

Press Release

RORS FINANCE PRIVATE LIMITED

February 26, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 50.00 crore bank facilities of RORS FINANCE PRIVATE LIMITED (RFPL). The outlook is '**Stable**'.

RFPL, started in 2010, is a Karnataka based NBFC-MFI, engaged in micro finance activity by way of extending credit to Joint liability groups. RFPL began its operations in 2010 led by Mr. P Sathyanarayana Reddy (Founder and MD) who has over two decades experience in financial services sector. The company operates in two states, namely, Tamil Nadu and Karnataka with a network of 12 branches as on September 30, 2018. It has lent to around 3500 of JLG (Joint Liability Groups) as on 30 September, 2018.

Analytical Approach

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

Key Rating Drivers

Strengths

Established presence of promoters in the microfinance segment:

RFPL has been promoted by Mr. P S Reddy, a social worker, who has been engaged in initiating micro financing to urban and semi-urban poor through the RORES Micro Enterprise Development Trust (RMEDT) since 2005. Prior to 2005 Mr. P S Reddy has been associated with RORS an NGO which was engaged in rural development programmes, since 1987. In 2010 Mr. P S Reddy ploughed the profits of RMEDT to begin RFPL for a ~72 percent shareholding.

The board of RORS comprises of four members, Mr. P S Reddy and his wife Mrs. Revathi Reddy from the promoter group. Mrs. Reddy was associated with RMEDT since 2005 and holds the administrative operations of RFPL. The company benefits from established presence in the sphere of social development through its group company RMEDT.

Mr. P S Reddy is adequately supported by two Independent directors, Mr. Mohandas Kudva, ex DGM Canara bank and Mr. V Nagaraja, Ex CGM Punjab National Bank, who lend their banking expertise to the company. Mr. Kudva has headed different wings in credit and risk assessment during his tenure with Canara Bank, while Mr. Nagaraja has over 37 years of experience in the field of risk management credit policy, merchant banking, inspection and audit, customer service, management of Regional Rural Banks and government business.

Acuite believes that established presence of the promoters in the microfinance segment will be central to support the business risk profile of the company in the near to medium term.

Healthy asset quality:

RFPL primarily focuses on lending to JLGs of women primarily in Karnataka and Tamil Nadu who are mainly engaged in income generating activities. The initial loan amount is linked to adequate cash flows of each member of the group and the repayment track record of the existing loans by the members. The subsequent loan amount is linked to the earlier loan cycles and the repayment track record therein. A detailed assessment of the borrowers is undertaken including a visit to the borrowers to assess their eligibility. Most of the loan portfolio is towards income generating activities.

The stringent credit assessment and monitoring processes in place has enabled the company to maintain healthy asset quality. The company reported Gross NPA of 0.41 percent as on September

30, 2018 and 0.40 percent and as on March 31, 2018. The company has demonstrated moderate collection efficiency with a track record of over ~96.53 percent collection on an average for the ten months ended November 30, 2018.

Acuite believes that RFPL will maintain a healthy asset quality level on the back of its stringent credit assessment and monitoring process in the near to medium term.

Weaknesses

Modest Scale of operations; scalability of business to be demonstrated:

RFPL's overall loan portfolio stood at Rs.30.88 Cr as on March 31, 2018 which increased from Rs.16.83 Cr as on March 31, 2017. The growth in loan portfolio is mainly on account of increase in network of branches to 12 as on September 30, 2018 from 10 branches as on March 31, 2018, which in turn has increased the borrower base. The company maintained moderate profitability as reflected in its return on average assets (RoAA) of 1.62 percent for FY2018 as against 2.59 percent in the previous year and Net Interest Margin (NIM) of 11.37 percent in FY2018 and 16.18 percent in FY2017.

While the company has scaled up its loan portfolio steadily over the years, the profitability of RFPL moderated as indicated by decline in RoAA and NIM, mainly due to moderation in lending rates and spike in cost of borrowings. This is a result of increased gearing levels to support the growth plans. Gearing stood at 4.07 times as on March 31, 2018 as against 1.97 times as on March 31, 2017. The company borrows mainly through long term borrowings of term loans, which had increased to Rs.28.35 Cr as on March 31, 2018 as against Rs.12.86 Cr. as on March 31, 2017.

RFPL's current level of disbursements has also moderated as seen in modest growth of its loan portfolio during six months ending 30 September, 2018. The loan portfolio stood at Rs.34.78 Cr during half year ended 30 September, 2018, while gearing stood at 4.16 times and the bank borrowings stood at Rs.30.97 Cr for the same period. The dependency of the company to expand its operations is directly dependent on its ability to mobilise low cost debt, will be a key factor in the scalability of business.

Acuite believes, going forward, the ability of the company to mobilise additional funding through debt /sub debt and its ability to deploy the funds profitably while maintaining asset quality will be crucial to the credit profile of the company.

Geographical concentration risk:

RFPL has presence in two states, namely, Karnataka (21 percent of the overall portfolio) and Tamil Nadu (79 percent). It has 12 branches located over 2 districts in Karnataka and 5 districts of Tamil Nadu. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these areas, occurrence of events such as natural calamities, may adversely impact the credit profile of the borrowers.

Liquidity Position

RFPL has adequately matched cash flow as on September 30, 2018 as cumulative surplus is available in all maturity buckets. Most of the loan portfolios are upto two year tenures, while the borrowings are upto a period of five year tenure, leading to positive mismatches in the near to medium term. The company's liquidity position is supported by unutilised bank facilities of Rs.5.00 crore to meet business needs or in case of any mismatches.

Outlook: Stable

Acuite believes that RFPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with demonstrated ability to maintain asset quality and liquidity levels. The outlook may be revised to 'Positive' in case of higher than expected growth in loan portfolio while maintaining asset quality and capital structure. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of any deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	30.88	16.83	10.19
Total Income (Net of Interest Expense)	Rs. Cr.	2.71	2.19	1.64
PAT	Rs. Cr.	0.45	0.41	0.19
Net Worth	Rs. Cr.	6.96	6.51	6.10
Return on Average Assets (RoAA)	(%)	1.62	2.59	1.89
Return on Average Net Worth (RoNW)	(%)	6.66	6.49	3.21
Total Debt/Tangible Net Worth (Gearing)	Times	4.07	1.97	0.95
Gross NPAs	(%)	0.40	0.40	1.20
Net NPAs	(%)	0.13	0.08	0.12

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	8.19	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	4.21	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	2.60	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE BBB- / Stable
Term loan	Not Applicable	Not Applicable	Not Applicable	4.85	ACUITE BBB- / Stable
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable

Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB- / Stable
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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