

November 01, 2022

Orbis Financial Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long/short-term non-fund based bank guarantee	315	600	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Long/short-term non-fund based bank (un-allocated)	285	-	-
Total	600	600	

*Instrument details are provided in Annexure-I

Rationale

Orbis Financial Corporation Limited's (OFCL) ratings continue to factor in its fee-based services (custodial, clearing, depository and trusteeship services), which are offered to various institutional clients including foreign portfolio investors (FPIs). The ratings also factor in the healthy scale-up in OFCL's operations and its improved earnings performance in FY2022 and Q1 FY2023. The company's capital position also stands augmented following the equity infusion in FY2022 and healthy internal capital generation. It reported a return on net worth of 25.3% and its highest-ever annual profit after tax of Rs. 48 crore in FY2022. As of March 31, 2022, the company's capitalisation position remained comfortable with a net worth of ~Rs. 223 crore (previous year (PY): Rs. 155 crore), with no on-balance sheet borrowings as its funding requirements are largely met through bank guarantees.

The ratings, however, remain constrained by OFCL's high revenue concentration towards a few clients and the limited diversification in its revenue profile. With the increase in the scale of operations and the margins placed by the clients, the float income on these margins has been growing steadily and is one of the key drivers of the company's revenue and profitability growth. High client concentration and limited diversification in the revenue stream with significant dependence on float income can, however, result in volatility in earnings. Also, while OFCL received a licence to operate as a custodian in FY2009, its operations have ramped up mainly in the past few years, with the assets under custody (AUC) increasing to Rs. 78,756 crore as of July 31, 2022 from Rs.10,393 crore as of March 31, 2020. The ratings also take into account the competitive intensity prevalent among custodians, mainly dominated by banks, with global banks accounting for a predominant share of the FPI segment, and the competitive advantage enjoyed by incumbents.

The Stable outlook factors in ICRA's expectations that OFCL will continue to maintain growth in the AUC and profitability. The company's ability to meaningfully scale up its operations while maintaining its earnings profile will be a positive driver.

Key rating drivers and their description

Credit strengths

Fee-based services portfolio with focus on institutional clients – OFCL is a Securities and Exchange Board of India (SEBI)-registered custodian, which offers end-to-end capital market related services such as custodial, fund accounting, clearing, depository, trusteeship and other allied services. It largely caters to institutional clients like FPIs, portfolio management services (PMS), foreign direct investment (FDI), domestic institutional investors (DIIs), and alternative investment funds (AIFs), particularly through its custodial business. It also provides clearing services to trading members (TMs) and FPIs. Considering the volatile nature of capital markets, the presence of institutional clients tends to reduce the overall fluctuations in revenues to some extent. ICRA notes that while custodial and clearing operations bear limited direct credit or market risk, the material size of the transactions and their frequency increase the risk of error as well as the consequences of such an error to some extent.

Healthy profitability trajectory – OFCL reported a healthy improvement in its profitability in the past two years on the back of the increase in its scale of operations. Supported by buoyant capital markets, OFCL’s net profit has more than quadrupled over the past two years. It reported an all-time high profit after tax (PAT) of Rs. 48 crore in FY2022 up from Rs. 16 crore in FY2021 and Rs. 12 crore in FY2020, with a return on net of worth of 25.3% (five-year average return on equity (RoE) of 15.3%). The company’s performance remained strong in the current fiscal, registering a net profit of Rs. 15 crore in Q1FY2023 on a provisional standalone basis. Notwithstanding this, ICRA notes that the profitability remains susceptible to regulatory changes, as a significant share of the same is dependent on float income from the margins placed by the FPI clients.

Comfortable capitalisation for current scale of operations – OFCL’s net worth increased to Rs. 223 crore as of March 2022 from Rs. 79 crore as of March 2020, supported by capital infusions (Rs. 84 crore in the past two years) and healthy internal accruals. The capitalisation profile remains comfortable with nil fund-based borrowings. The company primarily relies on bank guarantee facilities for its clearing operations, which are backed by a 25% cover on the fixed deposits. As of June 30, 2022, OFCL had sanctioned bank guarantee limits of Rs. 400 crore and fund-based overdraft limits of ~Rs. 59 crore from eight lenders.

Credit challenges

Modest scale of operations with limited vintage as material scale-up occurred in past two years – While the company received its custodial licence in FY2009, its operations gained traction in recent years following the onboarding of the senior leadership team in FY2017. OFCL’s AUC increased to Rs. 78,756 crore as of July 31, 2022 from Rs. 10,393 crore as of March 31, 2020, a growth of 7.6 times. Driven by the recent scaleup, the company’s market share in the industry’s AUC improved to 0.47% as of July 2022 from 0.12% as of March 31, 2020; though it remains modest. The track record of operations remains limited with OFCL’s ability to demonstrate a steady performance over a sustained period yet to be established.

The custodial business is also exposed to concentration risk with the top 10 clients accounting for ~54% of the overall AUC as of June 2022. In the clearing business, the company’s clearing volume increased at a compound annual growth rate (CAGR) of 68% during the past two years to Rs. 23.4 lakh crore in FY2022. Notwithstanding this, its market share, in terms of total volumes cleared, remains marginal at 0.20% in the equity derivatives segment. OFCL is also vulnerable to concentration risk in the clearing business with its top 10 clients across segments accounting for more than 78% of the clearing volumes in FY2022.

