December 12, 2023

# Orbis Financial Corporation Limited: Ratings reaffirmed and Rated amount Enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. Crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term /Short Term- Fund Based/ Non Fund Based- Others** | 600 | 800 | [ICRA]A(Stable)/[ICRA]A1; reaffirmed and assigned for enhanced amount |
| **Total** | **600** | **800** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings take into account Orbis Financial Corporation Limited's (Orbis) healthy scale-up of operations and sustained improvement in its earnings and capitalisation profile. The rating continues to factor in the fee-based services portfolio (custodial, clearing, depository, trusteeship services and other allied services) offered to various institutional clients, including foreign portfolio investors (FPIs) with limited credit and market risks. With improving scale and resulting efficiencies, Orbis reported healthy profitability metrics in FY2023 with a return on net worth of 27.5% [previous year (PY): 25.3%] and profit after tax (PAT)/net operating income (NOI) of 34.8% (PY: 29.8%). The performance remained strong in H1 FY2024 as well. The company's capital position also stands augmented, following the equity infusion of Rs. 195 crore between FY2021 and FY2023, besides healthy internal capital generation. As on March 31, 2023, the company's capital position remains comfortable with a net worth of ~Rs. 429 crore (PY: Rs. 223 crore), with no on-balance sheet borrowings as funding requirements for margin placement on exchanges are largely met through bank guarantees created by its own funds.

The ratings, however, remain constrained by Orbis high revenue concentration towards a few clients and the limited diversification in revenue profile. Although the overall levels remain high, ICRA notes of the modest reduction in the concentration of business metrics across top clients in the past one year. With the increase in the scale of operations and cash collaterals placed by the clients, the interest income on the cash collaterals has grown significantly in recent periods and led to a growth in profits. High client concentration and limited diversification in the revenue stream with high contribution from treasury income can, however, result in volatility in earnings. The risks get further exacerbated by the high competitive intensity prevalent across custodians, primarily dominated by global custodian banks.

## Key rating drivers and their description

### Credit strengths

**Fee-based services portfolio with focus on institutional clients with limited credit and market risks** – Orbis is a Securities and Exchange Board of India (SEBI)-registered custodian, offering end-to-end capital market-related services such as custodial, fund accounting, clearing, depository, trusteeship and other allied services. Orbis largely caters to institutional clients like FPIs, portfolio management services (PMS), foreign direct investment (FDI), domestic institutional investors (DII), and alternative investment funds (AIFs), particularly through its custodial business. It also provides clearing services to trading members (TM) 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. As of September 2023, the company catered to 310 FPIs, 312 FDIs, 321 PMS, 112 AIFs, and 2,121 HNI/NRIs and corporates. ICRA notes that while custodial and clearing operations bear limited direct credit or market risk, the material size of transactions and their frequency increase the risk of error as well as the consequences of such an error to an extent.

**Healthy profitability trajectory** – Orbis reported healthy improvement in profitability in recent years with resulting efficiencies from scaleup in operations. Led by a sizeable increase in the interest income derived from cash collaterals of its clients coupled with improvement in cost structure on account of the gradual seasoning of clients onboarded through referral arrangements. Orbis' net profit has more than quintupled over the past two years. It reported a net profit of ~Rs. 90 crore (PY): Rs. 48 crore and return on net worth of 27.5% (PY: 25.3%) in FY2023. While the average[1] cash collaterals placed by the clients moderated in the current fiscal after strong growth in the previous fiscal, rising deposit rates supported the strong performance trajectory in H1 FY2024. Going forward, an improving share of business from seasoned clients and direct-sourced clients would be imperative to sustain the company's cost structure. ICRA also notes that the profitability remains susceptible to systemic interest rates and regulatory changes, given a material share of its dependence on the interest income related to cash collaterals of FPI clients.

