

## Press Release

### RBA Finance Private Limited (RBAFPL)

19 May, 2017

#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs.20.00 Cr
<b>Long Term Rating</b>	SMERA B+/Stable (Suspension Revoked; Rating Assigned)

\*Refer Annexure for details

#### Rating Rationale

SMERA has revoked the suspension and assigned the rating of '**SMERA B+ (read as SMERA B plus)**' on the Rs.20.00 crore long-term (fund-based) facilities of RBA Finance Private Limited. The outlook is '**Stable**'.

SMERA had, on 29th August, 2016 suspended the above rating due to the absence of necessary information for conducting the rating surveillance. The company has since then shared the requisite information, enabling SMERA to reassign a rating.

RBA Finance Private Limited (RBA), incorporated in 1996, is a Delhi based non-deposit taking non-banking financial company (NBFC –ND) promoted by Mr. Shayam S. Agarwal. The promoter has an experience of more than two decade in the business of two and three wheeler vehicle financing. RBA has its presence in sub-urban and rural parts of Uttar Pradesh, Rajasthan and Madhya Pradesh.

#### List of Key Rating Drivers and their detailed description

##### Strengths:

**Experienced promoters and Long Track Record of Operations:** The promoter – Mr. Shyam S. Agarwal – has more than two decades of experience in the vehicle financing industry. RBA has developed advanced market intelligence, risk management practices and longstanding relationships with vehicle dealers and other stakeholders in the vehicle financing business. SMERA expects RBA to continue to benefit from its ability to leverage its business relationships and continuing to grow its loan book over the medium term.

**Comfortable Profitability Indicators:** Backed by its low leverage, RBA reported a comfortable Net Interest Margin (NIM) of 14.35% in FY2017 (provisional) as compared to 14.75% in FY2016. SMERA, however, expects some moderation in the NIM over the medium term on account of the declining interest rate cycle, competitive pressures and expected increase in leverage over the medium term.

Coupled with healthy NIMs, RBA reported a modest Return on Average Assets (RoAA) of 1.78 per cent in FY2017 (provisional) via-a-vis 1.41 per cent in FY2016. SMERA believes that RBA's ability to maintain its capital structure and reduce its operating expenses as a proportion of its Assets Under Management (AUM) shall be critical in maintaining its profitability margins over the medium term.

##### Weaknesses:

**Modest scale of operations in a Highly Competitive Segment:** RBA undertakes vehicle financing in rural and semi-urban areas. The company has a limited market share in a segment which is exposed to competition from banking companies and other Non-Banking Finance Companies who are able to extend advances at competitive rates. RBA reported an outstanding loan portfolio of Rs.39.31 crore as on 31<sup>st</sup> March, 2017 (provisional) as compared to Rs.36.30 crore as on 31<sup>st</sup> March, 2016.

Further on account of its modest scale of operations, RBA's loan portfolio is largely concentrated in the state of Uttar Pradesh – thereby exposing the company to severe concentration risks in its loan portfolio. SMERA believes that RBA's ability to grow its loan-book while expanding its geographical presence shall be critical towards improving its overall credit risk profile.

**Weak Asset Quality:** RBA primarily lends to relatively high risk segments in order to maintain its spreads and NIMs. However, on account of a subdued economic environment, RBA reported a significant deterioration in its asset quality – marked by an increase in Gross NPA ratio to 3.38 per cent as on 31<sup>st</sup> March, 2016 from 2.74 per cent on 31<sup>st</sup> March, 2015. RBA further continues to report Gross NPAs at 180 days past due.

SMERA expects RBA to continue to face asset quality pressures on account of significant slowdown in recoveries in the second half of FY2016-17 due to unfavourable events such as demonetization. RBA's ability to increase its collection efficiency and improve its asset quality shall be critical towards improving its credit risk profile over the near to medium term.

**Analytical approach:** The team has considered standalone approach towards financial and business risk profile of the company

#### Applicable Criteria

- Non-banking financing companies- <https://www.smerra.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

#### Outlook: Stable

SMERA believes that RBA will maintain a stable outlook in the medium term on account of its experience management and comfortable profitability margins. The outlook may be revised to 'Positive' in case of sustained increase in loan book size while improving its asset quality and maintaining its leverage indicators. The outlook may be revised to 'Negative' in case of continued deterioration in asset quality and/or sustained profitability pressures being faced by RBA over the medium term.

#### About the company

RBA Finance Private Limited was incorporated in 1996, is a Delhi based non-deposit taking non-banking financial company (NBFC -ND) engaged in the business of two and three wheeler vehicle financing. The company is promoted and managed by Mr. Shayam S. Agarwal and has presence in Uttar Pradesh, Rajasthan and Madhya Pradesh.

In FY2017 (provisional), RBA reported Profit after Tax (PAT) of Rs.0.71 crore on Net Interest Income (NII) of Rs.5.64 crore as compared to PAT of Rs. 0.49 crore on NII Rs.4.93 crore in FY2016. The net worth of the company increased from Rs.9.69 crore as on 31 March, 2016 to Rs.10.40 crore as on 31 March, 2017 (Provisional).

**Status of non-cooperation with previous CRA (if applicable):** N.A

**Any other information:** N.A

**Rating History for the last three years:**

Name of Instrument /Facilities	FY 2018		FY2017		FY 2016		FY 2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date
Cash Credit	LT	10.00	SMERA B+/Stable (Suspension Revoked; Rating Assigned)	29 Aug 2016	SMERA B+/Stable (Suspended)	11 June 2015	SMERA B+/Stable (Assigned)	-
Working Capital Term Loan	L T	4.90	SMERA B+/Stable (Suspension Revoked; Rating Assigned)	29 Aug 2016	SMERA B+/Stable (Suspended)	11 June 2015	SMERA B+/Stable (Assigned)	-
Proposed Long Term	L T	5.10	SMERA B+/Stable (Assigned)	-	-	-	-	-

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	N.A	N.A	N.A	Rs. 10.00 Cr	SMERA B+/Stable (Suspension Revoked; Rating Assigned)
Working Capital Term Loan	N.A	N.A	March 2019	4.90 Cr	SMERA B+/Stable (Suspension Revoked; Rating Assigned )
Proposed Long Term	N.A	N.A	N.A	Rs.5.10 Cr	SMERA B+/Stable (Assigned)

**Note on complexity levels of the rated instrument:**
<https://www.smera.in/criteria-complexity-levels.htm>
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## ABOUT SMERA

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