

Press Release

RORS Finance Private Limited

May 07, 2021

Rating Reaffirmed



Total Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed, Removed from Rating under Watch with Negative Implications)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) on the Rs. 50.00 Cr. Bank Facilities of RORS Finance Private Limited (RFPL). The outlook is revised from **'Rating under Watch with Negative Implications'** to **'Stable'**.

The revision in the outlook is primarily driven by better than expected collection efficiency and asset quality of RORS Finance Private Limited (RFPL). Post resumption of economic activities in H2FY21, RFPL has reported improvement in collection efficiency on month on month basis (Collection efficiency stood at ~ 96 percent in March 2021). On account of strong recovery efforts and monitoring processes in place, RFPL has maintained moderate asset quality, which is reflected in on-time portfolio at 96.84 percent as on March 31, 2021. The rating continues to factor experienced management and operational track record. The rating further factors in the company's demonstrated ability to attract funding from Banks and Financial Institutions and its moderate capitalization and gearing levels. The rating is however constrained by small scale of operations despite being in microfinance segment for over a decade and de-growth in the loan portfolio with AUM of Rs. 37.01 Cr as on March 31, 2021 which marginally declined from Rs. 40.10 Cr as on March 31, 2020. The rating is further constrained by the company's geographically concentrated operations in Tamil Nadu (~74 percent of the overall portfolio) and Karnataka (~26 percent) as on March 31, 2021. The second wave of COVID is rapidly spreading across the country including the rural areas and is inducing localized lockdowns. The impact of the lockdowns can be negative for MFI segment if it is prolonged. Going forward the ability of the company to profitably scale up while maintaining the asset quality and diversify its operations will be key monitorables.

About the company

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 17,158 borrowers as on December 31, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and track record of operations**

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. 37.01 Cr as on March 31, 2021.

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. 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.

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.

- **Moderate Asset Quality**

RFPL's overall loan portfolio stood at Rs. 37.01 Cr as on March 31, 2021, the company has managed to maintain moderate asset quality as reflected in on-time portfolio at 96.84 percent as on March 31, 2021 (99.19 percent as on March 31, 2020) and collection efficiency at ~96 percent for March 2021. In spite of disruption in economic activity due to COVID, the company reported an improvement in GNPA (quarter-on-quarter basis), which stood at 1.45 percent as on March 31, 2021 as against 4.58 percent as on December 31, 2020.

Acuite believes, going forward, the ability of the company to maintain stable asset quality in the light of continuously evolving economic scenario will be a key monitorable.

Weaknesses

- **Small scale of operations**

RFPL has been in the micro finance lending space since 2010. The company has small scale of operations with an outstanding loan portfolio of Rs. 37.01 Cr as on March 31, 2021 as compared to Rs. 40.10 Cr as on March 31, 2020. The company has maintained moderate profitability as reflected in its Return on Average Assets (RoAA) of 2.21 percent as on March 31, 2021 (provisional) and Net Interest Margin (NIM) of 12.14 percent as on March 31, 2021 (provisional). While the company has scaled up its loan portfolio steadily over the years from Rs 30.88 Cr in FY18, 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 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. Another round of possible COVID induced lockdowns and economic disruptions might also impair the scalability of business operations. Sustaining the current levels of loan portfolio along with maintaining asset quality will be a key credit monitorable.

Acuité believes, 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.

• **Geographically concentrated portfolio**

The MFI lending segment entails providing loans to the lower economic strata of the society. The pandemic and the consequent lockdowns have resulted in significant logistical challenges. This has impacted the credit profile of most of the borrowers and the impact has been more severe on the lower economic strata of the society who are already vulnerable.

RFPL has presence in two states with concentration in Tamil Nadu (~74 percent of the overall portfolio) and Karnataka (~26 percent) as on March 31, 2021. It has 11 branches in the state of Tamil Nadu and 5 branches in the state of Karnataka. This exposes the company to high geographical concentration risk. Thus, the company's performance is expected to remain exposed to competitive landscape in these regions and occurrence of events such as natural calamities, unrest, political developments may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework.