**Comfortable capitalisation for current scale of operations** – Orbis' net worth increased to ~Rs. 429 crore, as of March 2023, from Rs. 79 crore in March 2020, supported by a capital infusion (Rs. 195 crore during the past three years) and healthy internal accruals. The capitalisation profile of the company remains comfortable with nil fund-based borrowings and net worth/total assets ratio of ~9%. While the margins placed on the stock exchange are provided by the clients, Orbis' capital requirements are driven by an additional margin of 10-15% of total margins placed on the exchanges as a buffer. These additional margins are funded through a combination of own funds and bank guarantees by the company. With the growth in scale of business, the increase in own margins placed by the company at exchanges will pose additional funding requirements, which can be met through additional bank guarantees. With low dependency on fund-based borrowings, ICRA expects the leverage profile of the company to be comfortable in the near term with net worth/total Assets of over 5%. As per the management's stated intent, the capital position of the company is likely to be further augmented with planned capital infusion in the near term. The company primarily relies on bank guarantee facilities for its clearing operations, which are backed by a 25% cover of fixed deposits. As on September 30, 2023, the company had sanctioned bank guarantee limits of Rs. 546 crore and fund-based overdraft limits of ~Rs. 67 crore from nine lenders.

## Credit challenges

**Limited diversification in revenue profile with high dependency on capital markets** – Orbis has several interrelated offerings for custodial and allied services. However, the revenue profile remains characterised by limited diversification, with treasury/interest income accounting for 65% of NOI in FY2023, followed by the custodial fee at 29% of NOI. The custodial fee is typically earned as a percentage of the average assets under custody (AUC) while the treasury income includes the interest income derived from the cash collaterals placed primarily by the FPI clients, which is linked to the volume of transactions and trading positions undertaken by the respective clients. With moderation in clearing volumes in the current fiscal after a strong growth in the previous, the average[1] cash collaterals also moderated by 4% in H1 FY2024 on a sequential basis. Notwithstanding, the interest income continued to be on an upward trajectory, supported by rising deposit rates and resulted in ~60% annualised growth in NOI in H1FY2024. Earlier, the NOI grew by ~60% on a year-on-year (YoY) basis to ~Rs. 257 crore in FY2023 owing to a sizeable increase in cash collaterals.

Orbis' 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's cash collaterals may remain a drag on the company's financial performance.

**Modest scale of operations; notwithstanding the scale-up in recent years** – While the company received its custodial licence in FY2009, its operations gained traction in recent years, following the onboarding of its senior leadership team in FY2017. In recent years led by FDI/FVCI/FPI clients, Orbis' market share in AUC expanded to 0.55% as on September 30, 2023, from 0.12% on March 31, 2020, even though it continues to be modest. Thus, the track record of operations remains limited and Orbis' ability to demonstrate a steady performance over a sustained period across market cycles is yet to be established. In the

*[1] Computed basis month-end figures*

clearing business, supported by industry tailwinds, particularly in equity derivatives, the overall volumes cleared by Orbis increased at a CAGR of 58% during the past two years to ~Rs. 32 lakh crore in FY2023. However, in the current fiscal, the average daily clearing volume moderated by 20% in Q1 FY2024 compared to the FY2023 levels, thereby resulting in some contraction in market share of volumes. Moreover, Orbis' custodial and clearing business remains exposed to concentration risks. Although the concentration of business metrics across top clients has moderately reduced with scaleup in operations, it continues to remain high. As on September 30, 2023, the top ten clients accounted for 41% of Orbis' overall AUC compared to 54% as of March 31, 2022, and 42% of overall cash collateral (significant driver of NOI) compared to 53% as of September 30, 2022.

**Competitive intensity**– As of date, there are 17 SEBI-registered custodial service providers comprising 12 bank-promoted custodians, 4 promoted by financial institutions, and 1 individual-promoted custodian (Orbis). The industry remains dominated by bank custodians, particularly the FPI segment, which accounts for a major share 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 Orbis 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. Nonetheless, ICRA considers the gradual improvement in the overall acquisition costs with referral fees as a percentage of NOI declining to 30% in FY2023 from 40% in FY2021.

