Ratings

CRISIL
An S&P Global Company

Rating Rationale

May 06, 2020 | Mumbai

Orange Retail Finance India Private Limited

Rating outlook revised to 'Stable', rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.60 Crore**
Long Term Rating	**CRISIL BBB-/Stable (Outlook revised from 'Positive' and rating reaffirmed)**

Rs.60 Crore Non Convertible Debentures	**CRISIL BBB-/Stable (Outlook revised from 'Positive' and rating reaffirmed)**

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its outlook on the non convertible debentures and long term bank facilities of Orange Retail Finance India Private Limited (ORFIL) to **'Stable'** from 'Positive' while reaffirming the rating at '**CRISIL BBB-**'.

The outlook revision reflects CRISIL's expectation that ORFIL's collections and asset quality metrics may come under pressure due to the extended nation-wide lockdown. Given the focus on 2 wheeler segment, the company largely caters to borrowers with modest credit profile and relatively under-banked customers. The non-regular income pattern and lack of financial flexibility of these borrowers may lead to higher delinquencies especially amidst the current environment. Further, there has been a delay in capital raise of Rs 150-160 crore in fiscal 2020.

The nationwide lockdown (originally till April 14, 2020) declared by the Government of India to contain the spread of the Novel Coronavirus (Covid-19) will have near-term impact on disbursements and collections of companies. The lockdown is now extended till May 3, 2020 and there is high likelihood that eventual lifting of restrictions will be in a phased manner. Any delay in return to normalcy will put further pressure on collections and asset quality metrics of NBFCs. Additionally, any change in the behavior of borrowers on payment discipline can affect delinquency levels. The company has taken several steps to manage costs during this period, however, the impact of these would need to be seen over the next few quarters.

On the liability side, the Reserve Bank of India (RBI) announced regulatory measures under 'Covid-19 - Regulatory Package', whereby lenders were permitted to grant moratorium on bank loans. ORFIL has written to their lenders seeking moratorium. However, CRISIL understands that the approval of moratorium request by some lenders is still under process. The recent uncertainty on whether non-banking financial companies (NBFCs) are considered eligible for moratorium has resulted in some delay in decision-making by the lenders. In absence of moratorium on bank loans, liquidity profile of few NBFCs could come under pressure. CRISIL will continue to monitor the situation closely for all its rated companies.

Two wheeler financing segment wherein ORFIL primarily operates, could witness challenges in the salaried and self-employed segments, whose income streams have been affected by the lockdown. CRISIL believes that ORFIL has sufficient liquidity, on standalone basis, to manage this period wherein asset-side collections will be negligible while liability-side outflows continue as per schedule (excluding the loans where lenders have permitted moratorium). ORFIL's liquidity buffer to cover total debt and loan repayments till June 2020 was 1.4 times. In terms of liquidity, ORFIL, as on March 31, 2020, had liquidity of Rs 28.3 crore (Rs 23.3 crore of cash and equivalents and Rs 5 crore of unutilized working capital bank lines). Against the same, they have total debt payments of Rs 20.4 crore over the next 3 months till June 2020 (excluding the loans where lenders have permitted moratorium).

The rating factors in the experience of the founders in retail lending supported by a strong team of advisors to the Board, adequate capital position, and scalable technology and processes in place for growth. These rating strengths are partially offset by asset quality risks inherent in two wheeler financing and the relatively nascent stage of operations.

Analytical Approach

CRISIL has analysed the standalone business and financial risk profile of ORFIL.

Key Rating Drivers & Detailed Description

Strengths

*** Founders with experience in retail lending supported by a strong team of advisors to the board**

The founders of ORFIL have experience in retail lending, especially in the Southern markets where ORFIL's business will be focused for the next couple of years. The complete management team is now in place, and many of them come with long industry experience.

The Board is also supported by an experienced team of advisors, including Mr. Shailesh Mehta, former Chairman and CEO of Providian Financial and current partner of Granite Hill Opportunities Fund (A US based fund), and Mr. Parthasarathy R, Ex VP ' Credit and Risks, Shriram City Union Finance.

*** Adequate capital position, supported by regular capital raising**

ORFIL has adequate capitalization, having raised equity capital of Rs 84.1 crore in fiscal 2019 primarily through investment by existing investor groups, which has helped in significant scale-up of operations. The networth of the company was approximately Rs 99.4 crore as on December 31, 2019 against Rs 90.9 crores as on March 31, 2019.

The company has a comfortable leverage policy with gearing not expected to cross 4 times on a steady state basis. The gearing of the company was 2.1 times as on December 31, 2019 against 1.4 times as on March 31, 2019 and has decreased from 7.1 times at March 31, 2018 primarily due to infusion of capital in fiscal 2019.

ORFIL had initially planned to raise additional capital of Rs 150-160 crores from institutional investors by the third quarter of fiscal 2020, which due to the current market conditions has been deferred. This will be important in order to support future growth plans and will be a rating sensitivity factor.

*** Scalable technology and processes in place for growth**

ORFIL's target segment is customers in the rural and semi-urban markets. Given their significant experience in retail lending, the management has put in place strong systems and processes to address this segment, with efficient use of technology across sourcing, underwriting, collections as well as fraud management, comparable to established players in the space. It has a centralized approval process for the sanction of the loans based out of its operations center in Madurai. The operational risk aspect has been minimized through use of technology, wherein the details of the customers are collected in the application by the sourcing personnel of the company and the same is integrated with the desktop based back-end operations team. With substantial investment in these areas during the initial stages of operations, ORFIL has put in place scalable technology and processes to expand its operations.

