Date: August 11, 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 CRISIL Ratings Limited has vide their letter dated August 10, 2023, assigned its '**CRISIL A1+**' rating to the Rs. 360 Crore Certificate of Deposits (COD) programme of Unity Small Finance Bank Limited.

The summary of the rating is as follows:

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. crores)	Complexity levels	Rating assigned with outlook
1	Certificate of Deposit	NA	NA	7 to 365 days	360	Simple	CRISIL A+

The rating rationale issued by CRISIL Ratings Limited is 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: 2023.08.11 16:07:17 +05'30'

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

Encl: a/a

CRISIL Ratings

Rating Rationale

August 10, 2023 | Mumbai

Unity Small Finance Bank Limited

'CRISIL A1+' assigned to Certificate of Deposits

Rating Action

Rs.360 Crore Certificate of Deposits	**CRISIL A1+ (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL A1+'** rating to the Rs 360 crore certificate of deposits programme of Unity Small Finance Bank Limited (Unity SFB).

The rating reflects the bank's adequate capitalisation, with sizeable committed capital to support growth over the medium term. The rating is supported by improving scale of operations, with growth in deposits and assets since inception. These strengths are partially offset by limited track record of operations, with ability to maintain asset quality and profitably scale up the book yet to be demonstrated, as well as lower proportion of current account savings account (CASA) deposits.

Unity SFB is promoted by Centrum Financial Services Ltd (CFSL) and backed by the fintech BharatPe's parent, Resilient Innovations Pvt Ltd (RIPL), as the financial investor. CFSL was granted a small finance bank license by the Reserve Bank of India (RBI) in November 2021. The Centrum group's lending businesses, housed under CFSL and Centrum Microcredit Ltd (CML), were transferred to Unity SFB through a business transfer agreement. On January 25, 2022, the Ministry of Finance proposed a scheme of amalgamation of the erstwhile PMC Bank with Unity SFB. Following this, Unity SFB was granted scheduled commercial bank status in April 2022.

The bank had adequate capitalisation, with networth of Rs 1,744 crore as on March 31, 2023, as against Rs 1,924 crore as on March 31, 2022, and the promoters infusing initial capital of Rs 1,105 crore. The bank reported tier 1 and capital-to-risk weighted assets ratio (CRAR) of 27.2% and 49.4%, respectively, as on March 31, 2023, against 38.7% and 63.7%, respectively, as on March 31, 2022.

Net loan book (excluding PMC loans) grew to Rs 4,204 crore as on March 31, 2023, from Rs 1,835 crore a year earlier. The book is diversified across i) business banking (which consist of micro, small and medium enterprise [MSME] loans (45.6%) and supply chain (15.9%) and ii) inclusive banking (which is the microfinance business [38.5%]). The deposit base increased to Rs 2,684 crore in the first full year of operations from Rs 31 crore as on March 31, 2022.

As Unity SFB scales up its portfolio, it is expected to benefit from various dispensations granted by the RBI on amalgamating with PMC Bank. These include, inter alia, an additional timeline of three years to comply with priority sector lending targets, adherence to criteria for small finance banks wherein 50% of the loan portfolio comprises ticket sizes upto Rs 25 lakh, and compliance with single and group borrower exposure limits for loans acquired from CFSL / CML / erstwhile PMC. In addition, there is a relaxation of timeline for initial public offer (IPO) listing.

Asset quality metrics, as reflected in gross non-performing assets (GNPA), factoring in the PMC legacy book were high at 45.8% as on March 31, 2023 (62.9% as on March 31, 2022). However, GNPAs excluding PMC assets stood at 3.2% in March 2023 (3.4% a year earlier). The bank turned profitable in fiscal 2023, reporting profit after tax (PAT) of Rs 35 crore, as against loss of Rs 150 crore in fiscal 2022 (only five months of operations). However, the earnings profile was modest with high operating cost, increase in credit cost with growth and merger related expenses is expected to remain a drag on the bank's profitability. Hence, ability to manage asset quality and improve earnings profile as the book grows will remain a key monitorable.

The deposit base remains modest compared with peers, given limited period of operations, with CASA deposits remaining low at 33% of total deposits even as overall deposits form 86% of total borrowings. The bank's ability to mobilise deposits, particularly retail term deposits and CASA, will have a strong bearing on its ability to scale up while improving profitability as payouts to erstwhile PMC depositors will continue to take place over 20 years.

Analytical Approach

For arriving at the rating, CRISIL Ratings has taken a standalone view on the credit risk profile of Unity SFB.