### Liquidity position: Adequate

Orbis' liquidity requirement is primarily for placing margins at the exchanges and managing working capital requirements. The company, on average, deployed a total margin of ~Rs. 8,756 crore (computed basis month-end figures) at the exchanges in H1 FY2024, wherein margin utilisation ranged between 37% to 46%. As on September 30, 2023, Orbis had un-encumbered cash and bank balances of Rs. 108 crore, Rs. 75 crore of unencumbered investments in Government Securities (G-Sec)/bonds, and drawable but unutilised lines of Rs. 11 crore against nil fund-based borrowings. The company has pledged FDs (from its own funds) of Rs. 138 crore for availing bank guarantees, which along with FD of Rs. 50 crore are also placed as margin buffers with the exchanges.

## Rating sensitivities

**Positive factors** – Ability to significantly scale up its operations while sustaining healthy earnings and capitalisation profile.

**Negative factors** – Decline in Orbis' AUC, average earning cash collateral, a deterioration in its cost structure or a build-up of receivables, resulting in a moderation in its financial profile. Any adverse change(s) in the regulatory environment, affecting the company's business operations and financial performance will also be a negative factor.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | ICRA's Credit Rating Methodology for Entities in the Brokerage Industry<br>Consolidation and Rating Approach |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | Consolidation |

## About the company

Incorporated in 2005, Orbis is promoted by Mr. Atul Gupta, who held a ~31% stake in the company as on September 30, 2023. Headquartered in Gurugram, the company operates as a capital 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. Orbis 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 for offering registrar and transfer agent services and trustee services from SEBI. The trustee services are offered through a wholly-owned subsidiary - Orbis Trusteeship Services Private Limited.

Orbis reported a net profit of ~Rs. 90 crore on an NOI of Rs. 257 crore in FY2023 compared to net profit of Rs. 48 crore on an NOI of Rs. 161 crore in FY2022. As on March 31, 2023, its net worth stood at Rs. 429 crore.

### Key financial indicators

| Orbis (Consolidated) | FY2022/Mar-22 | FY2023/Mar-23 |
|---|---|---|
| Fee income | 49.2 | 87.0 |
| Net treasury income | 111.3 | 170.1 |
| Other income | 0.2 | 0.3 |
| Net operating income (NOI) | 160.7 | 257.5 |
| Total operating expenses | 95.1 | 135.4 |
| Profit before tax | 65.2 | 121.9 |
| Profit after tax (PAT) | 47.8 | 89.6 |
| PAT/NOI (%) | 29.8% | 34.8% |
| Cost-to-income ratio (%) | 59.2% | 52.6% |
| Return on net worth (%) | 25.3% | 27.5% |
| Net worth | 223.0 | 429.0 |
| Gearing (times) | 0.0 | 0.0 |

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

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2024) | | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore)* | Date & Rating in FY2024 | | Date & Rating in FY2023 | Date & Rating in FY2022 | | Date & Rating in FY2021 |
| | | | | | Dec 12, 2023 | Nov 09, 2023 | Nov 01, 2022 | Feb 08, 2022 | Jan 07, 2022 | - |
| 1 | Long Term /Short Term- Fund Based/ Non Fund Based- Others | Long/short term | 800.0 | 531.0 | [ICRA]A (Stable)/ [ICRA]A1 | - | - | - | - | - |
| 2 | Long/Short-term non-fund based bank guarantee | Long/short term | - | - | - | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable) | - |
| 3 | Long/Short-term bank lines (un-allocated) | Long/short term | - | - | - | - | - | [ICRA]A- (Stable) / [ICRA]A2+ | [ICRA]A- (Stable) | - |

***Source:*** *Company; *As on September 30, 2023*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| **Long Term /Short Term- Fund Based/ Non Fund Based- Others** | 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: Click Here

## 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 /Short Term- Fund Based/ Non Fund Based- Others | - | - | - | 800 | [ICRA]A(Stable)/ [ICRA]A1 |

***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 |
|---|---|---|
| Orbis Financial Corporation Limited (Orbis) | Self | Full |
| Orbis Trusteeship Services Private Limited | Subsidiary of Orbis | Full |

***Source:*** *Company*

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## 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.

