTC will comprise the scheduled principal amount (which is 93% of the billed pool principal) and the interest payment to Series A1 PTC at the predetermined interest rate on the principal outstanding. The surplus, in relation to the principal portion of the pool's receivables along with any prepayment amount, would be used for the payment of Series A1 for faster amortisation. Following the payment of Series A1 PTC in full, the principal for Series A2 PTC is to be paid monthly on expected basis (to the extent of billing). Further, the yield on Series A2 PTC is in the form of the EIS in the structure.

The pool comprises 415 secured LAP contracts with future receivables of Rs. 163.50 crore (underlying principal of Rs. 87.21 crore). While the weighted average seasoning of the pool remains moderate at ~14 months as on the pool cut-off date (June 30, 2023), the adequate borrower profile, with a substantial share of the loan contracts (~60%) having a CIBIL score of more than 750, provides comfort. There were no overdue contracts in the pool as on the cut-off date. Also, 97% of the contracts (calculated on principal amount) have never been delinquent in the past.

The pool has high geographical concentration with the top 3 states (Telangana, Gujarat and Uttar Pradesh) contributing ~76% to the initial pool principal amount. It also has moderate obligor concentration with the top borrower accounting for 4.4% of the initial pool principal. Further, the pool comprises fixed rate loans, while the PTC yield is floating. Hence, the transaction is exposed to interest rate risk. Furthermore, the performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower.

Past rated pools: This is the first transaction of Unity SFB to be rated by ICRA.

Key rating assumptions

The pool comprises 415 secured LAP contracts, amounting to Rs. 87.21 crore. All the contracts in the pool are current as of the cut-off date while around 60% of the pool had a CIBIL score of more than 750. Nearly 97% of the contracts in the pool have never been delinquent in the past. The pool has high geographical concentration with the share of the top 3 states (Telangana, Gujarat and Uttar Pradesh) at ~76% of the initial pool.

The obligor concentration in the pool is moderate (top obligor accounting for 4.4% of the pool). Thus, the pool's performance is likely to get influenced by the performance of the top contract. The average ticket size is Rs. 22.29 Lakhs and weighted average original LTV is 38.57%. The variability of loss in case of a concentrated pool would be slightly higher than that of a regular granular pool. All loans pertaining to a borrower have been clubbed as one because if an entity defaults, it would most likely default on all its loans to a lender. ICRA's rating/credit assessment of the entities, along with the balance tenure of the loans given to these entities, has been considered to estimate the default probability for each loan. ICRA has also built in the assumptions on the quantum and timing of recovery post default. Further, a certain loss given default (LGD) has been assumed by factoring in the repossession and sale of the underlying assets. We have assumed that the recovery, post the default by a borrower, would happen with a lag. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured.

Further, for the granular portion of the pool (95.6% of the pool), the portfolio loss has been adjusted for the pool's composition depending on whether the pool deviates positively or negatively from the portfolio on various parameters that might have a bearing on the eventual loss level. For the current pool, we have incorporated the above arguments and adjusted for various pool features like seasoning, overdues, peak days past due (dpd), loan-to-value (LTV), geography, property type, internal rate of return (IRR), and ticket size.

ICRA's cash flow modelling for the rating of PTCs backed by secured LAP receivables involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the originator's loan portfolio. ICRA has also considered the credit quality experience of other established players in the mortgage business.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks to arrive at the assigned rating.

Upon modelling the cash flows and after considering the various above-mentioned factors, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.75-5.75%, with certain variability around it. The prepayment rate in the pool is assumed to be 6.0-20.0% p.a. (with a mean of 16.0%).

Liquidity position: Strong

The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the Series A1 PTC investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the investor payouts for a period of 12 months.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and lower CE utilisation levels, would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of Unity SFB's secured LAP portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

Originator profile

Unity SFB is the 12th small finance bank (SFB) in India, promoted by the consortium of Centrum Group and Resilient Innovations Private Limited (RIPL or BharatPe, a fintech company). The Reserve Bank of India (RBI) granted in-principle approval to Centrum Financial Services Limited (CFSL), to set up an SFB under the general guidelines for the on-tap licensing of SFBs in the private sector, as a part of the revival/reconstruction of PMC Bank in June 2021. The licence to set up the SFB was issued in October 2021.

BharatPe acquired a 49% stake in Unity SFB (for Rs. 745 crore) while CFSL holds 51%. Further, as a part of this transaction, the entire business (assets and liabilities) of CFSL and Centrum MicroCredit Limited (CML) was transferred to Unity SFB via a slump sale. CFSL serves as the holding company of Unity SFB with no other operations. Currently, Unity SFB primarily has the already existing small and medium-sized enterprise/micro, small and medium enterprise/supply chain/microfinance asset base of CFSL and CML. Unity SFB commenced active operations from November 1, 2021 with an upfront equity base of Rs. 1,105 crore. As the second leg of this transaction, PMC Bank was amalgamated with Unity SFB in accordance with the RBI's scheme for the recovery/resolution for the same. This was completed on January 24, 2022.

