Repco Micro Finance Limited

March 16, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-Term Bank Facilities	400	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**400 (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, experience of the management team, comfortable capitalization levels, adequate liquidity profile and healthy profitability. The rating takes note of the moderation in asset quality and reduction in scale of operation during 9MFY21 on account of COVID-19-induced economic slowdown. The rating is, however, constrained by 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 while increasing the scale of operations with single state exposure falling below 70% of AUM along 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 6% 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 RHFL has 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 SODL limit of Rs.300 crore. By virtue of being subsidiary of Repco Bank, RMFL has been able to mobilize funds from various commercial banks at relatively lower rate of interest. Supported by the group's strong resource raising ability, RMFL is expected to mobilize funds from various avenues by widening the lenders' base.

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 are having vast experience in the banking industry. Though the operations are managed by the management team of RMFL, the strategic decisions and the business plan are approved by the board. Ms R S Isabella is the Managing Director of the company and she has a total experience of 25 years in the banking industry and is also MD of Repco Bank. Mr N Balasubramanian, who is the whole-time director of RMFL 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 programs in various activities. The group also undergoes training regarding 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 KYC details. The Branch manager then meets the group in the center 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 KYC of each group member details are uploaded on Loan Sanction workflow (LSW). After verifying all the details, loan is sanctioned by the credit officer at HO. Loans are disbursed when the borrowers are present in the branch. Every borrower is given with 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 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 audit on 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 would be able to generate various reports like PAR report, disbursement report, cash, status, audit report, etc. RMFL 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, capitalisation profile of the company is comfortable for its current scale of operations. Both Repco Bank and RHFL infused equity of Rs.20 crore during FY19 (refers to the period April 1 to March 31) to the extent of maintaining shareholding of 68% and 32%, respectively.

As on March 31, 2020, CAR stood at 19.66% (Tier I: 19.25%) as against 18.19% (Tier I: 18.19%) as on March 31, 2019. As on December 31, 2020, CAR stood at 29.18% (Tier I: 28.81%). Net worth has increased from Rs.164 crore as on March 31, 2019, to Rs.207 crore as on March 31, 2020, and further to Rs.243 crore as on December 31, 2020. Overall gearing was at 4.27x (PY: 4.55x) as on March 31, 2020 and 2.60x as on December 31, 2020. The financial support in the form of fresh equity is expected to come from the parent as and when required.

Healthy profitability

The company charges interest rate in the range of 18%-21% due to availability of low cost of funds. The company's cost of borrowings was at 9.39% in FY20 which is much lower compared to its peers. The company's NIM was around 10.40% during FY20 (PY: 10.72%). 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 depositing the funds, thus lowering the collection costs. The operating expenses as a percentage of average total assets further reduced to 2.79% in FY20 (PY: 3.25%) and further to 2.53% in December 2020. Credit Costs as a percentage of average total assets remained at 1.30% in FY20 (PY: 0.60%). The company's ROTA was 5.29% in FY20.

During 9MFY21, NIM remained at the same levels at around 10.23%. However, Credit cost as a percentage of average total assets stood at 0.88% with further provisioning to be done in March 2021. ROTA has also improved to 6.43% during 9MFY21.

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 to understand the dynamics of the particular region, the single-state exposure would lead to socio-political risks and geographical concentration risk. As on March 31, 2020, RMFL operated with 90 branches in Tamil Nadu and Puducherry.

Moderation in asset quality during 9MFY21; However, Net NPA continues to be Nil

RMFL have maintained healthy asset quality primarily on account of better collection efficiency. The company follows 90 days DPD for NPA recognition. GNPA moderated to 1.91% as on March 31, 2020 compared with 0.87% in March 31, 2019. Majority of increase in GNPA in the month of March 2020 was on account of lower collections in regions affected by Gaja cyclone and heavy rain. As on December 31, 2020, the GNPA further moderated to 3.52% (Marked NPA) majorly due to impact of COVID-19.

30+ DPD increased from 1.76% as on March 31, 2019 to 3.20% as on March 31, 2020, and further to 6.80% of portfolio outstanding as on December 31, 2020. However, Net NPA continues to be nil with 100% provisions made on the NPA accounts. With improvements in collections post the moratorium period, the company is expected to improve its asset quality going forward.

Moderation in scale of operations during 9MFY21

RMFL has witnessed continuous growth in the scale of operations over the past three years ended March 31, 2020. The loan portfolio had grown at around 20% from Rs.907 crore as on March 31, 2019 to Rs.1,084 crore as on March 31, 2020. The disbursements increased from Rs.927 crore in FY19 to Rs.1,011 crore in FY20 thus

registering growth of around 20% supported by increase in the number of borrowers from 381,107 as on March 31, 2019 to 398,937 as on March 31, 2020.
However, due to impact of COVID-19, the portfolio has been reporting a degrowth and as on December 31, 2020, the loan portfolio of the company stood at Rs.806 crore with a disbursement of Rs.156 crore in FY21 (till December 2020).

Moderate resource profile
RMFL's only source of funding is from bank borrowings which constituted 100% of the total borrowings as on March 31, 2020 and December 31, 2020. The company has SODL limit of Rs.300 crore with Repco bank. This facility also has an ad-hoc credit limit of around Rs.100 crore, which can be utilized upon request.

Industry outlook and prospects
Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, it remains exposed to event-based risks and marginal profile of borrowers. The recent outbreak of Covid-19 is likely to impact asset quality and credit costs. The ability to withstand event risks and avoid further deterioration in the asset quality leading to impact in the overall profitability will be the key considerations.
The credit view will continue to factor in the risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash-based transaction.

Impact of Covid-19
During the moratorium period, the company has availed moratorium from some of the banks. However, subsequently, the company has made repayments to the bankers who have provided them moratorium. The company has given moratorium by default to all the members during the first and second phase of moratorium by RBI. The company has adjusted all the payments received from the customers during the moratorium period towards principal directly as pre-payments.
Increase in delinquencies has been witnessed post the moratorium period and the entire impact of Covid-19 on the asset quality and profitability remains to be seen.

Liquidity: Adequate
The company’s ALM profile remains adequate with no cumulative mismatches in any of the time buckets in ALM profile as on December 31, 2020. Unencumbered cash and liquid assets as on December 31, 2020, was around Rs.20 crore and unutilised bank lines stood at Rs.135 crore. Furthermore, support from Repco Bank in terms of extending facilities to RMFL on 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 Companies Act, 1956. The company got registered with RBI in 2010 and commenced microfinance operations in the same year. Later, it was converted to 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, 2020, 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 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 reasonable rates of interest.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	156	192
PAT	45	54
Interest coverage (times)	2.08	1.96
Total Assets	925	1122
Net NPA (%)	0.00	0.00
ROTA (%)	5.58	5.29

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	March 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	400.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (12-Mar-20)	1)CARE BBB+; Stable (14-Feb-19)	1)CARE BBB+; Stable (06-Dec-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mr Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact 1
Mr P Sudhakar
Contact no. - 044-2850 1000
Email ID: p.sudhakar@careratings.com

Analyst Contact 2
Mr Ravi Shankar R
Contact no. - 044-2850 1016
Email ID: ravi.s@careratings.com

Relationship Contact
Mr V Pradeep Kumar
Contact no. : 044-2850 1000
Email ID: pradeep.kumar@careratings.com

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