

May 17, 2023

RBSG Capital Private Limited: Ratings reaffirmed; [ICRA]BB+ (Stable) Rating assigned for NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	75	75	[ICRA]BB+ (Stable); reaffirmed
NCD programme	-	10	[ICRA]BB+ (Stable); assigned
Total	75	85	

*Instrument details are provided in Annexure I

Rationale

The rating factors in RBSG Capital Private Limited's (RBSG) managerial expertise in the vehicle financing business, its moderate capitalisation levels and adequate liquidity. 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. Given the relatively modest scale of operations, the company is reasonably capitalised with a net worth of Rs. 31.5 crore, a capital adequacy ratio of 34.1% and a gearing of 3.3 as on March 31, 2023¹. ICRA notes that RBSG has outlined a road map for strong growth, which is likely to increase its leverage from the current level. It is also in the process of raising fresh capital from both new and existing investors. However, the timeliness of such infusion would be a key monitorable for the maintenance of prudent capitalisation levels.

The rating is constrained by RBSG's modest scale of operations, muted profitability, the modest credit profile of its target customer segment and the limited diversification in its resource profile. Though the company reported a growth of ~34% in its assets under management (AUM) in FY2023, the scale remains small and geographically concentrated in only two states, i.e. Maharashtra and Gujarat. Due to its ongoing growth phase, RBSG has high operating expenses, resulting in muted profitability in FY2023 with a return on managed assets (RoMA) of -1.8% (-1.6% in FY2022) and a return on net worth (RoNW) of -6.4% (-5.4% in FY2022). ICRA also notes the slightly weakening asset quality indicators in FY2023, characterised by 90+ days past due (dpd) of 3.8% and solvency of 9.9% as on March 31, 2023 (3.2% and 6.5%, respectively, as on March 31, 2022), largely attributable to portfolio seasoning. Going forward, the company's ability to control fresh slippages will remain a key monitorable, especially given its high growth plans. Moreover, it remains exposed to volatility in the asset quality indicators as it lends to the low-income borrowers, who are more prone to income shocks.

RBSG has limited, albeit improving, financial flexibility. It relies heavily on high-cost borrowings from other larger non-banking financial companies (NBFCs), which constituted 53% of the total borrowing as on March 31, 2023 (74% as on March 31, 2022). However, ICRA notes the company's plans to raise growth capital via debt funds and equity infusions from both new and existing investors in the current fiscal. The Stable outlook reflects ICRA's expectation that the company will be able to build a well-diversified resource profile at competitive terms on a sustained basis, grow its scale of operations and improve its asset quality metrics.

¹ Data for March 2023 is provisional

Key rating drivers and their description

Credit strengths

Experienced management – 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 24 branches across Maharashtra and Gujarat. The company is also backed by established investors like Sundaram Finance and Asha Impact Consulting. 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; need for external capital remains high – Given its modest scale of operations, the company is reasonably capitalised with a net worth of Rs. 31.5 crore, a capital adequacy ratio of 34.1% and a gearing of 3.3x as on March 31, 2023. This provides it with sufficient cushion to absorb any asset-side shocks. ICRA notes that RBSG has outlined a road map for strong growth, which is likely to increase the leverage from the current level. It is also in the process of raising fresh capital from both new and existing investors. However, the timeliness of such infusion would be a key monitorable for the maintenance of prudent capitalisation levels.

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 24 branches. Its scale of operations is modest, albeit improving, with an AUM of Rs. 135 crore as on March 31, 2023 compared to Rs. 101 crore as on March 31, 2022. Given the low base, the portfolio is geographically concentrated with Gujarat accounting for 56% of the total portfolio as on March 31, 2023 and Maharashtra for the rest. ICRA notes that the company was focused on recoveries during the Covid-19 pandemic and had slowed down new disbursements with expansion in only two new districts during this period.

Despite commanding high lending yields as reflected by the average yield of 19.9% in FY2023, the company’s profitability has been muted (RoMA of -1.8% in FY2023) owing to high borrowing costs and significant operating expenses (10.5% of average assets for FY2023) due to the nascent stage of operations and the growth phase. Going forward, an improvement in RBSG’s return indicators would depend on its ability to improve the scale of operations and hence achieve economies of scale while maintaining control over fresh slippages.

High portfolio vulnerability likely to keep asset quality volatile – RBSG’s portfolio is granular and susceptible to the underlying risk profile of its borrower segment as it gives small-ticket loans to first-time borrowers, single vehicle owners, and small business owners who are susceptible to economic shocks and have limited income buffers. RBSG displayed portfolio vulnerability and slightly weakening asset quality indicators in FY2023 compared to FY2022. Although the average collection efficiency improved to 97% in FY2023 from 94% in FY2022, the 90+ dpd increased to 3.8% as on March 31, 2023 from 3.2% as on March 31, 2022 primarily due to fresh slippages in FY2023. Consequently, RBSG’s solvency deteriorated slightly to 9.9% as on March 31, 2023 from 6.5% as on March 31, 2022. At the same time, ICRA notes that the standard restructured book was nil as on March 31, 2023. Going forward, the company’s ability to control fresh slippages will remain a key monitorable, especially given its high growth plans.

Ability to raise funds to increase scale of operations – RBSG has limited, albeit improving, financial flexibility and relies heavily on high-cost borrowings from other NBFCs, which constituted 53% of its total borrowing as on March 31, 2023 (74% as on March 31, 2022). It also has a 90:10 off-balance sheet borrowing arrangement with a few partners, whereby it will keep 10% of the loans and the partner will take the balance 90% of the exposure on their books. RBSG’s borrowing profile mainly consists of floating rate loans while lending is fixed in nature. Therefore, the rise in interest rates and the repricing of floating rate loans in FY2023 resulted in an increase in the overall cost of funds. The company’s ability to build a well-diversified resource profile

at competitive terms on a sustained basis would remain critical, given its limited, albeit improving, lending relationships as of March 31, 2023, and considering its growth plans for the near to medium term.

Liquidity position: Adequate

RBSG's liquidity profile is adequate with its Asset Liability Management (ALM) profile consisting of positive cumulative mismatches across all buckets up to 1 year. As per the ALM profile on March 31, 2023, RBSG has debt maturities of Rs. 39 crore (excluding inter-corporate deposits) for the 12-month period ending March 31, 2024, against which it has scheduled inflows from performing advances of Rs. 41 crore. RBSG had adequate on-balance sheet liquidity as on March 31, 2023, with cash & equivalents of about Rs. 13 crore (13% of total borrowings). Cash equivalents are in the form of callable fixed deposits (FDs) placed with banks. The company's liquidity is also supported by the undrawn promoters' line of credit of Rs. 8 crore as on March 31, 2023.

Rating sensitivities

Positive factors – A significant increase in the scale with an improving financial profile and the company's ability to maintain good asset quality over the medium to long term, while reducing the geographical concentration, would be positive factors.

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
Parent/Group support	Not Applicable
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 commercial vehicles and passenger cars. The company currently operates only in Maharashtra and Gujarat and has a network of 24 branches covering about 75 districts. As on March 31, 2023, RBSG's AUM stood at Rs. 135 crore (March 2022: AUM of Rs. 101 crore).

In FY2023, the company reported a net loss of Rs. 2 crore on an asset base of Rs. 149 crore (provisional basis) compared with a net loss of Rs. 1.9 crore on an asset base of Rs. 120 crore in FY2022. As on March 31, 2023, used commercial vehicle financing constituted 67% of the total managed assets while used passenger vehicle financing constituted 33%. The reported gross and net non-performing advances (NPAs) stood at 2.9% and 2.3%, respectively, while the capital adequacy ratio stood at 34% as on March 31, 2023.

Key financial indicators

RBSG Capital Private Limited	FY2021	FY2022	FY2023*
	Audited	Audited	Provisional
Total income	14.7	15.7	21.6
Profit after tax	0.4	-1.9	-2.0
Net worth	35.3	33.4	31.5
Assets under management	80	101	135
Total assets	89.3	100.7	105.7
Return on average managed assets (PAT/AMA)	0.5%	-1.6%	-1.8%
Return on average net worth (PAT/Avg. net worth)	1.3%	-5.4%	-6.4%
Managed gearing (times)	1.8	2.3	3.3
Gross NPA	1.1%	2.7%	2.9%
Net NPA	1.0%	2.2%	2.3%
Net NPA/Net worth	2.1%	6.5%	9.9%

Source: Company, ICRA Research; * Provisional numbers; 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount rated	Amount outstanding as of May 17, 2023	Date & Rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
			(Rs. crore)	(Rs. crore)	17-May-23	Oct-14-2022		
1	Long-term fund based – Term loan	Long term	75	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	NCD programme	Long term	10	-	[ICRA]BB+ (Stable)	-	-	-

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
NCD programme	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 as on May 17, 2023

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based – Term loan [^]	NA	NA	NA	75	[ICRA]BB+ (Stable)
Yet to be placed	NCD programme*	NA	NA	NA	10	[ICRA]BB+ (Stable)

Source: RBSG Capital Private Limited; *Proposed [^]Unallocated/Proposed

[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

Niharika Tomar
+91 124 454 324
niharika.tomar@icraindia.com

Rajat Kher
+91 124 4545 833
rajat.kher@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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

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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.