

Press Release

RORS Finance Private Limited

May 21, 2020



Rating Reaffirmed and Assigned; Rating watch with Negative Implications

Total Bank Facilities Rated	Rs. 50.00 crore
Long Term Rating	ACUITE BBB- (Reaffirmed and Assigned; On Watch with Negative Implications)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 15.42 crore bank facilities of RORS Finance Private Limited (RFPL). The rating has been placed on '**Watch with Negative Implications**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 34.58 crore bank facilities of RORS Finance Private Limited (RFPL). The rating has been placed on '**Watch with Negative Implications**'.

Reasons for placing the ratings on 'Watch with Negative Implications'

The outbreak of the COVID-19 virus and the continued lockdowns have significantly impacted the operations of MFIs like RFPL. The borrowers of MFIs typically comprise the economically challenged sections of society whose income streams are linked to their day to day activities. The continued lockdowns have impacted the ability of most of the borrowers to carry on their income generating activities, affecting their cashflows. Besides the impact on the cashflows of the borrowers, the collection efficiency is also impacted due to logistical challenges on the part of MFIs in reaching out to the borrowers and engaging with them on a periodic basis. Resultantly, the collections have drastically declined and there is considerable uncertainty as of now, on the resumption of normal operations. It is difficult to ascertain at the current juncture the impact on the overall asset quality as the credit profiles of some of the borrowers could be impaired for a much longer time.

Besides the asset side challenges mentioned above, RFPL also faces pressures on liability side. RFPL's gearing as on March 31, 2020 (provisional) stood at 4.60 times. RFPL's borrowings of Rs. 40.38 crore is from various NBFCs/FIs and banks. As on March 31, 2020, the outstanding borrowings from banks stood at Rs. 23.38 Cr (~58 percent of Rs. 40.38 crore) and from NBFCs/FIs stood at Rs. 16.49 (~41 percent of Rs. 40.38 crore). In view of the ongoing crisis, RFPL had extended a three months' moratorium to all its borrowers which was in line with general practice followed by other MFIs. RFPL was expecting a similar relief from its lenders and had sought moratorium from all its lenders in the 3rd week of April 2020. However as of 15th May 2020, it had received explicit approval for moratorium till May 2020 from only 2 out of 8 lenders, comprising around 16 percent of the borrowings outstanding as on March 31, 2020. The balance lenders have yet to communicate their stance.

Since RFPL's collections from borrowers have virtually halted, their ability to make payments as per original terms has been severely impaired. RFPL's scheduled monthly collections on a normal steady basis are around Rs. 5.50 crore on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs. 2.00 crore. While, during the period of lockdown, its collections for the month of April amounted to Rs. 0.04 crore. Even in respect of cases where moratorium has been received till May 2020, RFPL will be required to commence the repayments from June 2020 onwards. Acuité believes that RFPL's collection efficiency could improve only on a gradual basis and hence in the event of challenges in getting extended moratorium, RFPL's liquidity pressures could intensify. Acuité observes that the banks have been adopting a very selective and cautious approach to NBFC sector and hence their approach towards highly geared companies like RFPL is currently uncertain.

Against this backdrop, there will be three key rating monitorable: Firstly, the ability to achieve optimal collection efficiency commensurate with the monthly obligations (both debt servicing obligations and operating expenses). Secondly, the stance of the lenders including NBFCs to extend moratorium till collection efficiency improves/long term funding support is arranged by the promoters. Thirdly, the ability of the promoters to arrange for long term funding support either through equity or through long term debt.

About RFPL:

Incorporated in 2010, RORS Finance Private Limited (RFPL) is a Karnataka based NBFC – MFI promoted by Mr. P Sathyanarayana Reddy. Mr. Reddy is a social worker and is engaged in micro-financing activities since 2005 through his over three decades old trust RORES Micro Enterprises Development Trust (RMEDT). In 2009, he took over an existing MFI, Pace Finance Private Limited and changed the name to RORS Finance Private Limited. RFPL's focuses on urban and semi-urban poor economically active women involved in trading, production, petty business, skill and semi-skill activities, services and agri-allied livelihoods. RORS Finance Private Limited (RFPL) has adopted a JLG model of lending as well as provides loans to individuals. RFPL operates through a network of 16 branches spread across states of Tamil Nadu and Karnataka and has a borrower base of 18,356 borrowers as on March 31, 2020.

