

## SVC Co-operative Bank Ltd

February 17, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Bank Facilities- Non-fund based- LT/ST- BG/LC	-	-	Reaffirmed at CARE BBB; Stable/CARE A2 and withdrawn

*Details of facilities in annexure-1*

### **Detailed Rationale and Key Rating Drivers**

CARE has re-affirmed the rating assigned to the bank facilities of SVC Co-operative Bank Ltd to 'CARE BBB; Stable/CARE A2' and has simultaneously withdrawn it, with immediate effect. The rating withdrawal is at the request of SVC Co-operative Bank Ltd. and 'No Objection Certificate' received from the bank (s) that have extended the facilities rated by CARE.

The ratings continue to factor in the experienced management team, along with the long track record of operations and comfortable capital adequacy. It also takes into consideration the moderate resource profile and moderate asset quality. Further, the ratings are constrained by moderate earnings profile, geographic concentration and restricted ability of UCBs to raise capital and cover losses

**Rating sensitivities: Not applicable as the ratings are being withdrawn.**

### **Detailed description of the key rating drivers**

#### **Key rating strengths**

##### ***Experienced Management team***

SVC has experienced management team with experienced professionals occupying key managerial positions. Mr Ajit E. Venugopalan is the Managing Director. He was the Corporate Banking head before taking charge as the MD on October 01, 2017. He is Chartered Accountant. He is a veteran banker in the co-operative banking arena and has more than 27 years of banking experience. Mr. Durgesh S. Chandavarkar is the Chairman. He has 35 years of experience across varied industries. The MD is assisted by heads of various departments in the day to day functioning of the bank.

##### ***Long track record of operations and recognized as scheduled UCB***

SVC was incorporated in 1906. It has completed 115 years of providing wide range of Banking and Financial Services. It is recognized as a 'Scheduled Urban Co-operative Bank' by RBI. The scheduled status for UCBs are given on the basis of certain requirements met as per the guidelines set by RBI which includes CRAR of minimum 12%, Gross NPAs of less than 5% or less, compliance with SLR and CRR, demand and time liabilities are not less than Rs.750 crore, continuous net profits for previous three years and no major regulatory or supervisory concerns.

##### ***Comfortable capital adequacy***

The bank has a comfortable capital adequacy ratio. Total CAR stood at 12.96% (P.Y: 12.90%) as on March 31, 2020 (as per statutory requirement, total CAR should be 9%, Basel I is applicable to Urban Co-operative Banks which is not as stringent as Basel II and III applicable to other banks). UCBs have some restrictions and specific guideline for raising capital and additionally, the concept of linked capital is also applicable, where the depositor or borrower has to first become its member by contributing defined capital, before commencing any banking transaction i.e. depositing or taking advances.

##### ***Moderate Resource Profile***

In FY20, deposits grew by only 1.46% from Rs. 16,264 crore in FY19 to Rs. 16,501 crore in FY20 due to the Bank's conscious decision to align the Deposits growth with credit growth and also due to market sentiments. During FY20, SVC had a CASA of 24.18% of total deposits as compared to 24.82% in FY19.

##### ***Moderate asset quality***

In FY20, Gross NPA stood at 3.74% (P.Y: 3.50%) and Net NPA at 1.81% (P.Y: 1.90%). Net NPA to Tangible net worth declined to 12.41% (P.Y: 13.78%) at end-FY20. SVC's provisioning coverage ratio increased to 49.65% in FY20 from 42.90% in FY19. The asset quality stands at a reasonable level as compared to the other banks. SVC has access to SARFAESI facility to recover its dues as UCBs are covered under the SARFAESI Act.

### **Key Rating Weakness**

#### ***Moderate earnings profile***

SVC's total income has grown at a CAGR of 3.64% over the last three years to Rs.1,721 crore in FY20, which is largely driven by growth in interest income. SVC earned a PAT of Rs.142 crore (P.Y: Rs.140 crore) in FY20. During FY20, the bank's cost to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

income ratio stood at 63.07% (P.Y: 58.59%). The cost to income ratio has weakened as the operating expenses increased from Rs.374 crore in FY19 to Rs.426 crore in FY20. Net Interest Margin (NIM) stood at 2.35% in FY20 (P.Y: 2.44%). NIM got impacted due to substantial increase in cash and bank balances from Rs. 1,529 crore in FY19 to Rs. 2,055 crore in FY20. The bank's ROTA stood at 0.69% (P.Y: 0.75%) in FY20.

#### **Restricted ability of UCBs including SVC to raise capital and cover losses**

Capital of SVC consists of membership shares and other reserves. As the membership shares do not have all features of equity it restricts the ability of SVC to raise capital in future. Further the share can be redeemed and this availability of capital to cover losses on ongoing basis is restricted.

**Analytical Approach:** Standalone

**Applicable Criteria**

[Policy on withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Bank - CARE's Rating Methodology For Banks](#)

[Financial ratios - Financial Sector](#)

[Rating of Short term instruments](#)

#### **About the company**

SVC was founded in 1906. It was set up with the primary objective of assisting the less fortunate members of the community in its economic enterprises, to encourage savings and to create funds for providing financial aid to deserving members. Mr. Rao Bahadur Shripad Subbarao Talmaki, the Maharshi of the Co-operation, was the main architect of the Bank. The bank was originally registered as a Co-operative Credit Society on 27th December 1906. 'Scheduled Bank Status' was conferred on SVC in 1988. The bank is a multi-state urban co-operative bank registered under the Multi-State Co-operative Societies Act, 2002.

**The key financials of the company are presented below:**

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,625	1,721
PAT	140	142
Interest coverage (times)	1.19	1.16
Total Assets	19,378	21,543
Net NPA (%)	1.90	1.81
ROTA (%)	0.75	0.69

A: Audited

**Status of non-co-operation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer annexure-2

#### **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
Bank Facilities –Non Fund based- LT/ST-BG/LC	-	-	-	-	-	Withdrawn

#### **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.	Non Fund Based – LT/ST – LC/BG	LT/ST	-	-	-	1)CARE BBB; Stable/CARE A2 (27-03-20)	1) CARE BBB; Stable/ CARE A2 (05-04-19)	-

**Annexure-3: Complexity level of various instruments rated for this company**

Sr. No	Name of Instrument	Complexity Level
1.	Bank Facilities-Non-fund based- LT/ST-BG/LC	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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