Repco Micro Finance Limited

February 01, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	400.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**400.00 (Rs. Four hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of Repco Micro Finance Limited (RMFL) continues to factor-in the benefits derived by RMFL from being part of the Repco group, the experience of the management team, comfortable capitalisation levels, and adequate liquidity profile. The rating takes note of the moderation in asset quality during FY21 (refers to the period April 01 to March 31) and H1FY22 (refers to the period April 01 to September 30) on account of the COVID-19-induced economic slowdown and the resultant moderation in profitability with increase in credit cost during the same period. The rating also takes notes of the reduction in the scale of operation during FY21. The rating is, however, constrained by a geographically-concentrated loan portfolio, moderate resource profile and inherent risks associated with the microfinance industry, including socio-political and regulatory risks.

Rating Sensitivities

Positive Factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in geographical diversification.
- Increase in the scale of operations with improvement in asset quality indicators and improvement in profitability on a sustained basis.

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakening of asset quality parameters with credit cost exceeding 7% of AUM.
- Weakening of the capital adequacy levels.

Detailed description of the key rating drivers

Key Rating Strengths

Benefits derived from being part of the Repco group

RMFL derives significant benefits in the form of managerial, financial and operational support from Repco Bank and Repco Home Finance Limited (RHFL, rated 'CARE AA-; Stable/ CARE A1+'). This is likely to aid RMFL in expanding the branch network to new geographies in which Repco Bank/RHFL has a presence. Both, Repco Bank and RHFL, have demonstrated their financial support by way of fresh infusion of equity capital in RMFL at periodical intervals and the support by way of equity infusion is expected to continue. Furthermore, Repco Bank has extended a SODL limit of Rs.200 crore. By virtue of being a subsidiary of Repco Bank, RMFL has been able to mobilise funds from various commercial banks at a relatively lower rate of interest. Supported by the group's strong resource raising ability, RMFL is expected to mobilise funds from various avenues by widening the lenders' base. Also, Repco Bank has deputed four senior level executives in RMFL.

Experienced management team

The board of RMFL comprises three independent directors and four directors with extensive experience in banking and microfinance operations. The board has nominees from Repco Bank and Repco Home Finance Limited (RHFL). The day-to-day operations are looked after by a team of professionals headed by key management people who have vast experience in the banking industry. Although the operations are managed by the management team of RMFL, the strategic decisions and the business plans are approved by the board. Ms R S Isabella is the Managing Director of the company and she has a total experience of more than two decades in the banking industry, and is also the Managing Director of Repco Bank. Mr A G Venkatachalam, the Whole-time Director of RMFL, is deputed by Repco Bank and takes care of the day-to-day operations.

Adequate loan appraisal and collection system

RMFL operates under the SHG lending model in which the group undergoes training programmes in various activities. The group also undergoes training regarding the loan process, product details, group formation and group liability. RMFL's field officers complete the loan application process and submit the documentation to the branch manager along with the KYC details. The branch manager then meets the group in the centre-meeting to assess its integrity and repayment capacity. The credit bureau check is done by the loan officer at the branches. Once the credit bureau check is completed, all the relevant documents including the KYC details of each group member are uploaded on the Loan Sanction Workflow (LSW). After verifying all the details, the loan is sanctioned by the credit officer at the HO. Loans are disbursed when the borrowers are present in the branch. Every borrower is given the repayment schedule indicating the due dates and the passbook for the loan account. The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of the loan amount. The monthly repayment is done by the group members at the branches. At the end of each day, the collected amount is deposited into the designated bank branch and updated in the system. This facilitates generation of the reports on the same day and assists in the reconciliation process as well.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

RMFL has adequate structure to monitor the operations at different levels. It has defined credit appraisal, collection and monitoring systems. The company has an inspection team and an internal audit team, wherein, the internal auditors conduct operational audits on a quarterly basis. At present, the company uses in-house MIS facilities for the day-to-day operations. The details of the customers are entered into the MIS. The system generates various reports like PAR report, disbursement report, cash, status, audit report, etc. RMFL also has a data centre and disaster recovery site.

