

August 27, 2024

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	800	1,000	[ICRA]A (Stable)/[ICRA]A1; reaffirmed and assigned to enhanced amount
Total	800	1,000	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to take into account Orbis Financial Corporation Limited's (Orbis) established fee-based services portfolio, which is focused on institutional clients with limited credit and market risk, its healthy profitability trajectory, and comfortable capitalisation profile. With the improving scale and resulting efficiency, the company reported profit after tax (PAT)/net operating income (NOI)¹ of 38% in FY2024 (35% in FY2023) and a return on net worth of 25% (27% in FY2023) on a standalone basis. Orbis also has a demonstrated track record² of raising equity capital. In FY2024, its capital position was augmented by the equity infusion of Rs. 102 crore and healthy internal capital generation. As on March 31, 2024, the company's capitalisation was characterised by a net worth of ~Rs. 683 crore and net worth/total assets of 10% with no on-balance sheet borrowings as funding requirements for margin placement on exchanges are met through bank guarantees (BGs) backed by liquid investments (25% margin).

The ratings, however, remain constrained by Orbis' high revenue concentration towards a few clients and the limited diversification in its revenue profile. With the increase in the scale of operations and cash collateral placed by the clients, interest income on cash collateral has grown significantly in recent periods, leading to higher profits. ICRA takes note of the recent moderation in the share of treasury-related income, though it remains high (62% in FY2024 compared to 69% in FY2022). High client concentration and limited diversification in the revenue stream with significant contribution from treasury income can lead to volatility in earnings. The risks get further exacerbated by the intense competition among custodians, primarily dominated by global custodian banks, and the high reliance on technology for the clearing and fund management operations.

Key rating drivers and their description

Credit strengths

Fee-based services portfolio with focus on institutional clients; limited credit and market risks – Orbis 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 primarily offers custodial services to institutional clients like foreign portfolio investors (FPIs), portfolio management services (PMS), foreign direct investment (FDI), domestic institutional investors (DIIs), and alternative investment funds (AIFs). It also provides clearing services to trading members (TMs) and FPIs. As of March 31, 2024, the company was catering to 347 FPIs, 356 FDIs, 363 PMS, 125 AIFs, and 2,506 high-net-worth individuals (HNIs)/non-resident Indians (NRIs) and corporates. ICRA notes that while the custodial and clearing operations face limited direct credit or market risk, the material size of the transactions and their high frequency increase the risk of error as well as the consequences of such errors, exposing the company to significant operational risks. Further, the operations remain exposed to regulatory risk due to the evolving regulatory landscape.

¹ NOI comprises clearance fee, net treasury income, custodial fees, trusteeship fee and other allied operating revenues

² Rs. 323 crore between FY2021 and FY2024

Healthy profitability trajectory – Orbis has reported a healthy improvement in its profitability in recent years with efficiency materialising from the scale-up in operations. Driven by the sizeable increase in the interest income earned on the cash collateral of its clients, growing custodial fees amid increase in custodial assets, and improvement in the cost structure on account of the gradual seasoning of clients onboarded through referral arrangements with Referral expenses, as a percentage of NOI, moderated to 19% in FY2024 from 30% in FY2023 and 37% in FY2022. Orbis' net profit has more than quintupled over the past two years. The profitability remained strong in FY2024 with a net profit of ~Rs. 138 crore (Rs. 88 crore in FY2023) and a return on net worth of 25% (PY: 27%) on a standalone basis. Going forward, improving share of business from seasoned clients and directly-sourced clients would be imperative for sustaining the company's cost structure. ICRA also notes that the profitability remains susceptible to systemic interest rates and regulatory changes, given its significant dependence on interest income related to the cash collateral of FPI clients.

Comfortable capitalisation for current scale of operations – With healthy accruals in recent years and regular equity infusions (~Rs. 298 crore during FY2021-FY2024 and Rs. 102 crore in FY2024), Orbis' net worth increased to ~Rs. 683 crore as of March 31, 2024 on a standalone basis. Its capitalisation profile remains comfortable with nil fund-based borrowings and net worth/total assets of ~10% as of March 31, 2024. With low dependency on fund-based borrowings, ICRA expects the leverage to be comfortable in the near term with net worth/total assets in the range of 5-10%. The company primarily relies on BG facilities for its clearing operations, which are backed by a 25% cover of the fixed deposits. As of July 31, 2024, Orbis had sanctioned BG limits of Rs. 860 crore and fund-based overdraft limits of ~Rs. 70 crore from 10 lenders. It is to be noted that about ~28% of the sanctioned BG limits are from banks rated AA- or lower. In this regard, Orbis' ability to secure lines from higher rated banks remains imperative in light of the recent change in guidelines on the acceptance of BGs only from banks rated AA or above by clearing corporations.

