Repco Micro Finance Limited

January 09, 2023

Ratings

Facilities/Instruments	Amount (₹ 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 (₹ Four Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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 including nomination of management team, comfortable capitalisation levels and adequate liquidity profile. The rating takes note of the moderation in asset quality during FY22 (refers to the period April 01 to March 31) and H1FY23 (refers to the period April 01 to September 30) on account of the impact of COVID-19-induced economic slowdown. This also resulted in moderation in profitability with increase in credit cost during FY22. However, the profitability improved during H1FY23. 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. It is to be noted that the loan portfolio moderated in H1FY23 as the disbursements were impacted in April 2022 and May 2022 with the implementation of new microfinance norms from April 01, 2022.

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%
- Weakening of the capital adequacy levels with CAR below 18% on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Benefits derived from being part of the Repco group including nomination of management team: 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 term loan of Rs.300 crore and a SODL limit of Rs.200 crore apart from availability of ad-hoc limit of Rs.125 crore as and when required. 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.

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 Chairperson & Managing Director of the company and she has a total experience of nearly three 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 for all the households, all the relevant documents including the KYC details of each group member are uploaded on the Loan Sanction Workflow (LSW). After checking the eligibility and verifying all the details, the loan is sanctioned

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

by the credit officer at the HO. Loans are disbursed directly to the customer bank account. Every borrower is given the repayment schedule indicating the due dates and the loan card 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.
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 capitalization levels: With demonstrated capital support through regular equity infusion from both Repco Bank and RHFL, capitalization levels of the company are comfortable. Repco Bank and RHFL infused 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, 2022, CAR stood at 27.30% as against 26.78% as on March 31, 2021. As on September 30, 2022, CAR improved to 35.92% mainly on account of decline in loan portfolio and through internal accruals. The overall gearing stood at 2.79x (PY: 2.73x) as on March 31, 2022 and 1.91x as on September 30, 2022. CARE Ratings expects the financial support in the form of fresh equity to come from the parent as and when required.

Healthy profitability; Profitability impacted in FY22 due to higher provisions but improved during H1FY23:
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 22-23% currently. The company's NIM was around 9.38% during FY22 (PY: 9.56%). NIM moderated during FY22 due to interest reversal on account of NPAs. The company's operating expenses remained low when compared to its peers on account of lower employee expenses and the collections are done at the branch with borrowers themselves visiting and depositing the funds, thus lowering the collection costs. The opex however, has increased in FY22 and H1FY23 on account of new recruitments and revision in salary of the existing employees from October 01, 2021 due to pay scale revision. The operating expenses as a percentage of average total assets stood at 3.31% in FY22 (PY: 2.74%) and increased further to 4.60% in H1FY23. Credit costs as a percentage of average total assets increased to 5.36% in FY22 due to impact on asset quality on account of Covid-19 pandemic induced economic slowdown (PY: 1.96%). With increase in credit costs, ROTA moderated to 0.96% in FY22 as against 3.81% in FY21. During H1FY23 (IndAS), NIM stood at 13.55% and ROTA improved to 6.62% with Nil credit costs. However, PPOP stood at Rs.44 crore during H1FY23, as against Rs.38 crore in H1FY22. CARE Ratings expects the profitability to improve going forward due to improvement in credit costs with containment of fresh slippages.

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, 2022, RMFL operated with 95 branches in Tamil Nadu and Puducherry. CARE Ratings expects the geographical concentration to remain in the medium term.