Acuité believes that small scale of operations, coupled with geographic concentration in its portfolio in the backdrop of second wave of COVID will continue to weigh on the company's credit profile over the near to medium term.

Rating Sensitivities

- Profitability and Liquidity Position
- Raising funds in the form of equity and debt.
- Diversification in geographical profile while maintaining asset quality.

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, the Company is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.

Liquidity Position: Adequate

RFPL's monthly collections on a normal steady basis are ~4.00 Cr - 5.00 Cr against which it has a monthly debt service obligation of ~Rs. 2.00 Cr and operating costs of ~Rs. 0.60 Cr per month. Its collections efficiency for the month of April 2021 stood at ~94 percent. The company is in talks with various lenders to raise long term debt. The company's liquidity position is supported by unencumbered Cash and Bank Balance of Rs 0.19 Cr as on March 31, 2021. RFPL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated March 31, 2020.

Outlook: Stable

Acuité believes that RFPL will maintain a 'Stable' outlook over the medium term supported by its established presence in the microfinance segment along with the 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.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	50.42	44.39
Total Income*	Rs. Cr.	5.43	4.92
PAT	Rs. Cr.	0.99	0.87
Net Worth	Rs. Cr.	8.83	7.83
Return on Average Assets (RoAA)	(%)	2.09	2.17
Return on Average Net Worth (RoNW)	(%)	11.92	11.75
Debt/Equity (Gearing)	Times	4.57	4.56
Gross NPAs	(%)	1.42	0.96
Net NPAs	(%)	0.38	0.56

*Total income equals to Net Interest Income plus other income.

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

Not Applicable.

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-52.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 (Up to last three years)

Date	Name of the Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
21-May-2020	Term loan	Long Term	4.06	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.25	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	5.00	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.25	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	2.38	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.00	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.63	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	2.27	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	4.55	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	0.45	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)

	Term loan	Long Term	1.32	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.84	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	4.00	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	0.29	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	0.42	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.00	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.17	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.67	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	0.83	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	3.00	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	0.29	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	0.88	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Term loan	Long Term	1.33	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
	Proposed Term loan	Long Term	8.12	ACUITE BBB- (Reaffirmed; On Watch with Negative Implications)
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)
	Term Loan	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	2.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	2.50	ACUITE BBB-/ Stable (Assigned)

	Proposed Term Loan	Long Term	3.00	ACUITE BBB-/ Stable (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Date of Maturity	Size of the Issue (Rs. Cr.)	Rating/ Outlook
Term loan	26.03.2019	12.75%	30.06.2023	3.53	ACUITE BBB-/ Stable (Reaffirmed; Removed from Rating Watch)
Term loan	31.12.2019	12.45%	31.03.2024	4.42	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	30.12.2020	12.45%	30.12.2023	5.00	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	27.09.2018	10.95%	30.12.2021	1.86	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	25.09.2017	11.60%	30.12.2021	0.74	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	22.03.2018	11.60%	30.06.2022	1.27	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	04.06.2018	12.20%	30.10.2021	1.52	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	21.05.2019	11.45%	30.09.2023	3.75	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	13.06.2019	15.00%	20.06.2021	0.46	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	31.08.2017	15.25%	10.01.2022	1.21	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	15.02.2018	14.75%	10.08.2024	3.68	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	12.01.2018	14.00%	10.02.2021	0.12	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	27.01.2020	14.00%	20.05.2021	0.42	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	05.10.2018	15.75%	20.07.2021	0.58	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	30.01.2019	15.75%	20.12.2021	1.08	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	09.03.2019	15.75%	20.07.2021	0.44	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)

Term loan	30.06.2019	15.75%	20.04.2022	2.13	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	18.11.2019	15.75%	05.02.2021	0.07	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	26.12.2019	15.40%	15.07.2021	0.47	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	29.02.2020	15.75%	15.12.2022	1.10	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Special Liquidity Support	25.06.2020	6.97%	10.04.2021	2.00	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Term loan	08.02.2021	9.95%	31.03.2024	8.00	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.15	ACUITE BBB-/ Stable (Reaffirmed; Removed from rating watch)

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