Repco Micro Finance Limited

March 29, 2024

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 takes note of the improvement in scale of operations, improvement in asset quality and the resultant improvement in profitability with decrease in credit cost during FY23 (refers to the period April 01 to March 31) and 9MFY24 (refers to the period April 01 to December 31). The rating is, however, constrained by a geographically concentrated loan portfolio, moderate resource profile with improvement in 9MFY24 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 five 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. R S Isabella is the Chairperson & Managing Director of the company, and she has a total experience of

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

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 December 31, 2023, CAR and Tier I CAR stood at 27.81% and 26.69%. Gearing stood at 2.43x as on December 31, 2023. CARE Ratings Limited (CARE Ratings) expects the capitalisation levels to remain comfortable in the medium term and 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 post 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 9MFY24, the company reported PAT of ₹50 crore on a total income of ₹178 crore. NIM increased from 11.61% in FY23 to 13.35% (Annualised) in 9MFY24. Opex increased during 9MFY24 as new branches were added during the period from 4.38% in FY23 to 4.62%(Annualised) in 9MFY24. Credit cost remined low at 1.29% in 9MFY24 as against 1.44% in FY23. As a result of higher NIM and lower credit cost ROTA (Annualised) increased from 4.21% in FY23 to 5.59% in 9MFY24. CARE Ratings expects profitability to remain healthy going forward due to the improvement in credit costs with containment of fresh slippages.

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 has opened seven new branches during 9MFY24 as part of the diversification strategy with one of the new branches being opened in Karnataka. 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. Tamil Nadu contributes to 99% of the loan portfolio as on March 31, 2023 and 99% of the loan portfolio as on December 31, 2023. CARE Ratings expects the geographical concentration to remain in the medium term.

Improvement in asset quality during FY23 and 9MFY24: 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 2.92% and 0.00% as on December 31, 2023 with write-offs of Rs. 25.21 crore during 9MFY24.
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 and 9MFY24, 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 ₹1,242 crore as on December 31, 2023. This increase in portfolio has been supported by recruitment of new employees in 9MFY24. 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 and 2,66,130 as on December 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%. During 9MFY24 the company's reliance on Repco bank as a source of borrowing declined as proportion of borrowing from Repco bank reduced from 32% as on March 31, 2023 to 26% as on December 31, 2023. The proportion of bank borrowings excluding Repco Bank stood at 63% and terms loans from NBFCs stood at 7% as on December 31, 2023

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 December 31, 2023. ALM is adequate with availability of tenor matching facilities in line with the loans. The company had ₹7 crore as bank balance and ₹ 620 crore of unavailed lines of credit as on December 31, 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.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies

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)	FY22(A)	FY23(A)	9MFY24(UA)
Total operating income	166	178	178
PAT	16.69	46.23	50
Interest coverage (times)	1.38	2.16	2.15
Total Assets	1,081	1,114	1,276
Net NPA (%)	0.00	1.21	0.00
ROTA (%)	1.60	4.21	5.59

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

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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	-	-	-	February, 2026	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 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 (04-Sep-23)	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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the 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 the 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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