Analytical Approach

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

Acuité has been guided by recent SEBI circular dated March 30,2020 (circular no SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53) while arriving at the rating. Acuité has also relied on the RBI circular dated March 27, 2020 (circular no RBI/2019-20/186) in this regard. Acuité observes that RFPL has yet to receive moratorium from some of its lenders. RFPL has skipped payments to these lenders over the past two months. Acuité believes that, this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuité policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxationfrom-compliance-with-certain-provisions-under-SEBI.htm>.

Key Rating Drivers

Strengths

- Experienced management in micro-finance segment**

RFPL has been extending micro credit since 2010 to women engaged in income generating activities under Joint Liability Group (JLG) model. The company has geographical presence in the states of Tamil Nadu and Karnataka with its network of 16 branches and outstanding portfolio of Rs. 40.10 crore as on March 31, 2020.

RFPL is promoted by Mr. P S Reddy, a social worker, who has been engaged in extending micro finance to urban and semi-urban poor through the RORES Micro Enterprise Development Trust (RMEDT) since 2005. Prior to RFPL, Mr. P S Reddy has been associated with RMEDT which operated as an NGO and was engaged in rural development programmes, since 1987. In 2010 Mr. P S Reddy ploughed the profits of RMEDT to begin RFPL. 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 functions 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.

Acuité 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.

Weaknesses

- **Leveraged Capital Structure impacting financial flexibility; significant near term obligations adding to liquidity pressures**

RFPL is engaged in microfinance lending providing short term loans upto 12 - 24 months. The company extends micro credit through Joint Liability Group (JLG) model. The company's networth stood at Rs. 8.78 crore and total debt stood at Rs. 40.38 crore as on March 31, 2020 (provisional). RFPL's AUM stood at Rs. 40.10 crore as on March 31, 2020 as against Rs. 38.61 crore as on March 31, 2019. The company's gearing stood at 4.60 times as on March 31, 2020 (provisional) as against 4.56 times as on March 31, 2019. The debt comprises of term loans from Banks/NBFCs/FIs and unsecured loans from directors and their relatives. The borrowings from Banks accounted for ~58 percent, NBFC/FI's for ~41 percent and unsecured loans for ~1 percent of the total borrowings of Rs. 40.38 crore as on March 31, 2020 (provisional).

In a relatively steady operating environment, the company has demonstrated fund raising ability from various banks and NBFCs/FIs. However, the recent COVID-19 outbreak in the last quarter of FY2020 resulted in a nationwide lockdown which has led to significant deterioration in the collection efficiency and cashflows of RFPL's borrowers. The MFIs like RFPL were required to extend a moratorium to their borrowers and they in turn were expecting a similar support from their lenders. RFPL has also sought a similar moratorium from its lenders. RFPL is in talks to raise funding with various existing lenders to support its liquidity profile. However, the stance of these lenders like banks who have been adopting a very selective and cautious approach to NBFC sector will make it difficult to assess.

Acuité believes that leveraged companies like RFPL could face challenges in raising additional debt due to a very selective and cautious approach adopted by Banks and FIs.

- **Subdued level of growth in business operation**

RFPL's overall loan portfolio stood at Rs. 40.10 crore as on March 31, 2020 as compared to Rs. 38.60 crore as on March 31, 2019 and Rs. 30.88 crore as on March 31, 2018. The company has maintained moderate profitability as reflected in its Return on Average Assets (RoAA) of 2.01 percent as on March 2020 (provisional) and Net Interest Margin (NIM) of 11.49 percent as on March 31, 2020 (provisional). While the company has scaled up its loan portfolio steadily over the years, the profitability of RFPL is moderate as indicated by its RoAA and NIM, mainly due to spike in borrowing costs with respect to funding lines obtained from Financial Institutions. The company mainly borrows through long term facilities. Its total debt stood at Rs. 40.38 crore as on March 31, 2020 as compared to Rs. 35.70 crore as on March 31, 2019, resulting in a gearing of 4.60 times as on March 31, 2020 (provisional) as against 4.56 times as on March 31, 2019. The dependency of the company to expand its operations is directly dependent on its ability to mobilize low cost debt, will be a key factor in the scalability of business. The impact of Covid-19 will also impair the scalability of business operations in the current scenario as it has disrupted the collections and disbursement processes. Sustaining the current levels of loan portfolio along with maintaining asset quality will be a key credit monitorable.

