

Repc Micro Finance Limited

September 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	400.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 and comfortable capitalisation levels. The rating also takes note of the improvement in asset quality during FY23 (refers to the period April 01 to March 31) and the resultant improvement in profitability with decrease in credit cost during FY23. The rating is, however, constrained by a geographically concentrated loan portfolio, moderate resource profile and the inherent risks associated with the microfinance industry, including socio-political and regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions

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 5%
- Weakening of the capital adequacy levels with CAR below 18% on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of stable credit profile with comfortable capitalisation levels and good profitability levels.

Detailed description of the key rating drivers:

Key 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 ₹300 crore and overdraft limit of ₹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.

The board of RMFL comprises five 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

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

RMFL, the strategic decisions and the business plans are approved by the board. 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. 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 self-help group (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). The loan officer also does income assessment for the household. After checking the eligibility and verifying all the details, the loan is sanctioned by the credit officer at the head office (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 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. As on March 31, 2023, CAR and Tier I CAR stood at 30.72% and 28.91% as against 28.55% and 26.91% as on March 31, 2022. The overall gearing stood at 2.38x (PY: 2.74x) as on March 31, 2023. As on June 30, 2023, CAR and Tier I CAR stood at 33.00% and 31.63% as on June 30, 2023. Gearing stood at 2.09x as on June 30, 2023. CARE Ratings Limited (CARE Ratings) expects financial support in the form of fresh equity to come from the parent as and when required.

Healthy profitability with improvement seen in FY23: RMFL charges interest rate in the range of 22-23% currently with the removal of lending rate cap. The company reported PAT of ₹46 crore on a total income of ₹178 crore in FY23 as against ₹17 crore on a total income of ₹166 crore in FY22. The company reported NIM of 11.61% in FY23 (PY: 10.43%). NIM increased with the increase in interest rates. The company's opex increased from 3.33% in FY22 to 4.38% in FY23 majorly due to new branch openings and new recruitment of personnel. Credit cost remained low at 1.44% in FY23 (PY: 4.86%) with lower slippages. As a result, return on total assets (ROTA) stood at 4.21% in FY23 as against 1.60% in FY22. During Q1FY24, the company reported PAT of ₹20 crore on a total income of ₹55 crore. NIM and ROTA increased to 13.72% and 7.25%. CARE Ratings expects profitability to remain healthy going forward due to the improvement in credit costs with containment of fresh slippages and improvement in the economic conditions.

Key weaknesses

Geographically concentrated loan portfolio: The company operates through 104 branches with 102 branches in Tamil Nadu, one branch in Puducherry and one branch in Kerala as on March 31, 2023. The company opened one branch in Kerala during FY23 as part of the diversification strategy. 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 March 31, 2023, Tamil Nadu contributes to 99% of the loan portfolio. CARE Ratings expects the geographical concentration to remain in the medium term.

Improvement in asset quality during FY23, however it still remains moderate: GNPA improved to 4.95% (as per Income Recognition and classification (IRAC) norms) as on March 31, 2023, from 7.82% as on March 31,

2022. The decrease is majorly due to write-offs of ₹32 crore in FY23. Net NPA stood at 1.21% on March 31, 2023, as against 2.59% as on March 31, 2022. It is to be noted that with respect to new IRAC norms, daily NPA recognition was implemented in March 2022 and with respect to rollback, it was implemented in October 2022. GNPA and NNPA stood at 5.06% and 0.76% as on June 30, 2023.

Delinquency in the softer bucket improved in FY23 as 30+ DPD and 60+ DPD stood at 5.92% and 4.92% as on March 31, 2023, as against 9.15% and 8.72% as on March 31, 2022. The ability of RMFL to improve the asset quality going forward remains key rating sensitivity. CARE Ratings expects the asset quality to improve in the near term with reduction in fresh slippages.

Increase in AUM during FY23, however, scale remains moderate: RMFL 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 ₹1,084 crore as on March 31, 2020, to ₹865 crore as on March 31, 2021. The portfolio again started growing from FY22 with portfolio increasing to ₹1,031 crore as on March 31, 2022. Portfolio grew by 5% to ₹1,085 crore as on March 31, 2023. The growth rate was lower in FY23 due to transition to new MFI guidelines which resulted in reduction in disbursements in H1FY23. The company has also started non-MFI loans from August 2022 to disburse to the existing customers who become ineligible for MFI loans with household income exceeding the permissible limit as per new MFI norms. The proportion of non-MFI loans on the overall portfolio stood at 23% as on March 31, 2023. The loan portfolio of the company stood at ₹1,055 crore as on June 30, 2023. Though there is an increase in the loan portfolio, the number of borrowers has decreased from 3,98,937 as on March 31, 2020 to 2,85,439 as on March 31, 2023 thereby resulting in increase in average ticket size per borrower.

Moderate resource profile; however, cost of borrowings is the lowest in the same rating category: The company's cost of borrowings is one of the lowest in the same rating category. RMFL's major source of funding continues to be bank borrowings which constituted 91% of the total borrowings as on March 31, 2023 (100% as on March 31, 2022) and the remaining is constituted by term loan from NBFCs. The company has overdraft limit of ₹200 crore with Repco bank. The weighted average cost of borrowings as on March 31, 2023, stood at 9.66%.

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 one year as on June 30, 2023. ALM is adequate with availability of tenor matching facilities in line with the loans. The company had ₹9 crore as bank balance as on June 30, 2023. Furthermore, support from Repco Bank in terms of the extending facilities to RMFL on a need-basis and availability of an overdraft limit of ₹ 200 crore from Repco Bank also provides comfort. The average utilisation of overdraft Limit over the last 12 months ended June 30, 2023 stood at 20%.

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 \(NBFCs\)](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Microfinance Institutions

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, 2023, 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 SHGs 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, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total income	166	178	55
PAT	17	46	20
Interest coverage (times)	1.38	2.16	2.57
Total Assets	1,081	1,114	1,084
Net NPA (%)	0.00	1.21	0.76
ROTA (%)	1.60	4.21	7.25

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: N/A

Any other information: N/A

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: 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	-	-	-	Feb- 2026	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based-Long term	LT	400.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Jan-23)	1)CARE BBB+; Stable (01-Feb-22) 2)CARE BBB+; Stable (05-Jan-22)	1)CARE BBB+; Stable (16-Mar-21)

*Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-44-2850 1001 E-mail: pradeep.kumar@careedge.in</p>	<p>Analytical Contacts</p> <p>Sudhakar P Director CARE Ratings Limited Phone: +91-44-2850 1003 E-mail: p.sudhakar@careedge.in</p> <p>Ravi Shankar R Associate Director CARE Ratings Limited Phone: +91-44-2850 1016 E-mail: ravi.s@careedge.in</p> <p>Kritarth Aneja Analyst CARE Ratings Limited E-mail: Kritarth.Aneja@careedge.in</p>
---	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**