Key Rating Drivers & Detailed Description

Strengths:

Adequate capital profile, with sizeable committed capital to support growth

Capitalisation is adequate in relation to the bank's scale of operations, supported by initial capital of Rs 1,105 crore and infusion of Rs 1,900 crore in the coming fiscals. On March 31, 2023, the bank's reported networth stood at Rs 1,744 crore, as against Rs 1,924 crore as on March 31, 2022.

The capital adequacy ratios benefit from part of the restructured and fair valued PMC liabilities that have been provided capital treatment and are accordingly incorporated as CET 1 or tier II capital. As a result, the bank reported tier 1 and CRAR of 27.2% and 49.4%, respectively, as on March 31, 2023 (against 38.7% and 63.7%, respectively, as on March 31, 2022); both these metrics have remained well above the regulatory requirement of 15%.

The bank will likely maintain its capital adequacy levels over the regulatory requirement of 15% in the near to medium term, supported both by expected improvement in internal accrual and accounting benefits from the PMC merger.

Improving scale of operations

Scale of operations are on an improving trajectory, as seen in the assets under management (AUM) growth, which increased to Rs 4,468 crore as on March 31, 2023, from Rs 2,419 crore as on March 31, 2022. The bank benefitted from the Centrum group's prior presence in the MSME and microfinance businesses, which have resulted in a more diversified AUM mix since inception, compared with many other small finance banks. The MSME book (business banking) has been the key driver for growth, increasing to Rs 2,956 crore as on March 31, 2023 (66% of AUM), from Rs 1,136 crore as on March 31, 2022. The inclusive banking portfolio also grew to Rs 1,248 crore from Rs 699 crore.

On sequential basis, the first quarter of fiscal 2023 witnessed a decline in AUM owing to muted demand and cautious disbursement strategy. However, revival in the second quarter resulted in healthy pick up in AUM over the subsequent quarters. The bank leverages on its branch network of 123 branches across 17 states, and given its expansion strategy, is expected to augment its AUM further.

Geographically, the bank has a track record of operations in Delhi, Gujarat, Maharashtra and Telangana, which collectively account for 50% of the portfolio, of which Telangana and Maharashtra accounted for 29% of the AUM as on March 31, 2023. Over the medium term, the bank's strategy is to focus on increasing its penetration in existing states and product segments.

Unity SFB's deposit base grew to Rs 2,684 crore as on March 31, 2023, of which Rs 1,551 crore (66%) were deposits from 'new to bank' (NTB) customers, while the balance pertained to PMC customers which had booked fresh deposits with Unity SFB. CASA stood at 33% of the total deposits as on March 31, 2023.

The deposit mix has been evolving, with higher focus on retail deposits. The depositor profile for fixed deposits remains diversified with almost 82% of it being sourced from individuals, with the remaining from sole proprietors, private corporates, banks and others. The deposits are granular in nature, with 64% of fixed deposits having ticket size of less than Rs 10 lakh as on March 31, 2023.

The bank will endeavour to deepen the existing client base of PMC customers as well as attract new customers through its branch banking initiatives. Over the medium term, the bank's ability to grow its retail deposit franchise and increase share of retail deposits (retail term deposits and CASA), while maintaining competitive cost of funds, will serve as a key monitorable.

Weaknesses

Ability to manage asset quality and improve profitability as the portfolio scales up needs to be demonstrated

GNPAs (excluding PMC) stood at 3.4% and 3.2% in March 2022 and March 2023, respectively. The inclusive banking segment's GNPA increased to 4.2% as on March 31, 2023, from 1.7% as on March 31, 2022, whereas for the business banking segment, GNPAs decreased to 2.7% from 4.4% during the same period.

However, collection efficiency for the inclusive banking book (current collections against current demand) witnessed an improvement to 97% as of March 2023 from 90% as of April 2022, while the same for the business banking book also remained around 90% for fiscal 2023. The bank had Rs 15.4 crore restructured assets as on March 31, 2023.

In the initial 18 months of commencement of banking operations, the bank registered profit of Rs 34.6 crore with return on average assets (RoA) of 0.4% in fiscal 2023. Profitability is supported by increase in net interest income (NII) supplemented by growth in the asset book and lower cost of funds.

The bank's NIM benefitted from growth in higher yielding MSME and microfinance segments in fiscal 2023 and reduced share of supply chain finance lending. Furthermore, the average cost of funds declined with incremental funds being sourced from low cost deposits and borrowings. For fiscal 2022, cost of funds was 5.2%, which declined to 4.3% in fiscal 2023. This decline was mainly on account of repayment of high-cost borrowings taken over from CFSL and CML. However, the cost of deposits is expected to rise over the medium term as the bank has recently raised its interest rate on deposits on account of the rising interest rate scenario in the market.