Comfortable capitalisation levels

With demonstrated capital support through regular equity infusion from both, Repco Bank and RHFL, the capitalisation profile of the company is comfortable for its current scale of operations. Both Repco Bank and RHFL infused an equity of Rs.30 crore (Rs.20.40 crore in Q4FY21 from Repco Bank and Rs.9.60 crore in Q1FY22 from RHFL) to the extent of maintaining shareholding of 68% and 32%, respectively.

As on March 31, 2021, CAR improved to 26.78%, as against 19.66% as on March 31, 2020, mainly on account of equity infusion and moderation in the loan portfolio. As on September 30, 2021, CAR improved to 30.66%. The net worth has increased from Rs.207 crore as on March 31, 2020 to Rs.257 crore as on March 31, 2021, and further to Rs.272 crore as on September 30, 2021. The overall gearing stood at 2.73x (PY: 4.27x) as on March 31, 2021 and 2.25x as on September 30, 2021. The financial support in the form of fresh equity is expected to come from the parent as and when required.

Moderation in profitability during FY21 and further moderation seen in H1FY22

The company charges relatively lower interest rate as compared to its peers due to its lower cost of borrowing. RMFL charges interest rate in the range of 18-21%. The company's NIM was around 9.56% during FY21 (PY: 10.40%). The company's operating expenses remained low when compared to its peers on account of lower employee expense for top management as most members of the top management are government officials on deputation and the collections are done at the branch with borrowers themselves visiting and depositing the funds, thus lowering the collection costs. The operating expenses as a percentage of average total assets further reduced to 2.74% in FY21 (PY: 2.79%) and further to 2.58% on September 30, 2021. However, with the board of RMFL approving salary revision, the employee expenses is expected to increase going forward.

Credit costs as a percentage of average total assets stood at 1.96% in FY21 (PY: 1.30%). ROTA was at 3.81% in FY21 as against 5.29% in FY20 due to higher credit cost.

During H1FY22, NIM remained at the same levels at around 9.62%. However, the credit cost as a percentage of average total assets stood at 5.51% on account of deterioration in asset quality due to COVID-19. ROTA declined to 0.69% on account of this higher credit cost. However, PPOP stood at Rs.38 crore during H1FY22, as against Rs.43 crore in H1FY21.

Key Rating Weaknesses

Geographically-concentrated loan portfolio

The company's operations are confined only to Tamil Nadu and Puducherry, with 99% of the operations located in Tamil Nadu. Although strong presence in a particular region helps the company understand the dynamics of the particular region, the single-state exposure would lead to socio-political risks and geographical concentration risk. As on September 30, 2021, RMFL operated with 93 branches in Tamil Nadu and Puducherry.

Moderation in asset quality during FY21 and H1FY22; however, net NPA continues to remain nil

GNPA moderated to 4.48% as on March 31, 2021, as compared with 1.91% in March 31, 2020, on account of lower collections due to the impact of the COVID-19 pandemic. GNPA has further increased to 7.40% as on September 30, 2021 due to the impact of the second wave of COVID-19. However, net NPA continues to be nil, with 100% provisions made on the NPA accounts.

Furthermore, 30+ DPD increased from 3.20% as on March 31, 2020 to 7.68% as on March 31, 2021, and further to 12.47% of portfolio outstanding as on September 30, 2021. The ability of RMFL to prevent further deterioration in the asset quality and improve the asset quality amid the current environment remains a key rating sensitivity.

Moderation in scale of operations during H1FY22

RMFL has witnessed continuous growth in the scale of operations during the period FY18 to FY20. However, due to the impact of COVID-19, the portfolio degrew during FY21 to Rs.865 crore as on March 31, 2021. The loan portfolio of the company stood at Rs.887 crore as on September 30, 2021 with a disbursement of Rs.300 crore during H1FY22.

Moderate resource profile; however, cost of borrowings is the lowest in the same rating category

RMFL's only source of funding continues to be bank borrowings, which constituted 100% of the total borrowings as on March 31, 2021 and September 30, 2021. The company has a SODL limit of Rs.200 crore with Repco Bank. This facility also has an ad-hoc credit limit of around Rs.125 crore, which can be utilised upon request. The company's cost of borrowings was at 9.02% in FY21 (PY:9.39%), which is much lower when compared to its peers in the same rating category.