Credit challenges

Limited diversification in revenue profile with high dependency on capital markets – Orbis has various interrelated offerings for custodial and allied services. However, the revenue profile remains characterised by limited diversification, with treasury/interest income accounting for about ~62% of NOI in FY2024, followed by custodial fee and clearing fee. Custodial fee is typically earned as a percentage of the average assets under custody (AUC) while treasury income comprises interest income derived from the cash collateral placed primarily by FPI clients, which is linked to the volume of transactions and the trading positions undertaken by the respective clients. Notwithstanding the moderation in clearing volumes in recent periods, the average¹ cash collateral continued to rise, though the growth rate witnessed some moderation after the record growth in previous years. Supported by increase in custodial & allied fees & treasury income, the company reported a 42% growth in the NOI in FY2024. Nonetheless, 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 clients' trading volumes or introduction of any regulation usage of the clients' cash collateral may impact the company's financial performance.

Modest scale of operations, notwithstanding scale-up in recent years – Orbis has witnessed a significant scale-up in its operations following the onboarding of its senior leadership team in FY2017. Its market share in AUC expanded to 0.54% as of March 31, 2024 from 0.12% on March 31, 2020, though it remains modest. Thus, Orbis' ability to demonstrate a steady performance over a sustained period across market cycles is yet to be established. In the clearing business, supported by industry tailwinds, particularly in equity derivatives, the average cash collateral placed by clients (computed basis month-end figures) increased at a compound annual growth rate (CAGR) of 55% during FY2021-FY2024, 7% up YoY in FY2024.

Orbis' custodial and clearing business is also exposed to concentration risks. Although the concentration of business across the top clients has reduced moderately with the scale-up in operations, it remains high. As on March 31, 2024, the top 10 clients accounted for 39% of Orbis' overall AUC compared to 54% as of March 31, 2022 and 30-35% of the overall cash collateral (significant driver of NOI) compared to 53% as of September 30, 2022.

Elevated competition, high dependence on technology and evolving regulatory environment – 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, given their advantage of established franchises and 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. However, ICRA notes the gradual improvement in the overall acquisition costs with the moderation in referral fees as a percentage of NOI.

Entities operating in capital markets rely heavily on technology for clearing, fund management, etc. Thus, technical failures or disruptions pose operational and reputation risk. Moreover, given the highly regulated nature of the industry, custodian and clearing members remain exposed to regulatory risks. Regulatory changes such as higher margin requirements, introduction of uniform charges to be levied by market infrastructure institutions, hike in security transaction tax in derivatives segments and the evolving regulatory environment aimed at curtailing speculative retail participation in derivatives can pose a risk to capital market volumes and can have a second-order impact on the financial performance of entities operating in this space.

Liquidity position: Adequate

Orbis’ liquidity requirement is primarily for placing margins at the exchanges and managing working capital requirements. On average, the company deployed a total margin of ~Rs. 9,369 crore (computed basis month-end figures) at the exchanges during December 2023 to May 2024, wherein margin utilisation ranged between 31% and 45%. As of May 31, 2024, Orbis had an unencumbered cash and bank balance of Rs. 28 crore and unencumbered investments in Government securities (G-Secs)/bonds of Rs. 21 crore while fund-based borrowings were nil. The company has placed cash margins (including BGs) of Rs. 738 crore as margin buffers with exchanges.

Rating sensitivities

Positive factors – A significant scale-up in the operations and an improvement in the market position in the clearing and custodial businesses, while achieving client diversification and retaining healthy earnings and capitalisation

Negative factors – A sizeable decline in the AUC and/or average earning cash collateral or a build-up of receivables, resulting in a moderation in the financial profile

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

Incorporated in 2005, Orbis is promoted by Mr. Atul Gupta, who held a ~28% stake in the company as on May 30, 2024. 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.

On a standalone basis, Orbis reported a net profit of ~Rs. 138 crore on NOI of Rs. 361 crore in FY2024 compared to Rs. 88 crore and Rs. 254 crore, respectively, in FY2023. As on March 31, 2024, its net worth stood at Rs. 683 crore on a provisional basis.

