

August 13, 2019

Orient Exchange And Financial Services (P) Ltd: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based (Proposed)	16.00	[ICRA]BBB- (Stable); assigned
Short-term - Non-fund based (Proposed)	9.00	[ICRA]A3; assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings positively factor in the extensive industry experience of the promoter and the management team in the money changing business and Orient Exchange and Financial Services (P) Ltd.'s (OEFS) wide network of operations with 25 branches in India. The ratings also factor in the company's diversified revenue streams with its position as an Authorized Dealer-II, which enables the company to engage in various foreign currency changing activities. The ratings also take into consideration the company's healthy growth in money changing volumes and revenues and the comfortable capital structure with absence of bank borrowings in FY2019, resulting in healthy coverage indicators. The ratings also consider the company's risk management systems with the strong internal control practices followed by it and the hedging undertaken for all the transactions to minimize the impact of foreign exchange rate fluctuations.

The ratings, however, are constrained by the thin profitability from money changing and remittance business. The business also remains susceptible to the seasonality present in the travel and tourism industry, and fluctuations in foreign exchange rates to the extent of the company's unhedged currency holding. ICRA also takes note of the fragmented nature of the industry with many players leads to high competitive intensity, keeping the margins of the company under check.

Going forward, the company's ability to expand its operations, grow its business volumes and maintain its profitability with its risk management systems and sustain its competitive position in the money changing business will be the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that OEFS will continue to benefit from the extensive experience of the promoters and the management team in the forex business. The outlook may be revised to Positive if there is a substantial improvement in the revenues and profitability levels of the company, while maintaining its capital structure. The outlook may be revised to Negative if cash accruals are lower than expected or if any increase in working capital requirements, weakens the liquidity position of the company.

Key rating drivers

Credit strengths

Extensive industry experience of the management: OEFS is started by the promoters of Orient Exchange Co. (L.L.C.), Dubai, established in 1923 and also involved in money changing and remittance business. The operations in India is

managed by Mr. Bhaskar Rao P, who is the Executive Director. The Executive Director and the other heads of the management team have over two decades of experience in money exchange industry and were formerly associated with other authorized money changers.

Diversified revenue stream: The company is involved in export/import of foreign currencies for its money changing business. As an Authorised Dealer category-II the company also undertakes various remittance activities such as for business travel, film shooting, overseas education, registration/subscription fees to international organizations, etc. Apart from the spread earned on the money changing business, it earns fees/commission on activities such as remittance, prepaid forex card and insurance, which provides diversified revenue sources.

Healthy growth in the business volumes and revenues in FY2019: The company's foreign currency sales volumes witnessed significant improvement to Rs. 2509.57 crore in FY2019 as against Rs. 1832.98 crore in FY2018. It recognises forex margins earned from money changing business and fee commission in its books. The operating income improved to Rs. 20.90 crore in FY2019 from Rs. 15.48 crore in FY2018 supported by growth in volumes.

Comfortable capital structure with limited bank borrowings: OEFS only had vehicle loans of Rs. 0.19 crore as on March 31, 2019. This loan was closed in Q1FY2020 and debt of the company remains nil as on date. This has resulted in healthy capital structure and healthy coverage indicators. However, going forward, it plans to avail working capital facilities to expand the business. Nevertheless, the capital structure is expected to remain comfortable, given that the quantum of debt proposed is significantly lower than the net worth position as on date.

Credit challenges

Low margins under money changing and remittance business: The margins in the money changing and remittance business is low, although there was improvement in FY2019 aided by increased scale of operations. Further, the hedging expenses also results in low profitability.

Intense competition from other players: OEFS faces high competition from other established players like Thomas Cook, Weizmann Forex Limited, Unimoni Financial Services Limited etc with wider distribution network and stronger brand equity. It also faces competition from unorganised players in the retail segment. The intense competition results in limited pricing flexibility. However, the strict regulatory and compliance requirements restrict the unorganised players.

Vulnerability to seasonality in travel and tourism industry: OEFS's revenue and profitability are exposed to the seasonality in travel and tourism industry which is vulnerable to economic slowdowns and geo-political risks. The operations are also susceptible to changing business environment and customer requirements, and other force majeure events.

Exposure to fluctuations in foreign exchange: Margins of OEFS is exposed to forex fluctuations. However, the risk is limited to a large extent as the company covers its position on a back to back basis frequently. The exposure on the stock held is also mitigated to an extent by its payables. The quick turnaround of stock also minimises the exposure. It has an experienced team that continuously monitors the foreign transactions and minimises the open position.

Liquidity position

The company only had vehicle loans outstanding as on March 31, 2019. The loans were closed in Q1 FY2020, and the repayment obligations remain nil. The liquidity position remains healthy with buffer from cash and cash balance of Rs.

13.83 crore as on March 31, 2019. Further, with no major capital expenditure plans, the liquidity position is expected to remain comfortable going forward.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements of the issuer.

About the company

Incorporated in 2004, OEFS is an Authorized Dealer Category-II license holder based in Bangalore. It initially had a Full-Fledged Money Changers (FFMC) license from RBI, before receiving the AD-II licence in 2017. It has 25 branches across India, covering all metros and major cities. Its core business is buying and selling of currencies which cater to foreign exchange needs of retail customers (tourists, NRIs, students, business travellers, etc.), corporate and wholesale customers (Banks, Full Fledged Money Changers (FFMCs), Restricted Money Changers (RMCs) like hotels). It is also involved in issuance of forex cards, traveller's cheques and outward remittance business. It also provides distribution of third party financial products like travels insurance. OEFS is part of Orient Exchange Co. (L.L.C.), Dubai, group, whose principal business segments include foreign exchange and remittances. OEFS was started by the promoters of Orient Exchange Co. (L.L.C.), Dubai.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	15.48	20.90
PAT (Rs. crore)	0.59	1.88
OPBDITA/OI (%)	7.53%	14.66%
RoCE (%)	8.41%	20.82%
Total Debt/TNW (times)	0.02	0.01
Total Debt/OPBDITA (times)	0.20	0.06
Interest Coverage (times)	6.61	12.57

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2019 (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Fund based	Long-Term	16.00	-	[ICRA]BBB-(Stable)	-	-	-
2 Non-fund based	Short-Term	9.00	-	[ICRA]A3	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based	-	-	-	16.00	[ICRA]BBB- (Stable)
NA	Non-fund based	-	-	-	9.00	[ICRA]A3

Source: Orient Exchange And Financial Services (P) Ltd

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