Moderation in asset quality during FY22 and H1FY23: GNPA moderated to 8.50% as on March 31, 2022 compared with 4.48% in March 31, 2021. Majority of increase in GNPA was from the book generated pre-covid and due to various factors, such as loss of livelihood due to covid-19, migration of customers and implementation of part of new IRAC norms. However, Net NPA continues to be nil with 100% provisions made on the NPA accounts till FY22. It is to be noted that with respect to new IRAC norms, daily NPA recognition was implemented in March 2022 and the with respect to rollback, it was implemented in October 2022.
GNPA has further increased to 8.80% as on September 30, 2022 with reduction in loan portfolio. and NNPA stood at 2.34% in H1FY23 with 75% provision coverage after changing the accounting standard to IndAS. With increase in requirement of provisions for standard assets under IndAS, the company has moved to provision coverage of 75% for Stage 3 assets under Ind AS.
30+ DPD increased from 7.68% as on March 31, 2021 to 9.15% as on March 31, 2022 and further to 11.03% of portfolio outstanding as on September 30, 2022. The ability of RMFL to prevent further deterioration in the asset quality and improve the asset quality amidst the current environment remains key rating sensitivity. CARE Ratings expects the asset quality to improve in the near term with reduction in fresh slippages.

Moderation in scale of operations during H1FY23: 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 from Rs.1,084 crore as on March 31, 2020 to Rs.865 crore as on March 31, 2021. The portfolio subsequently grew to Rs.1,021 crore as on March 31, 2022 with growth bouncing back in H2FY22. However, the portfolio again witnessed degrowth in H1FY23 on account lower disbursements in H1FY23 because of implementation of new MFI norms by the company. The loan portfolio of the company stood at Rs.905 crore as on September 30, 2022 with a disbursement of Rs.261 crore during H1FY23. The company has also started non-MFI loans from August 2022 to disburse to existing customers who become ineligible for MFI loans with household income exceeding the permissible limit as per new MFI norms.

Moderate resource profile; however, cost of borrowings is the lowest in the same rating category: RMFL's major source of funding continues to be bank borrowings which constituted 96% of the total borrowings as on September 30, 2022. The company has SODL limit of Rs.200 crore with Repco bank. The cost of borrowings stood at 8.18% in FY22 as against 9.01% in FY21.

Inherent industry risks: The microfinance sector continues to be impacted by the inherent risk involved, viz., socio-political intervention risk and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns.

Liquidity: Adequate

The company's ALM profile remains adequate, with no cumulative mismatches in any of the time buckets in ALM profile upto 1 year as on September 30, 2022. The company had Rs.20 crore as bank balance as on September 30, 2022 and Un-availed term loans of Rs.150 crore. Furthermore, support from Repco Bank in terms of extending facilities to RMFL on a need-basis and availability of ad-hoc credit limit of Rs.125 crore from Repco Bank also provides comfort.

Analytical approach

Standalone Factoring in the linkages with group/parent

Applicable criteria

Criteria on assigning 'Outlook' or 'Rating watch' to Credit Ratings
Policy on Default Recognition
Financial Ratios-Financial Sector
CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)
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 Companies Act, 1956. The company got registered with RBI in 2010 and commenced microfinance operations in the same year. Later, it was converted into NBFC-MFI in December 2013. The company is promoted by Repco Bank (Repatriates Cooperative Finance & Development Bank Ltd), a Govt. of India Enterprise. As on March 31, 2022, 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 cycle at reasonable rates of interest.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
	IGAAP	IGAAP	INDAs
Total Income	176	162	93
PAT	41	10	32
Interest coverage (times)	1.77	1.25	1.40
Total assets	1,003	1,073	888
Net NPA (%)	0.00	0.00	2.34
ROTA (%)	3.81	0.96	6.62

A: Audited

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Please refer Annexure-3
Complexity level of the various instruments rated for this company: Please refer Annexure-4
Bank lender details for this company: Please refer Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	July 2025	400.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	400.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (01-Feb-22) 2)CARE BBB+; Stable (05-Jan-22)	1)CARE BBB+; Stable (16-Mar-21)	1)CARE BBB+; Stable (12-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
Bank Facility	CRAR 15% or as stipulated by RBI periodically, whichever is higher.
	TOL/Adj. TNW< 6x

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: Bank lender details for this company

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

Note on complexity levels of the rated instruments: *CARE Ratings 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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About us:

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