Key financial indicators

Orbis (standalone)	FY2023/ Mar-23	FY2024/ Mar-24 [^]
Net operating income (NOI)	254.4	361.1
Profit after tax (PAT)	88.2	138.0
Net worth	426.0	683.3
Total assets	5,036.9	6,528.1
Gearing (times)	0.0	0.0
Return on net worth	27.2%	24.9%

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

Orbis (consolidated)	FY2022/Mar-22	FY2023/Mar-23
Net operating income (NOI)	160.7	257.5
Profit after tax (PAT)	47.8	89.6
Net worth	223.0	429.0
Total assets	3,923.8	5,040.2
Gearing (times)	0.0	0.0
Return on net worth	25.3%	27.5%

Source: Company, ICRA Research; Amount in Rs. crore; 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

Current (FY2025)			Chronology of rating history for the past 3 years						
			FY2024		FY2023		FY2022		
Instrument	Type	Amount Rated (Rs Crore)	Aug 27, 2024	Date	Rating	Date	Rating	Date	Rating
Long-term/Short-term fund-based/Non-fund based – Others	Long Term/ Short Term	1000.00	[ICRA]A (Stable)/ [ICRA]A1	12-Dec-23	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-
Long-term/Short-term non-fund based bank guarantee	Long term/ Short term	-	-	9-Nov-2023	[ICRA]A (Stable)/ [ICRA]A1	01-Nov-22	[ICRA]A-(Stable)/ [ICRA]A2+	08-Feb-2022	[ICRA]A-(Stable)/ [ICRA]A2+
				-	-	-	-	07-Jan-2022	[ICRA]A-(Stable)
Long-term/Short-term bank lines (unallocated)	Long term/ Short term	-	-	-	-	-	-	08-Feb-2022	[ICRA]A-(Stable)/ [ICRA]A2+
				-	-			07-Jan-2022	[ICRA]A-(Stable)

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	-	-	-	1,000	[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)	Rated Entity	Full
Orbis Trusteeship Services Private Limited	100%	Full

Source: Company

ANALYST CONTACTS

Mr. Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Anil Gupta

+91 124 4545 314

anilg@icraindia.com

Mr. Deep Inder Singh

+91 124 4545830

deep.singh@icraindia.com

Mr. Subhrajyoti Mohapatra

+91 80 4332 6406

subhrajyoti.mohapatra@icraindia.com

Ms. Kruti Jagad

+91 22 6114 3447

kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

shivakumar@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

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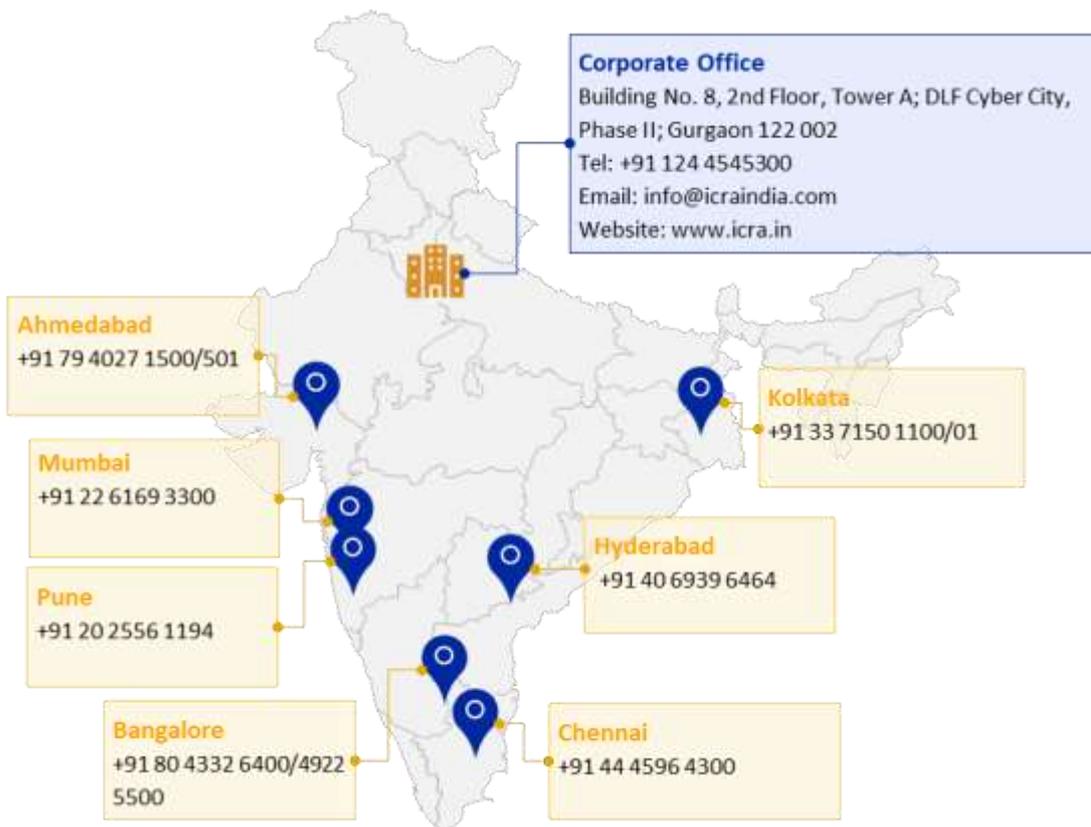
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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