October 14, 2022

RBSG Capital Private Limited: [ICRA]BB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan	75	[ICRA]BB+ (Stable); assigned
Total	**75**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in RBSG Capital Private Limited's (RBSG) management team's significant experience in this line of business and its moderate capitalisation profile. Given the current scale of operations, the company's capitalisation profile is satisfactory, characterised by a net worth of Rs. 33 crore, a reported capital adequacy ratio of 30.7% and a managed gearing of 2.51 times as on June 30, 2022. However, it would need external capital to grow as per its business plans while maintaining prudent capitalisation levels. In this regard, ICRA notes that the company is in the process of raising capital and the capital levels should improve by the end of this fiscal.

The rating is, however, constrained by RBSG's modest scale of operations with reported assets under management (AUM) of Rs. 107 crore as on June 30, 2022 and muted profitability indicators. With the company still being in the expansion phase, its operating expenses, incurred mainly for branch expansion and business growth, have remained high. This has led to muted profitability indicators, given the low operating efficiency. ICRA expects that the profitability would improve over the medium term as the operating expenses stabilise with economies of scale, provided RBSG can maintain good control on fresh slippages.

The rating also factors in the relatively high vulnerability associated with RBSG's portfolio, given the target borrower profile, which consists of first-time users/borrowers and single vehicle and small business owners, who are more susceptible to economic shocks and have limited income buffers. Thus, the delinquency indicators for the company could remain volatile. In this regard, ICRA favourably notes that the company has been able to recover from the delinquent accounts in the past through focused collection efforts. RBSG's 90+ days past due (dpd) improved to 4.4% as on June 30, 2022 from the all-time high of 8.1% as on May 31, 2021 (2.9% as on March 31, 2021). As for the borrowing mix, the company is currently largely reliant on large non-banking financial companies (NBFCs) for meeting its funding requirements and would need to expand the lender base to fund its incremental growth. Overall, RBSG's ability to grow the scale of operations while improving the profitability and maintaining the asset quality would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Experienced management team with experience in same line of business – RBSG's senior management team consists of professionals with over two decades of experience in the vehicle financing business and has established relationships with various stakeholders. This, coupled with the company's access to a large dealer network by virtue of the promoter family, has helped it expand its operations in Gujarat and grow its network to 17 branches across Maharashtra and Gujarat. The company is also backed by known investors, Sundaram Finance and Asha Impact Consulting. RBSG's promoters hold a 66.1% share in the company on a fully-diluted basis. ICRA expects that the company would benefit from the expertise of its promoters and management team to grow the portfolio as per its business plans, while maintaining its asset quality.

Moderate capitalisation profile; need for external capital for growth to remain high – Given the current scale of operations, the company's capitalisation profile is satisfactory, characterised by a net worth of Rs. 33 crore, a reported capital adequacy ratio of 30.7% and a managed gearing of 2.51 times as on June 30, 2022. However, it would need external capital to grow as per its business plans while maintaining prudent capitalisation with a peak gearing of 3 times. In this regard, ICRA notes that RBSG is in the process of raising capital and the capitalisation levels should improve by the end of this fiscal. Though ICRA expects that growth capital from investors is likely to be forthcoming, its timely infusion would be a key monitorable.

Credit challenges

Modest scale of operations; high operating expenses leading to muted profitability – RBSG finances used commercial and passenger vehicles and has a presence in Maharashtra and Gujarat through 17 branches. Its scale of operations is modest with an AUM of Rs. 107 crore as on June 30, 2022, up from Rs. 100 crore as on March 31, 2022 (Rs. 80 crore as on March 31, 2021). Given the low base, the portfolio is geographically concentrated with Gujarat accounting for 54% of the total portfolio and Maharashtra for the rest. ICRA notes that the company was focused on recoveries during the Covid-19 pandemic in FY2021 and FY2022 and it had slowed down new disbursements with expansion in only two new districts during this period.

While it generates adequate lending spreads (5.80% for FY2022), the operating expenses in relation to average managed assets remain significantly high (8.27% for FY2022) as the company is still in the expansion phase. This has kept the profitability indicators muted with the company reporting a return on managed assets (RoMA) of -1.96% in FY2022 and 0.16% in Q1 FY2023. As the operating expenses stabilise with economies of scale supported by business growth, the profitability is expected to improve over the medium term, provided RBSG can maintain good control on fresh slippages.

High portfolio vulnerability likely to keep asset quality volatile – RBSG provides used vehicle finance and its target customers are first-time borrowers and single vehicle and small business owners. These customers are more susceptible to economic shocks and have limited income buffers. Their cash flow could be volatile and highly sensitive to minor business disruptions. Also, such borrowers may not have the financial flexibility to pay more than one or two instalments at a time. Therefore, the delinquencies in the portfolio could remain volatile for the company. With a significant part of the loan book growth coming from recent originations and given the modest vintage of the company, the asset quality indicators are yet to be tested across cycles. RBSG has, however, demonstrated the ability to recover from delinquent accounts, due to Covid-19 pandemic, by focusing on collections.