Operating expenses stood at 4.9% of total assets in fiscal 2023, compared with 4.2% in fiscal 2022. Majority expenses incurred were towards employee expenses (44% of total operating expenses) and technology expenses (33% of total operating expenses). Going ahead, these are expected to remain elevated given the bank's expansion plans, which will necessitate branch expansion, marketing expenditure and technology-related expenses to cater to the growing business and regulatory requirements.

The bank reported pre-provisioning operating profit of Rs 151.8 crore in fiscal 2023, against pre-provisioning operating loss of Rs 141.5 crore for the initial five months of operations in fiscal 2022. Provisioning cover was high at 99.2% and 95% in fiscals 2023 and 2022, respectively. All the legacy loans of PMC bank have been largely provided for in fiscal 2022 as part of the merger with the remaining completed in fiscal 2023. Accordingly, any credit cost incurred in the coming fiscals will only be towards the portfolio underwritten by Unity SFB and the same is expected to slightly increase over the medium term with growth and seasoning.

Besides, the bank will continue to incur merger-related expenses of approximately Rs 60 crore per quarter, which are largely payouts towards erstwhile PMC depositors, over a twenty-year time frame. Thus, ability to steadily garner liabilities and exhibit profitable growth would be a key monitorable.

Furthermore, the ability to manage asset quality given the rapid scale up in portfolio will remain to be seen as the loan book seasons.

Lower proportion of CASA deposits compared with peers
Unity SFB is yet to demonstrate its ability to ramp-up deposit base; being in the initial phase of its banking journey, its CASA remains lower than that of peers.

Share of CASA plus retail term deposits was high at 88% of total deposits as on March 31, 2023, which is comparable to other small finance banks. However, the share of bulk deposits stands at 12%. Bulk deposits, as opposed to retail deposits, are rate-sensitive and not sticky. However, lower share of CASA, which was 33% as on March 31, 2023, impacts the overall cost of funds. Further, they pose inherent challenges in managing asset-liability maturity mismatches, particularly when the liquidity is tight. Consequently, building a granular deposit profile with a solid share of CASA is critical.

In the medium to long term, Unity SFB's ability to sustain this improvement in CASA, such that its share in the total deposits and overall borrowings of the bank increases and demonstrates sustainability, will be a key rating sensitivity factor.

Liquidity: Strong
The bank reported average liquidity coverage ratio (LCR) of 738% as on March 31, 2023, against regulatory requirement of 100%. Moreover, it had adequate balance of excess SLR [Statutory Liquidity Ratio] and other avenues of liquidity. It has also mobilised funds as refinance from National Bank for Agriculture and Rural Development (NABARD) in the first quarter of fiscal 2024. Liquidity also benefits from a staggered payout structure of the PMC liabilities.

Rating Sensitivity factors
Upward factors
- Continued increase in share of CASA and overall deposits as a proportion of total borrowings, in line with other mid-sized private sector banks
- Scale-up of operations while maintaining asset quality, with GNPAs below 3% and profitability at above RoA level around 1% on steady state basis

Downward factors
- Deterioration in asset quality with rise in GNPAs to over 5%, and weakening of earnings profile with decline in RoMA, resulting in moderation of capitalisation
- Inability to sustain and improve the momentum of traction in overall deposits and CASA

About the Bank
Unity SFB was incorporated in November 2021 with CFSL and RIPL (Bharat Pe) as promoters. CFSL was granted banking license to operate as a small finance bank in October 2021, which was followed by amalgamation with PMC Bank in January 2022.

Mr Jaspal Bindra, one of the founders of the Centrum group, is the promoter of Unity SFB and is a veteran banker with over 30 years of experience across various banks such as Bank of America, Union Bank of Switzerland and Standard Chartered Bank. Mr Inderjit Camotra, Managing Director and CEO of Unity SFB, has held various senior management positions in his career of over 25 years in banks such as Standard Chartered Bank, ANZ (Australia and New Zealand Bank) and Citi Bank.

Unity SFB's liability product offerings include the entire gamut of current account, savings account, recurring and term deposits as well as third-party mutual funds and insurance.

As on March 31, 2023, Unity SFB had established operations across 123 banking touchpoints while serving over 15 lakh customers in 17 states—with an employee base of 4,214. Maharashtra remains the core territory with 36% of branches and offices.

Key Financial Indicators

As on / for fiscal	Unit	2023	2022
Total assets	Rs crore	8761	10810
Total income	Rs crore	803	154
PAT	Rs crore	35	-150
Gross NPA@	%	3.2	-3.4
Overall capital adequacy ratio	%	49.4	63.7
Return on assets	%	0.4	-3.7

@excluding PMC Bank GNPA

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Certificate of Deposits	NA	NA	7 to 365 Days	360	Simple	CRISIL A1+

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	360.0	CRISIL A1+		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
CRISILs Criteria for rating short term debt

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