Weaknesses

*** Asset quality susceptible to risks inherent in two wheeler financing and rural customer segments**

ORFIL's asset quality is susceptible to risks associated with financing of two wheelers wherein the borrower credit profiles may be weak and the resale value of the asset is low. Further, the company operates in rural markets and semi-urban markets.

Gross non-performing assets (NPAs, recognized at 90 days past due) ratio for ORFIL stood at 5.79% as on December 31, 2019 against 4.09% as on March 31, 2019. The 0 days past due ratio of the company was 26.6% as on December 31, 2019. CRISIL expects that the asset quality metrics to further come under pressure due to the extended nation-wide lockdown and challenging economic environment. Given the high proportion of cash collections, collections ratio in April 2020 was around 55% (excluding about 55% of loans under moratorium as on March 31, 2020).

The loan book of the company is relatively new, having scaled up materially only over the past 12-18 months. At an industry level, delinquencies in the 2-wheeler finance segments are high with wide variance among players. Therefore, the ability of the company to manage asset quality at comfortable levels will need to be demonstrated over the medium term as the portfolio scales up and seasons.

*** Nascent stage of operations, scale up to be supported by market segment:**

While ORFIL started operations in 2014, acted primarily as BC till fiscal 2017 and then started co-lending in fiscal 2018. ORFIL started to expand its own book from fiscal 2018 (On-book assets was Rs 1.2 crore as on March 31, 2017) and has reached an AUM Rs 405.2 crore, on-book assets of Rs 239 0 crore, as on December 31, 2019. It has made a profit of Rs 2.5 crore in first 9 months of fiscal 2020 against Rs 1.1 crore in fiscal 2019.

Given the nascent stage of operations, it has a modest resource profile with relatively high cost of borrowings. Operating expenses have also been elevated given the expansion and technological investments being made. As the book scales up, operating efficiencies should benefit the company's profitability. However, the ability to raise resources at competitive rates and manage credit costs will be the key determinants of profitability going ahead.

The company is expected to scale up its business rapidly from current levels. However, despite the expected strong growth, the market share of the company in the overall two wheeler financing market is expected to remain small over the medium term.

<u>Liquidity Adequate</u>

In terms of liquidity, ORFIL, as on March 31, 2020, had liquidity of Rs 28.3 crore (Rs 23.3 crore of cash and equivalents and Rs 5 crore of unutilized working capital bank lines). Against the same, they have total debt payments of Rs 20.4 crore over the next 3 months till June 2020 (excluding the loans where lenders have permitted moratorium).

<u>Outlook:</u> Stable

The outlook revision reflects CRISIL's expectation that ORFIL's collections and asset quality metrics may come under pressure due to the extended nation-wide lockdown. Given the focus on 2 wheeler segment, the company largely caters to borrowers with modest credit profile and relatively under-banked customers. The non-regular income pattern and lack of financial flexibility of these borrowers may lead to higher delinquencies especially amidst the current environment. Further, there has been a delay in capital raise of Rs 150-160 crore in fiscal 2020.

Rating Sensitivity Factors

Upward Factors

*Sustainability in gross NPA level below 5% in the medium term while maintaining profitability.
*Ability to bring in long term equity capital from institutional investors.
* Increase in scale of operations while maintaining the operational cost and improving earnings.

Downward Factors

*Increase in steady state gearing of above 4 times
*Continuous pressure on collections resulting in sharp increase in gross NPA and consequently, credit costs, in the medium term.

About the Company

ORFIL is a non-deposit taking non-systemically important NBFC engaged in financing of two wheelers. ORFIL started its operations in 2014 after its promoters acquired an erstwhile NBFC (Amber Finance India Limited in 2014). From fiscal 2016, ORFIL has started business correspondent (BC) model lending for RBL and continued the same till FY2018. In September 2017, fresh equity was infused by the current investor groups who bought out some of the original promoters. ORFIL bought out the BC portfolio from RBL and started growing its own book from FY2018. Further, ORFIL also started co-lending model along with Incred in FY2018 and is in process of further expansion of the co-lending model with other private sector banks and NBFCs. ORFIL was operating with 82 branches and has presence in 5 states as on December 31, 2019.

Key Financial Indicators

As on/For the year ended March 31	Unit	2019	2018
Total Assets	Rs.Crore	239	54
Total Income (excluding finance cost)	Rs.Crore	37.9	9.1
Profit after tax	Rs.Crore	1.1	0.3
Gross NPA	%	4.09	0.82
Gearing	Times	1.4	7.1*
Return On Assets	%	0.7	1.1

**including unsecured promoter loans which were subsequently converted to equity*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of the Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Amount (Rs.Crore)	Rating assigned with Outlook
NA	Debenture^	NA	NA	NA	60	CRISIL BBB-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	60	CRISIL BBB-/Stable

^Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	60.00 05-05-20	CRISIL BBB-/Stable			24-06-19	CRISIL BBB-/Positive		--		--	--
Fund-based Bank Facilities	LT/ST	60.00	CRISIL BBB-/Stable			24-06-19	CRISIL BBB-/Positive		--		--	--
						12-06-19	CRISIL BBB-/Positive					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Proposed Long Term Bank Loan Facility	**60**	**CRISIL BBB-/Stable**	**Proposed Long Term Bank Loan Facility**	**60**	**CRISIL BBB-/Positive**
Total	**60**	**--**	**Total**	**60**	**--**

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition]

Rating Criteria for Finance Companies

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	**Krishnan Sitaraman** Senior Director - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 8070 krishnan.sitaraman@crisil.com **Ajit Velonie** Director - CRISIL Ratings **CRISIL Limited** D:+91 22 4097 8209 ajit.velonie@crisil.com **Krishna Bhargav** Rating Analyst - CRISIL Ratings **CRISIL Limited** D::+91 22 3342 3598 Krishna.Bhargav@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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