Industry outlook and prospects

The outlook for NBFCs has turned negative due to the outbreak of COVID-19, with an impact on asset quality, leading to higher credit cost and moderation in profitability. Funding challenges during the first wave of COVID-19 was met by measures announced by the RBI, such as the Targeted Long-Term Repo Operations 2.0 (TLTRO-2) and refinancing from NABARD, SIDBI, etc; however, the sector continued to witness asset-side challenges post-moratorium period. Collections witnessed gradual improvement in the second half of FY21, however, the same was impacted during Q1FY22 with lockdown restrictions in place due to the second wave of COVID-19. MFI lending is exposed to the inherent risk associated with unsecured lending and the marginal profile of borrowers, exposing it to elevated asset quality issues. The credit view will continue to factor-in risks associated with unsecured lending, socio-political intervention, geographical concentration and operational risks related to cash-based transactions. The ability of the industry

to limit incremental slippages in the challenging macro-environment conditions and improve asset quality would be critical to the earnings profile of the industry.

Impact of Covid-19
The company has given moratorium by default to all the customers during the period March 2020 to August 2020. The collection efficiency of the company reached 90% in September 2020 post the first wave of COVID-19 and reached 86% in March 2021. However, during May and June 2021, there was a significant drop in collections and disbursements due to the disrupted operations of the company on account of restrictions by the government because of the second wave of COVID-19. Post June 2021, the company has been able to recover, and collections reached the pre-pandemic levels of more than 90% (including prepayments) in September 2021.

Liquidity: Adequate
The company's ALM profile remains adequate, with no cumulative mismatches in any of the time buckets in ALM profile as on September 30, 2021. Cash and bank balance as on September 30, 2021 was around Rs.14 croreand the unutilised overdraft limit stood at Rs.78 crore. Furthermore, support from Repco Bank in terms of extending facilities to RMFL on a need-basis also provides comfort.

Analytical approach: Standalone, factoring in the linkages with group/parent.
Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)
Rating Methodology: Notching by factoring linkages in Ratings

About the Company
Repco Micro Finance Limited (RMFL) was incorporated in 2007 as Repco MSME Development & Finance Ltd and registered under the Companies Act, 1956. The company got registered with RBI in 2010 and commenced microfinance operations in the same year. Later, it was converted into an NBFC-MFI in December 2013. The company is promoted by Repco Bank (Repatriates Cooperative Finance & Development Bank Ltd), a Government of India Enterprise. As on March 31, 2021, Repco Bank holds 68% stake and Repco Home Finance Limited (RHFL, rated CARE AA-; Stable/ CARE A1+, Repco Bank holds 37% in RHFL) holds 32% in RMFL.
RMFL is engaged in the activity of extending loans to economically-backward women through Women Self Help Groups (SHG) for income generation purposes. The main objective of the company is to assist the poor women for their upliftment, promoting entrepreneurship and providing micro credit/finance in different loan cycles at a reasonable rate of interest.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22(UA)
Total income	192	176	79
PAT	54	41	3
Interest coverage (times)	1.96	1.77	1.40
Total Assets*	1,122	1,003	954
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	5.29	3.81	0.69

A: Audited; Prov.: Provisional; *Net of deferred tax asset and intangible asset

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Bank Lender Details: Please refer Annexure-3

Complexity level of various instruments: Please refer Annexure-4

Covenants of rated instrument / facility: Please refer Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	July 2024	400.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	400.00	CARE BBB+; Stable	1)CAREBBB+; Stable (05-Jan-22)	1)CARE BBB+; Stable (16-Mar-21)	1)CARE BBB+; Stable (12-Mar-20)	1)CARE BBB+; Stable (14-Feb-19)

Annexure-3: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple

Annexure-5: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
Financial Covenants	
i). Net NPA	Net NPA: Max 1%
ii). CRAR	CRAR 15% or as stipulated by RBI periodically, whichever is higher.
iii). TOL/Adj. TNW	TOL/Adj. TNW< 6x

Note on complexity levels of the rated instrument: *CARE Ratings Limited has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

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