Key financial indicators (audited)

Unity SFB	Nov 1, FY2021	FY2022	FY2023
Total income	NA	154	803
Operating Profit	NA	17	148
Profit after tax	NA	(150)	35
Loan assets	1,264	2,419	4,468
Total assets	2,477	10,811	8,761
Gross NPA*	NA	3.37%	3.17%
Net NPA*	NA	8.14%	0.34%
CRAR	NA	63.71%	49.40%

** As on Mar 31, 2023, gross and net non-performing advances (NPAs) were 3.17% and 0.36%, respectively, excluding legacy NPAs of erstwhile PMC Bank*
Source: Unity SFB, ICRA Research; All ratios as per ICRA's calculations; NA – Not available
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 18, 2023	-	-	-
1	Marathon	Series A1 PTC	81.10	81.10	Provisional [ICRA]AA-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate**	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Marathon	Series A1 PTC	July 2023	8.75%	December 2037	81.10	Provisional [ICRA]AA-(SO)

*** Floating; *Scheduled maturity date at transaction initiation – may change on account of prepayments*
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

Corrigendum:

Document dated July 18, 2023 has been corrected with revision as detailed below:

Liquidity Position on Page 3 has been modified from Superior to Strong.
Maturity Date on Page 6 has been modified from December 2027 to December 2037.

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Anubhav Agrawal
+91 22 6114 3439
anubhav.agrawal@icraindia.com

Rushabh Gohel
+91 22 6114 3420
rushabh.gohel@icraindia.com

Priya Gounder
+91 22 6114 3454
priya.gounder@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

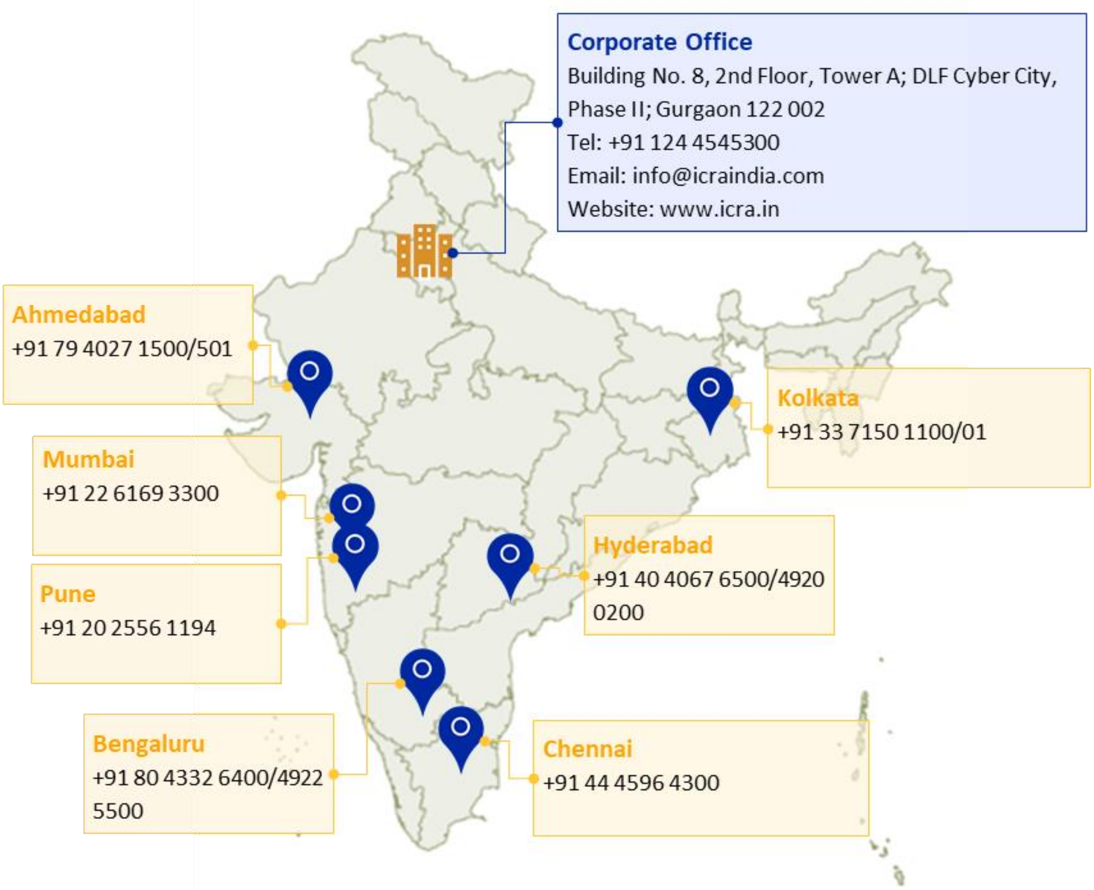
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.