

## Press Release



**Setia Auto Finance Private Limited**

April 05, 2021

### Rating Assigned

<b>Total Facilities Rated*</b>	Rs. 25.00 crore
<b>Long Term Rating</b>	ACUITE BB/Stable (Assigned)

\*Refer annexure for details

### Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.25.00 Cr. bank facilities of Setia Auto Finance Private Limited (SAFPL). The outlook is '**Stable**'.

The rating factors in experienced management and healthy capitalization levels. CAR stood at 48.16% as on December 31, 2020 (Provisional) vis a vis 43.75% as on March 31, 2020. The rating also derives comfort from consistent rise in disbursements as well as collections on month-on-month basis since April, 2020.

The rating is, however, constrained due to modest scale of operations, moderate asset quality & financial performance, low seasoning of LAP portfolio and geographic concentration. Going forward, the ability of company to scale up its loan book, while maintaining asset quality and operating metrics will be key monitorables.

### About the Company

Incorporated in 1996, Setia Auto Finance Private Ltd (SAFPL) is a Rajasthan based Non-Deposit taking Non-Banking Financial Company (ND-NBFC) promoted and managed by Mr. Ravi Kumar Setia and family. The company is engaged in used vehicles financing namely utility vehicles, commercial vehicles and tractors and Loans Against Property (LAP). Company operates through a network of 4 branches in Rajasthan as on December 31, 2020.

### Analytical Approach

Acuité has adopted a standalone approach while assessing the business and financial risk profile of Setia Auto Finance Private Ltd.

### Key Rating Drivers

#### Strengths

- **Experienced management in micro-finance segment**

Setia Auto Finance Private Ltd (SAFPL), a Non-Deposit accepting Non-Banking Financial Company, commenced its operations in 1996. Company was initially engaged in extending two wheeler financing until 2003 when it discontinued the product and shifted towards used vehicles financing namely passenger vehicles, mini buses, commercial vehicles and tractors. Further, company diversified its product mix by extending Loans Against Property (LAP) in 2017. SAFPL currently operates in only Rajasthan and has network of 4 branches as on December 31, 2020.

The operations of the company are managed by Mr. Ravi Setia (Founder) and his two sons, Robin Setia and Nitin Setia. Ravi Kumar Setia's brothers and their families independently operate four NBFCs having presence in the NBFC segment for over two decades. Mr. Ravi Setia has over two decades of experience in the vehicle financing segment and is supported by his two sons, Mr. Robin Setia, who is Executive Director and heading Vehicle financing business of the company and Mr. Nitin Setia who is Chief Operating Officer and heading LAP business.

SAFPL has healthy capitalization levels which stood at 48.16% as on December 31, 2020 (Provisional) and 43.75% as on March 31, 2020. The company's Asset Under Management (AUM) stood at Rs. 58.12 Cr. as on

December 31, 2020 from Rs.61.65 Cr. as on March 31, 2020.

Acuite believes that SAFPL will continue to be supported by management experience in vehicle financing.

### Weaknesses

- **Moderation in asset quality of vehicle financing portfolio; limited seasoning of LAP portfolio**

SAFPL is engaged in used vehicle financing and LAP with used vehicle financing continuing to be a majority chunk (~85% of the portfolio as on December 31, 2020). Used vehicle financing comprises passenger vehicles, mini buses, commercial vehicles and tractors having average ticket size of Rs.0.04 Cr. and tenor ranging 2-4 years. The borrower profile mostly comprises self-employed individuals whose serviceability of these loans is directly dependent on the level of economic activity in the region of their operations. Covid 19 pandemic induced nationwide lockdown and subsequent localized shutdowns has aggravated borrower stress mainly in small to medium size ticket segments.

SAFPL's asset quality witnessed some deterioration with its 90+ dpd (days past due) loan book increasing to ~Rs.3.0 Cr. (~6 % of AUM) as on December 31, 2020 from ~Rs.2.8 Cr. (~5.1 % of AUM) as on March 31, 2020. On other hand, LAP business, which commenced in FY2017, has average ticket size is in the range of Rs.0.15 Cr. with tenor ranging 5-7 years. Contribution of LAP segment in overall portfolio increased from 0.17% in FY2017 to 14.79% as on December 31, 2020 and 47% of the LAP portfolio as on December 31, 2020 originated in FY2020 thereby resulting in limited seasoning.

Acuité believes that the company's ability to contain additional slippages in vehicle financing while maintaining the asset quality of low seasoned LAP book will be crucial.

- **Modest Scale of Operations**

SAFPL operations are limited to Rajasthan having presence across 15 districts through its network of 4 branches and tie ups with Direct Selling Agents (DSAs) and Co-Lending. Company is completely owned by promoters and family and had modest networth of Rs.15.30 Cr. as on December 31, 2020 (Provisional) vis-à-vis Rs.14.35 Cr. as on March 31, 2020. Company's portfolio gained traction during FY19 growing to Rs.58.12 Cr. as on December 31, 2020 from Rs.33.23 Cr. as on March 31, 2018 primarily supported by debt funding. However, lower disbursements on account of industry wide funding challenges led to marginal decline in portfolio to Rs.58.12 Cr. as on December 31, 2020 from Rs.61.65 Cr as on March 31, 2020. Company's modest scale of operations is further marked by high operational costs resulting in subdued earnings profile.

Acuité believes that company's ability to grow its scale of operations while improving operational efficiency will be crucial.

### Rating Sensitivity

- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability parameters
- Changes in regulatory environment

### Material Covenants

SAFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client vide mail dated October 13, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

### Liquidity: Adequate

SAFPL has negative cumulative mismatch in 6 months to 1-year time bucket based on ALM statement dated December 31, 2020. Company's liquidity buffers primarily depend on its cash inflows (collections from clients

and loans from banks) vis. a vis. the cash outflows (disbursements, debt servicing commitments, operating expenses). Collection efficiency of the company (amount collected as against scheduled collections) for November 2020 and December 2020 stood at ~65% and ~79% respectively. Company had unencumbered cash and bank balances of Rs.0.27 Cr. as on December 31, 2020. The company's ability to maintain a stable liquidity profile will hinge on its ability to improve its collection efficiency commensurate with its debt servicing obligation and other business requirements. The company is in talks with various lenders to raise long term debt.

Acuité believes that the ability of SAFPL to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of stable liquidity profile.

### **Outlook: Stable**

Acuité believes that SAFPL's credit profile will be supported by experienced management. The outlook may be revised to 'Positive' in case SAFPL is able to significant scale up its operations while maintaining asset quality and demonstrate significant improvement in liquidity buffers through long term funding, i.e. either by way of debt or equity. 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 and significant reduction in liquidity buffers.

### **About the Rated Entity- Key Financials**

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	66.16	69.95
Total Income*	Rs. Cr.	7.55	6.96
PAT	Rs. Cr.	0.78	0.78
Networth	Rs. Cr.	14.35	12.82
Return on Average Assets (RoAA)	(%)	1.15	1.41
Return on Average Net Worth (RoNW)	(%)	5.74	6.69
Total Debt/Tangible Net Worth (Gearing)	Times	3.54	4.37
Gross NPA	(%)	1.98	1.04
Net NPA	(%)	1.72	0.89

\* Total income equals to Net interest income plus other income

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

None

### **Any other information**

Not Applicable

### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating of Non-Banking Financing Entities:- <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

### **Rating History (Upto last three years)**

Not Applicable

### **Annexure- Details of Instruments rated**

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
-	Proposed Bank Facility	-	-	-	25.00	BB/Stable (Assigned)

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### About Acuité Ratings & Research:

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