Acuité believes, going forward, the ability of the company to mobilize 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.

Rating Sensitivity

- Impact of natural calamities like covid-19 on ongoing operations
- Movement in collection efficiency
- Movement in asset quality
- Movement in liquidity buffers
- Profitability and capital adequacy buffers
- Stance of lenders in respect of moratorium
- Changes in regulatory environment

Material Covenants

RFPL 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 May 18, 2020, 'The company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity:

The liquidity buffer of RFPL are currently significantly impacted and the stress is expected to continue till resumptions of normal operations. RFPL has extended moratorium to all borrowers till May 2020 and was expecting similar moratorium from its lenders. At present RFPL has obtained explicit approval for moratorium from only 2 out of 8 lenders comprising 16 percent of total borrowings till May 2020. The other lenders (4 banks and 2 NBFCs) are yet to communicate their willingness to extend a moratorium. Going by the current developments it appears that the improvement in collections will be a gradual process. Acuite believes that RFPL may require additional moratorium from its lenders till its collection efficiency reaches optimal levels.

RFPL's monthly collections on a normal steady basis are around Rs. 5.50 crore against which it has a monthly debt service obligation of around Rs. 2.00 crore and operating costs of ~Rs. 0.20 crore per month. While, during the period of lockdown, its collections for the month of April amounted to Rs. 0.04 crore. RFPL has no immediate plans to raise fresh equity. The company is in talks with various lenders to raise long term debt. The stance of existing lenders and the ability of RFPL to raise long term funding (equity/debt) commensurate with its near term obligations will be critical to the maintenance of stable liquidity profile. Any challenges in raising fresh long term funding or in obtaining moratorium from existing lenders could impart negative bias to the rating.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	44.39	35.85
Total Income*	Rs. Cr.	4.92	3.26
PAT	Rs. Cr.	0.87	0.45
Networth	Rs. Cr.	7.83	6.96
Return on Average Assets (RoAA)	(%)	2.17	1.62
Return on Net Worth (RoNW)	(%)	11.75	6.66
Total Debt/Tangible Net Worth (Gearing)	Times	4.56	4.07
Gross NPA's	(%)	0.96	0.40
Net NPA's	(%)	0.56	0.13

* Total income equals to Net interest income plus other income

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Feb-2019	Term Loan	Long Term	5.50	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	8.19	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	4.21	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	4.25	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	2.60	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	2.90	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	4.85	ACUITE BBB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loan	27-03-2019	Not Applicable	26-03-2023	4.06	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'
Term loan	09-11-2017	Not Applicable	08-11-2020	1.25	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	04-01-2020	Not Applicable	03-01-2024	5.00	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	22-11-2017	Not Applicable	21-12-2020	1.25	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'
Term loan	29-09-2018	Not Applicable	28-09-2021	2.38	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	28-09-2017	Not Applicable	27-11-2021	1.00	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'
Term loan	28-03-2018	Not Applicable	27-01-2022	1.63	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	11-06-2018	Not Applicable	10-05-2021	2.27	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'
Term loan	28-05-2019	Not Applicable	27-05-2023	4.55	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'

Term loan	24-09-2018	Not Applicable	23-09-2020	0.45	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'
Term loan	24-06-2019	Not Applicable	23-06-2021	1.32	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	28-02-2018	Not Applicable	27-01-2022	1.84	ACUITE BBB- (Reaffirmed) On 'Watch with Negative Implications'
Term loan	13-03-2020	Not Applicable	12-03-2024	4.00	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	06-10-2018	Not Applicable	05-09-2020	0.29	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	04-02-2019	Not Applicable	03-10-2020	0.42	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	12-03-2019	Not Applicable	11-04-2021	1.00	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	03-07-2019	Not Applicable	02-05-2021	1.17	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	25-11-2019	Not Applicable	24-10-2021	1.67	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	30-12-2019	Not Applicable	29-05-2021	0.83	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	04-03-2020	Not Applicable	03-02-2020	3.00	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	05-09-2017	Not Applicable	04-12-2020	0.29	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	20-02-2018	Not Applicable	19-05-2021	0.88	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Term loan	11-12-2019	Not Applicable	10-11-2022	1.33	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	8.12	ACUITE BBB- (Assigned) On 'Watch with Negative Implications'

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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