Limited diversification in revenue profile with dependency on capital markets– The company has various interrelated offerings for custodial and allied services. However, the revenue profile remains characterised by limited diversification, comprising custodial, clearing and treasury /interest income. The custodial fee is typically earned as a percentage of the average AUC while treasury income primarily comprises income derived from the average float, which, is linked to the volume of transactions and trading positions undertaken by the respective clients. With healthy growth in the float, the treasury income increased by 2.5 times YoY to ~Rs. 111 crore in FY2022, forming ~69% of the net operating income (NOI). In the 5MFY2023, the average float increased by 49% YoY.

ICRA notes that OFCL’s operations are linked to the inherently volatile capital markets and its revenue profile and profitability remain vulnerable to market performance. A decline in its client’s trading volumes or any adverse regulation pertaining to using the client float may remain a drag on the company’s financial performance.

Competitive intensity – As of date, there are 19 SEBI-registered custodial service providers comprising 14 bank - promoted custodians, 4 promoted by financial institutions, and 1 individual-promoted custodian (OFCL). The industry, however, remains dominated by bank custodians, particularly the FPI segment, which accounts for 32% of the overall industry AUC in the country. Bank custodians have the advantage of established franchises, and a large portfolio of offerings.

ICRA notes that OFCL operates as an independent custodian and provides end-to-end services such as FPI registration, custodial services, fund accounting, clearing, depository and trusteeship services to its clients to enhance its value proposition. However, given the intense competitive pressure as well as the established presence of incumbents, the company’s cost of client acquisition remains high. In recent years, OFCL has primarily leveraged its referral network for onboarding clients, which

has resulted in an elevated cost-to-income ratio of 59.2% in FY2022; though the same has improved from 74.4% in FY2021. ICRA expects the cost-to-income ratio to remain at a similar level, going forward.

Liquidity position: Adequate

OFCL's liquidity requirement is primarily for placing margins at the exchanges and managing working capital requirements. The company deployed an average margin of ~Rs. 6,127 crore at the exchanges during September 2021 to August 2022, wherein margin utilisation ranged between 28% and 56%. Besides, as of June 30, 2022, OFCL had ~Rs. 15 crore of un-encumbered cash and bank balance and un-utilised fund-based bank lines of Rs. 59 crore against nil fund-based borrowings.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to scale up its' operations with a material improvement in its market share and earnings profile on a sustained basis.

Negative factors – ICRA could downgrade the ratings in case of a decline in OFCL's market share and average earning float or a deterioration in the cost structure or build-up of its receivables, resulting in a moderation in its financial profile. Pressure on the ratings could also arise in case of any adverse change(s) in the regulatory environment, affecting the company's business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Broking Industry Consolidation and Rating Approach
Parent/Group support	ICRA has taken a consolidated view of OFCL along with its wholly-owned subsidiary – Orbis Trusteeship Services Private Limited
Consolidation/Standalone	Consolidated

About the company

Incorporated in 2005, OFCL is promoted by Mr. Atul Gupta who had a ~37% stake in the company as of March 31, 2022. Headquartered in Gurugram, the company operates as a market intermediary and provides custodial, fund accounting, professional clearing, depository services, share transfer, FPI registration and trustee services to a wide array of client segments, namely- FPI, PMS, FDI, DII, AIFs, and TMs. OFCL commenced operations in FY2009 as a custodian of securities and a clearing member in all market segments registered with SEBI. In FY2019, the company received a licence from SEBI for offering registrar and transfer agent services and trustee services. The trustee services are offered through a wholly-owned subsidiary – Orbis Trusteeship Services Private Limited.

Key financial indicators

OFCL (consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22
Fee income	20.5	31.3	49.2
Net treasury income	16.6	44.8	111.3
Other Income	0.2	0.3	0.2
Net operating income	37.4	76.6	160.7
Total operating expenses	21.0	56.9	95.1
Profit before tax	16.3	19.5	65.2
Profit after tax	11.6	15.9	47.8
PAT/Net operating income	31.0%	20.8%	29.8%
Cost-income ratio	56.3%	74.4%	59.2%
Return on net worth	15.7%	13.6%	25.3%
Net worth	79.4	155.1	223.0
Gearing (times)	0.0	0.0	0.0

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 Outstanding (Rs. crore)*	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
						Nov 01, 2022	Feb 08, 2022		
1	Long/short-term non-fund based bank guarantee	Long/short term	600.00	400.00	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)	-	-
2	Long/short-term bank lines (unallocated)	Long/short term	-	-	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)	-	-

Source: Company; *As of July 31, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term non-fund based bank guarantee	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/short-term non-fund based bank guarantee	-	-	-	400	[ICRA]A-(Stable)/[ICRA]A2+
NA	Long/short-term non-fund based proposed bank guarantee	-	-	-	200	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Orbis Financial Corporation Limited	Parent	ICRA has taken a consolidated view of the parent and its subsidiaries
Orbis Trusteeship Services Private Limited	Subsidiary of parent	

Source: Company

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About ICRA Limited:

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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

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Branches



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