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# ICRA Limited

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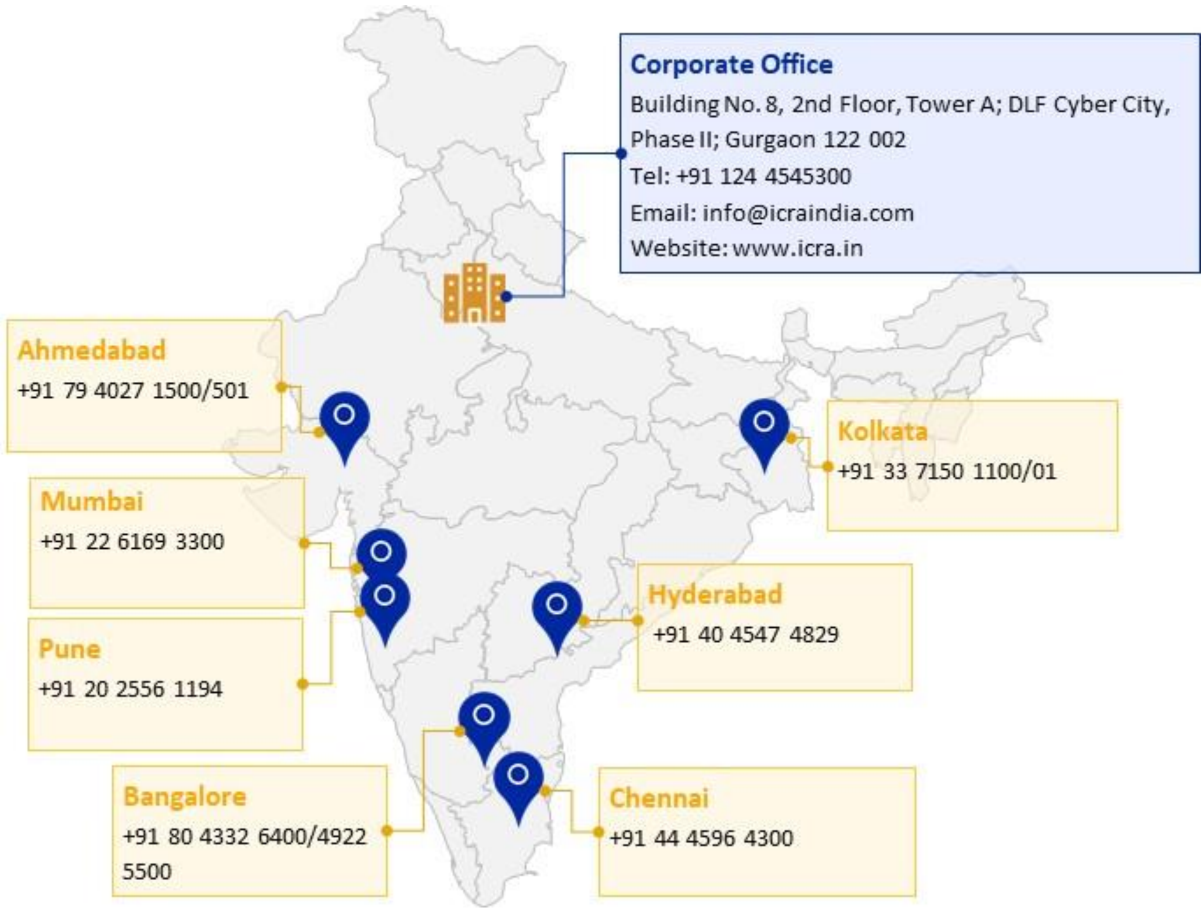
## Branches



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