

Press Release

Metrocity Finance Private Limited

September 18, 2019

Rating Assigned



Total Bank Facilities Rated	Rs. 10.00 Cr
Long Term Rating	ACUITE BB- / Stable (Assigned)

Rating Rationale

Acuite has assigned a long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.10.00 Cr bank facilities of Metrocity Finance Private Limited (MFPL). The outlook is '**Stable**'.

About MFPL:

Metrocity Finance Private limited (MFPL) is a non-banking financial company (NBFC) incorporated in April 2015 by Mr. Vipul Setia (Managing Director). The company was initially engaged in financing of passenger vehicles and has now shifted its focus towards Loan against property (LAP), wherein the target borrower base is to SMEs.

The company currently operates from their head office in Rajasthan, catering to borrowers in rural areas and plans to open its first branch in Chomu district of Rajasthan to accelerate their operations.

Setia Family has an established presence in the NBFC business for over two decades and MFPL benefits from the group's and promoters experience in the line of business.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of MFPL to arrive at the rating.

List of key rating drivers and their detailed description:

Strengths

• Improving operating performance:

MFPL commenced its lending operations in 2015 and was initially engaged in financing of passenger vehicles, loan against property and unsecured loans to individuals. Gradually, the company has shifted its focus towards lending to SME's through its product Loan against Property and has discontinued lending in the passenger vehicle segment.

The operations of the company are managed by Mr. Vipul Setia (Managing Director). Mr. Setia is a part of Jaipur-based Setia family, which is engaged in financing of commercial Vehicles, Loan against property among others. The family operates five NBFCs including MFPL and has its presence in the NBFC segment for over two decades. Mr. Vipul Setia has over a decade of experience in the lending segment and is supported by his brother, Mr. Sankul Setia, who is operating as the Chief Operating Officer for the LAP business in MFPL. The promoter and family owns 99.99 per cent in MFPL.

The company has grown its loan portfolio to Rs. 12.47 Cr. as on June 30, 2019 from Rs. 7.16 Cr. as on March 31, 2017, primarily supported by promoter contribution. The promoters are committed to infuse equity capital to support the growth objectives of the company. The management has transitioned its product mix from a passenger vehicle focused book to a LAP focused book, primarily on account of challenges faced in passenger vehicle segment. The LAP product is granular in nature with average ticket size of Rs.3.00 to Rs.4.00 Lakhs and is offered generally for income generating activities.

Acuite believes that MFPL's business profile will continue to be supported by granular nature of the portfolio and experienced management.

Weaknesses

• Limited seasoning of Loan Against Property (LAP) portfolio:

MFPL operates through its head office in Jaipur and plans to expand its operations in districts in and around Jaipur. The company's loan portfolio as on March 31, 2019 stood at Rs.11.39 Cr. as against Rs.9.69 Cr. And Rs.7.16 Cr as on March 31, 2018 and March 31, 2017. The company was focused largely in the passenger vehicle segment with 92 per cent as on March 31, 2017, which has reduced to 27 per cent as on June 30, 2019. MFPL commenced lending to LAP segment, since January 2018, and the loans are offered for an average tenure of 5 to 6 years. The segment comprised 64 per cent as on June 30, 2019 as against 1 per cent as on March 31, 2017. Since, majority of the loans are extended in FY2019, a larger portion of the portfolio has seasoning of less than a year.

Acuite believes that the company's ability to maintain its credit profile given the low seasoned loan book will remain a key rating sensitivity.

• Significant impact of legacy portfolio on asset quality:

MFPL increased its focus towards LAP lending since January 2018, prior to which the company was primarily engaged in financing of passenger vehicles. This is primarily because the company faced asset quality challenges in the passenger vehicle segment.

The company primarily caters to borrowers in the lower income segment, wherein the income streams are not firmly established, which exposes the company to volatility in the credit profile of these borrowers. LAP loans are prone to inherent risks since the collateral value is the primary focus rather than the cash flows.

The company's overall portfolio stood at Rs.12.47 crore as on June 30, 2019 of which the legacy portfolio i.e. passenger vehicle portfolio, was Rs.3.41 crore and non-legacy i.e. origination post January 2018 consisting of LAP, was Rs.8.00 crore.

The company has reported Gross NPA of 4.2 per cent as on June 30, 2019. The company has overdue of Rs.0.57 Cr. as on June 30, 2019 of which Rs.0.56 Cr. was from Passenger vehicle portfolio and the remaining was from the LAP portfolio. The passenger vehicle portfolio has reduced to Rs.3.85 crore as on March 31, 2019 from Rs.8.05 crore as on March 31, 2018, on account of reduced disbursements to the segment.

Collection efficiency of the passenger vehicle portfolio stood at 33 per cent and collection efficiency of LAP stood at 91 per cent on average for 13 months ended July 2019.

Acuite believes that the company's asset quality profile will depend on their ability to contain the delinquency in passenger vehicles portfolio will remain a key monitorable of the overall credit profile over medium term.

Liquidity Position: Moderate

MFPL's liquidity profile is moderate given the limited financial flexibility. The company has minor negative cumulative mismatch in 6 months to 1-year time bucket and significant mismatches over five years' buckets, based on the ALM statement dated June 30, 2019.

The company's funding profile is backed by cash credit facility of Rs.7.00 Cr., which is utilised 80 per cent and above on an average. Given the long-tenured LAP loans and shorter tenure of borrowing profile, the company's ability to manage its liquidity will remain key monitorable.

The company is in the process of availing term loans, which will partly replace the existing cash credit limit and the management also plans to infuse capital in the near term which is likely to support the liquidity profile going forward.

Outlook: Stable

Acuite believes that MFPL's credit profile will be supported by improving operating performance and experienced management. The outlook may be revised to 'Positive' in case of significant scale up in operations, while maintaining asset quality and profitability metrics. Conversely, the outlook may be revised to 'Negative' in case of any challenges in scaling up operations or in case of headwinds faced in managing asset quality.

About the Rated Entity - Key Financials

Parameters	Unit	FY19(Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	12.05	10.58	7.34
Total Income (Net of Interest Expense)	Rs. Cr.	1.41	1.14	0.82
PAT	Rs. Cr.	0.16	0.12	0.07
Networth	Rs. Cr.	5.31	4.38	3.26
Return on Average Assets (RoAA)	(%)	1.43	1.34	1.50
Return on Net Worth (RoNW)	(%)	3.34	3.15	2.75
Total Debt/Tangible Net Worth (Gearing)	Times	1.22	1.36	1.19
Gross NPA's	(%)	3.4%	4.9%	1.2%
Net NPA's	(%)	2.7%	4.0%	0.7%

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Cash credit facility	NA	NA	NA	7.00	ACUITE BB-/Stable (Assigned)
-	Proposed Cash credit facility	NA	NA	NA	3.00	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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