

Press Release

Setia Auto Finance Private Limited

June 29, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed 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 continues to factor in experienced management and healthy capitalization levels. CAR stood at 79.80 percent as on March 31, 2022 as compared to 57.03 percent as on March 31, 2021. The rating also derives comfort from timely capital infusion from promoters on regular intervals, the company received a capital infusion of Rs 0.42 Cr. in March 31, 2022. 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 March 31, 2022.

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

Strength

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, minibuses, 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 March 31, 2022.

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 79.80 percent as on March 2022 as compared to 57.03 percent as on March 2021. The company's Asset Under Management (AUM) stood at Rs. 49.39 Cr. as on March 31, 2022 vis-à-vis Rs 54.42 Cr. as on March 31, 2021.

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

Weakness

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 (~82% of the portfolio as on March 31, 2022). Used vehicle financing comprises passenger vehicles, minibuses, 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.

SAFPL's asset quality continues to remain under moderation with its 90+ dpd (days past due) at Rs 2.4 Cr. (~4.86 % of AUM) as on March 31, 2022. 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 to ~18 percent as on March 31, 2022 as compared to ~15 percent as on March 31, 2021.

Acuite 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 16 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 network of Rs. 17.03 Cr. as on March 31, 2022 vis-à-vis Rs.15.36 Cr. as on March 31, 2021. Company's portfolio moderated in FY21, the AUM stood at Rs 49.39 Cr. as on March 31, 2022 as compared to Rs 54.42 Cr. as on March 31, 2021. The decline in AUM was on account of lower disbursements as the lockdown affected their main product i.e mini-buses which were reliant on tourism and schools. Company's modest scale of operations is further marked by high operational costs resulting in subdued earnings profile as reflected in the PAT of Rs 0.85 crore in FY22 (Provisional).

Acuite 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.

Liquidity Position: Adequate

SAFPL has negative cumulative mismatch in 6 months to 1-year time bucket based on ALM statement dated March 31, 2022. 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). Company's overall collection efficiency (including over dues) averaged at 59.69% for 6 month ended March 31, 2022. However current month collection efficiency averaged at ~ 80 percent for 6 month ended March 2022. The unencumbered cash and bank balance of Rs 1.53 crores as on March 2022. 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.

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.

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Prov)	FY21 (Actuals)
Total Assets	Rs. Cr.	44.26	55.68
Total Income*	Rs. Cr.	7.04	7.41
PAT	Rs. Cr.	0.85	0.89
Networth	Rs. Cr.	17.03	15.76
Return on Average Assets (RoAA)	(%)	1.70	1.47
Return on Average Net Worth (RoNW)	(%)	5.18	5.94
Total Debt/Tangible Net Worth (Gearing)	Times	1.52	2.45
Gross NPA	(%)	2.24	1.95
Net NPA	(%)	1.59	1.65

*Total income equals to Net interest income plus other income

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

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Apr 2021	Proposed Bank Facility	Long Term	25.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	23.13	ACUITE BB Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	1.87	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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