ICRA also notes that the recent originations (post April 2020) are performing better than the company's earlier originations. The 90+ dpd improved to 4.4% as on June 30, 2022 from the all-time high of 8.1% as on May 31, 2021 (2.9% as on March 31, 2021). Further, while ICRA is cognizant of the vulnerability of the reported asset quality data due to the relief extended to borrowers by way of restructuring (2.2% of AUM as on June 30, 2022), it is noted that the company reported an average collection efficiency of 93% in Q1 FY2023, in line with the FY2022 level. Going forward, the company's ability to control fresh slippages, while growing the business, will remain a key monitorable.

Limited diversity in borrowing profile; ability to enhance lender base imperative for increase in scale of operations – RBSG has limited financial flexibility and relies primarily on high-cost borrowings from other NBFCs for its funding requirements. Further, to fund its incremental business, the company has been using the securitisation route for its receivables pool of commercial vehicle (CV) loans and has started co-lending (90:10) arrangements with a few partners. Given its growth plans, RBSG would need to add new lenders to grow its portfolio and bring down its cost of borrowings. Therefore, its ability to diversify its resources profile would be a key monitorable.

Liquidity position: Adequate

RBSG's liquidity profile is adequate with on-balance sheet liquidity in the form of cash and investments of about Rs. 9 crore (as on June 30, 2022), equivalent to ~13% of its on-balance sheet borrowings. As per the Asset Liability Management (ALM) profile on June 30, 2022, RBSG has debt maturities of Rs. 67 crore for the 12-month ending June 30, 2023 against which its scheduled inflows from performing advances are Rs. 90 crore for the 12-month ending June 30, 2023. Liquidity is also supported by the undrawn promoters' line of credit of Rs. 5 crore as on June 30, 2022.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in the scale with an improvement in the profitability indicators, a reduction in geographical concentration and controlled asset quality indicators.

Negative factors – Pressure on the rating could emerge on a significant increase in the leverage and/or a sustained deterioration in the asset quality or weakening in the liquidity and earnings profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[ICRA's Credit Rating Methodology for Non-banking Finance Companies](#)
Consolidation/Standalone	Standalone

About the company

RBSG Capital Private Limited (RBSG; brand name – Automony) was incorporated in December 2017 and received its NBFC licence in May 2018. It is a Reserve Bank of India (RBI)-registered non-deposit taking non-systemically important NBFC (NBFC-ND-NSI) focused on providing loans secured by hypothecation against CVs and passenger cars. The company currently operates in Maharashtra and Gujarat and has a network of 17 branches covering about 20 districts. As on June 30, 2022, the total AUM stood at Rs. 107 crore consisting of used CV (71%) and used PV (29%). The company reported gross non-performing advances (NPA; on 180 dpd basis) of 2.68% and net NPA of 2.29% as on June 30, 2022.

For the quarter ended June 30, 2022, the company reported a net profit of Rs. 0.05 crore on an asset base of Rs. 126.78 crore compared with a net loss of Rs. 1.86 crore on an asset base of Rs. 120.36 crore in FY2022.

Key financial indicators

RBSG Capital Private Limited	FY2020	FY2021	FY2022	Q1 FY2023
	(Audited)	(Audited)	(Audited)	(Provisional)
Total income	8.64	14.69	15.66	5.04
Profit after tax (PAT)	(1.11)	0.43	(1.86)	0.05
Net worth	32.86	35.30	33.44	33.49
Total portfolio	67.18	79.54	100.94	106.97
Total managed assets	74.47	106.32	120.36	126.78
Return on average managed assets (PAT/AMA)	-2.30%	0.48%	-1.64%	0.16%
Return on average net worth (PAT/Avg. net worth)	-5.23%	1.27%	-5.41%	0.60%
Managed gearing (times)	1.18	1.85	2.30	2.51
Gross NPA	0.29%	1.13%	2.73%	2.68%
Net NPA	0.24%	0.95%	2.16%	2.29%
Net NPA/Net worth	0.50%	2.15%	6.52%	7.29%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount O/s as of Aug-31-22 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Oct-14-22				
1	**Long-term fund-based term loan**	Long term	75.00	0.00	**[ICRA]BB+ (Stable)**	-	-	-	-

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based term loan	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund based – Term loan ^**	NA	NA	NA	75	[ICRA]BB+ (Stable)

Source: Company; ^Unallocated

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Balram Yadav
+91 22 6114 3419
balram.yadav@icraindia.com

Sandeep Sharma
+91 124 4545 820
sandeep.sharma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches