

March 08, 2024

RBSG Capital Private Limited: Rating reaffirmed; outlook revised to Positive from Stable

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+ (Positive) reaffirmed; outlook revised to Positive from Stable
NCD programme	10	10	[ICRA]BB+ (Positive) reaffirmed; outlook revised to Positive from Stable
Total	85	85	

*Instrument details are provided in Annexure I

Rationale

The change in the outlook reflects ICRA's expectation of continued improvement in RBSG Capital Private Limited's scale of operations and its encouraging earnings trajectory. The rating factors in the company's adequate capitalisation for its current scale of operations with a net worth of Rs. 53 crore (Rs. 32 crore as on March 31, 2023), a capital adequacy ratio of 38.0% (28.6% as on March 31, 2023) and a managed gearing¹ of 3.1 times as on December 31, 2023 (3.3 times as on March 31, 2023). ICRA also favourably notes the improvement in the scale of operations with assets under management (AUM) of Rs. 204 crore as on December 31, 2023 (Rs. 135 crore as on March 31, 2023), though the scale remains modest. The company raised Rs. 21-crore capital from the promoters and investors (new and existing) in 9M FY2024 via compulsorily convertible preference shares (CCPS). Further, RBSG is in the process of raising fresh capital from both new and existing investors, given its high growth plans and relatively muted internal capital generation.

The rating is, however, constrained by the limited seasoning of the portfolio. Disbursements in 9M FY2024 formed 64% of the outstanding AUM as on December 31, 2023. RBSG turned profitable in 9M FY2024 after two years of losses, though the same was modest due to the high operating expenses as the company is in expansion mode. On the funding side, RBSG relies heavily on high-cost borrowings from other larger non-banking financial companies (NBFCs), which constituted 38% of the total borrowing, 52% is in the from off-balance sheet borrowings (largely from NBFCs), 3% from promoters and balance from banks as on December 31, 2023. The rating also factors in the moderate, albeit improving, asset quality indicators with the gross non-performing advances % (GNPA%) on advances of 4.8% (2.8% on AUM basis) as on December 31, 2023 compared with 5.6% (3.9% on AUM basis) as on March 31, 2023. The portfolio vulnerability is augmented by RBSG's target borrower profile, which largely consists of moderate credit quality borrowers, who could be more susceptible to income shocks. Thus, softer delinquencies shall remain a concern for the company. Going forward, RBSG's ability to control fresh slippages, considering its high growth plans, will remain a key monitorable.

¹ Managed gearing = (On-book debt + Off-book portfolio)/Net worth

Key rating drivers and their description

Credit strengths

Adequate capitalisation for current scale of operations; external capital requirement remains high – Given its modest scale of operations, RBSG is adequately capitalised with a net worth of Rs. 53 crore, a capital adequacy ratio of 38.0% and a managed gearing of 3.1x as on December 31, 2023. While internal capital generation is muted, the capitalisation profile is supported by the recent equity infusion of Rs. 21 crore from the promoters and new and existing investors via CCPS in 9M FY2024. This provides RBSG with some cushion to absorb any asset-side shocks. ICRA notes that the company 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 while growing as per business plans.

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 30 branches. Its scale of operations is modest, but improving, with AUM of Rs. 204 crore as on December 31, 2023 compared with Rs. 135 crore as on March 31, 2023. Given the low base, the portfolio is geographically concentrated with Gujarat accounting for 61% of the total portfolio as on December 31, 2023 and Maharashtra for the balance.

As for profitability, the net interest margin (NIM) improved to 6.9% in 9M FY2024 from 5.7% in FY2023 due to the moderation in the gearing and the decline in the average cost of funds. However, given the significantly high operating expenses (8.5% of average managed assets in FY2023 as well as 9M FY2024) due to the nascent stage of operations and the growth phase, the company's profitability has been muted, with a return on managed assets (RoMA) of 0.1% in 9M FY2024 compared to -1.3% in FY2023. A sustained improvement in the earnings profile, as the business scales up, would be key from a rating perspective, going forward.

High portfolio vulnerability likely to keep asset quality volatile; limited portfolio seasoning – 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. The asset quality indicators have remained moderate with GNPA% on advances of 4.8% (2.8% on AUM basis) as on December 31, 2023 compared with 5.6% (3.9% on AUM basis). RBSG's solvency improved to 8.6% as on December 31, 2023 from 13.0% as on March 31, 2023 on account of the increase in the net worth, following the equity infusion of Rs. 21 crore in 9M FY2024. ICRA also notes that the standard restructured book was nil as on December 31, 2023.

However, portfolio seasoning is limited, given the recent scale-up of operations. Disbursements in 9M FY2024 formed 64% of the outstanding AUM as on December 31, 2023, reflecting limited portfolio seasoning. Going forward, the company's ability to control fresh slippages will remain a key monitorable, especially given its high growth plans.

Limited financial flexibility – RBSG has limited financial flexibility and relies heavily on high-cost borrowings from other larger non-banking financial companies (NBFCs), which constituted 38% of the total borrowing, 52% is in the from off-balance sheet borrowings (largely from NBFCs), 3% from promoters and balance from banks as on December 31, 2023. The entity has 90:10 co-lending arrangement with a few partners (largely NBFCs), 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. This exposes the company to interest rate risk in a rising interest rate scenario. Given its growth plans, RBSG would need to continuously expand the funding relationships.

Liquidity position: Adequate

RBSG's asset-liability maturity (ALM) profile is characterised by positive cumulative mismatches across all buckets up to 1 year. As per the ALM profile on December 31, 2023, RBSG has debt maturities of Rs. 47.0 crore for the 12-month period ending December 31, 2024 against which scheduled inflows from performing advances are Rs. 44.6 crore. RBSG had adequate on-balance sheet liquidity as on December 31, 2023 with unencumbered cash & equivalents of Rs. 9.5 crore. The liquidity position is also supported by the undrawn promoters' line of credit of Rs. 5.8 crore and the working capital line of Rs. 3.1 crore as on December 31, 2023.

Rating sensitivities

Positive factors – A sustained improvement in the profitability, while scaling up, and the company's ability to maintain good asset quality 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 Company
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

RBSG Capital Private Limited (brand name – Automony) was incorporated in December 2017 and received its NBFC licence in May 2018. It is a Reserve Bank of India 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 30 branches covering 35 districts. As on December 31, 2023, RBSG had an AUM of Rs. 204 crore and reported a net profit of Rs. 0.2 crore in 9M FY2024 (AUM of Rs. 135 crore and loss of Rs. 1.7 crore as of March 2023). As on December 31, 2023, used commercial vehicle financing constituted ~54% of the AUM while used passenger vehicle financing constituted ~46%.

Key financial indicators

Particulars	FY2021	FY2022	FY2023	9M FY2024*
	(Aud.)	(Aud.)	(Aud.)	(Prov.)
Accounting Standard	IGAAP	IGAAP	IGAAP	IGAAP
Total managed assets	107	121	149	232
Total income	14.7	15.7	21.3	21.0
Profit after tax (PAT)	0.4	-1.9	-1.7	0.2
Managed gearing (times)	1.8	2.3	3.3	3.1
CRAR	44.2%	31.8%	28.6%	38.0%
PAT/Average managed assets	0.5%	-1.7%	-1.3%	0.1%
GNPA (new IRAC/180 dpd basis; % of advances)	1.4%	3.4%	5.6%	4.8%
GNPA (new IRAC/180 dpd basis; % of AUM)	1.1%	2.7%	3.9%	2.8%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore
IRAC – Income Recognition and Asset Classification; Dpd – Days past due

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	Amount outstanding as of Mar 08, 2024	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
		(Rs. crore)	(Rs. crore)	Mar 08, 2024	May 17, 2023	Oct 14, 2022		
Long-term fund based – Term loan	LT	75	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
NCD programme	LT	10	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	-	-	-

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
NCD programme	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 as on March 08, 2024

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+ (Positive)
Yet to be placed	NCD programme*	NA	NA	NA	10	[ICRA]BB+ (Positive)

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

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