Repco Micro Finance Limited

March 12, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-Term Bank Facilities	**400.00 (Rs. Four hundred crore only)**	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**

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 Repco group, experience of the management team, comfortable capitalization levels, adequate liquidity profile, healthy profitability and improvement in the scale of operations during FY19 (refers to the period April 01 to March 31) and 9MFY20 (refers to the period April 01 to December 31). The rating takes note of the moderation in asset quality during 9MFY20.

The rating, however, is constrained by geographically concentrated loan portfolio, moderate resource profile and inherent risks associated with the microfinance industry including socio-political and regulatory risks.

Going forward, the ability of the company to diversify the loan portfolio across geographies, maintain asset quality and capital adequacy while growing its scale of operations and any change in regulatory environment are the key rating sensitivities.

Key Rating sensitivities

Positive factors:

- Increase in the scale of operations with geographical diversification while maintaining good asset quality, profitability and capital adequacy on a sustained basis

Negative factors:

- Decline in asset quality parameters and profitability.
- Weakening of capital adequacy levels.

Detailed description of the key rating drivers

Key Rating Strengths

Benefits derived from being part of Repco group

RMFL derives significant benefits in the form of managerial, financial and operational support from Repco Bank and RHFL. 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 OD 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.

Experience of the management team

The board of RMFL comprises two independent directors and four directors with extensive experience in banking and microfinance operations. The board has nominees from Repco Bank and 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 present team, 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 takes care of the day-to-day operations.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Increase in scale of operations during FY19 and H1FY20

RMFL has witnessed continuous growth in the scale of operations over the past three years thus increasing its outreach. The loan portfolio had grown at around 29% from Rs.701 crore as on March 31, 2018 to Rs.907 crore as on March 31, 2019. The disbursements increased from Rs.720 crore in FY18 to Rs.927 crore in FY19 thus registering growth of around 29% supported by increase in the number of borrowers from 3,49,438 as on March 31, 2018 to 3,81,107 as on March 31, 2019. The company expanded by opening 10 new branches during FY19 thus increasing the total branches from 80 in 32 districts as on March 31, 2018 to 90 branches in 34 districts in December 31, 2019. As on December 31, 2019, the loan portfolio of the company stood at Rs. 1,042 crore with 3,91,382 active borrowers. The company disbursed Rs.747 crore during 9MFY20.

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 during FY19 of Rs.20 crore to the extent of maintaining shareholding of 68%:32% respectively which also supported the operational growth during the current financial year. As on March 31, 2019, CAR stood at 19.18% (Tier I: 17.77%) as against 16.33% (Tier I: 14.93%) as on March 31, 2018. As on December 31, 2019, CAR stood at 20.12% (Tier I: 17.94%). Net worth has increased from Rs.105.83 crore as on March 31, 2018 to Rs.163.62 crore as on March 31, 2019 and further to 192.97 crore as on December 31, 2019. Overall gearing was at 4.55x (PY: 5.53x) as on March 31, 2019 and 4.34x as on December 31, 2019. 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 9.02% in FY19 which is much lower compared to its peers. The company's NIM was around 10.67% during FY19 which improved from 10.20% during FY18 majorly due to infusion of equity during FY19. The company's operating expenses remained low when compared to its peers since the collections are done at the branch with borrowers themselves depositing the funds, thus the low collection costs. The operating expenses as a percentage of average total assets further reduced to 3.25% in FY19 (PY: 3.45%). Credit Costs as a percentage of average total assets remained at 0.60% in FY19 (PY: 0.67%) and 1.37% in 9MFY20. The company's ROTA was 5.58% in FY19. During 9MFY20, NIM improved to 11.04% and operating expenses as a percentage of average total assets reduced to 2.68%. However, with increase in Credit cost as a percentage of average total assets to 1.37% during 9MFY20, ROTA moderated to 5.10%.

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, each group member details are sent to the Head Office. 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 MIS built by in-house 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.

Key Rating Weaknesses

Geographically concentrated loan portfolio

The company's operations are confined only to Tamil Nadu and Puducherry. The company opened branches in Puducherry only during FY19. Although strong presence in a particular region helps the company to understand the dynamics of the particular region and recover from demonetization impact, the single-state exposure would lead to socio-political risks and geographical concentration risk. As on December 31, 2019, RMFL operated in 34 districts in Tamil Nadu and Puducherry with 90 branches.

Moderate Resource Profile

RMFL's only source of funding is from bank borrowings which constituted 100% of the total borrowings as on March 31, 2019 and December 31, 2019. Furthermore, the company also has term loans of Rs.200 crore and OD Limits from Repco Bank for Rs.300 crore. Repco Bank also provides ad-hoc limits on request.

Moderation in asset quality during 9MFY20; 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 during current financial year. Gross NPA and Net NPA stood at 0.87% and NIL as on March 31, 2019 as against 1.01% and NIL respectively as on March 31, 2018. Management has indicated that majority of GNPA was on account of regions affected by Gaja cyclone and heavy rain. GNPA moderated to 1.82% as on December 31, 2019 majorly due to impact of Gaja cyclone and heavy rain in certain districts of Tamil Nadu. 30+ DPD increased from 1.13% as on March 31, 2018 to 1.76% as on March 31, 2019 and further to 2.95% of portfolio outstanding as on December 31, 2019. However, Net NPA continues to be nil with 100% provisions made on the NPA accounts.

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. RBI has revised the lending norms for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, on account of various events post demonetization, collection efficiency of the MFIs had deteriorated during FY17. This has impacted the asset quality of the MFIs leading to increase in credit costs during FY17 and FY18. However with improvement in the scenarios during FY18, the overall industry had grown by around 47% during FY19 in terms of AUM and collection efficiency of the overall industry improved with 30+dpd improved to 1.73% as on March 31, 2019 from 4.03% as on March 31, 2018 (source: MFIN).

With further improvement expected in the overall MFI industry over the medium term, 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 risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transaction.

Liquidity: Adequate

The company's ALM profile remains adequate on account of short-term nature of its loan assets, as most of the loans amortize on a monthly basis with a maximum tenure of up to 3 years. The funding profile is concentrated towards long-term funds and the trend is likely to be continued resulting in adequate liquidity profile. There are no cumulative mismatches in any of the time buckets in ALM profile as on September 30, 2019. Unencumbered cash and liquid assets as on September 30, 2019 was Rs.5.07 crore. The support from Repco Bank in terms of extending facilities to RMFL on need basis also provides comfort.

Analytical Approach- Standalone and 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

Rating Methodology -Non Banking Finance Companies (NBFCs)
Rating Methodology: Consolidation and 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 Government of India Enterprise. As on March 31, 2019, Repco Bank holds 68% stake and Repco Home Finance Limited (RHFL, rated CARE AA; Stable/ CARE A1+) 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 cycle at reasonable rates of interest.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	113.8	156.3
PAT	29.0	45.5
Interest coverage (times)	1.98	2.08
Total Assets	705.5	925.28
Net NPA (%)	0.0	0.0
ROTA (%)	4.84	5.58

Status of non-cooperation 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	April , 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	400.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (14-Feb-19)	1)CARE BBB+; Stable (06-Dec-17)	1)CARE BBB+; Stable (26-Dec-16)

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.*

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