Repco Microfinance Limited

February 14, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	400.00 (enhanced from 250.00)	**CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**	Reaffirmed
Total Facilities	**400.00 (Rupees 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 Microfinance Limited (RMFL) continues to factor in the benefits derived by RMFL from being part of Repco group, experience of the management, good asset quality, comfortable capitalization levels, comfortable liquidity profile and healthy profitability. The rating takes note of improvement in the scale of operations during FY18 (refers to the period April 01 to March 31) and H1FY19 (refers to the period April 01 to September 30).

The rating, however, is constrained by geographically concentrated loan portfolio with presence only in the state of Tamil Nadu, moderately diversified 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.

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 the group 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. Further, Repco Bank has extended OD limit of Rs.300 crore to RMFL. 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.

Experience of the management

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. Smt. R. S. Isabella is the Managing Director of the company. She has a total experience of 25 years in the banking industry and is also MD-Incharge of Repco Bank. The microfinance operations is headed by Mr. N. Balasubramaniam, who has about two decades of experience in banking & financial services industry 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.

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 (Equifax and High Mark) 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 and disbursed at the branch in the presence of Branch Manager and field officers. The portfolio is monitored on an on-going basis by post disbursement verification of assets created out of loan amount. The repayment happens on monthly basis in the branches by the group members. At the end of each day, the collected amount is deposited into the designated bank branch and updated in the system. This facilitates in generation of the reports the same day and assists in reconciliation process as well. At present, the company uses MIS built by in-house team 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.

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

Increase in scale of operations during FY18 and H1FY19

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 48% from Rs.472.82 crore as on March 31, 2017 to Rs.700.85 crore as on March 31, 2018. The disbursements increased from Rs.496.87 cr in FY17 to Rs.1,011.25 cr in FY18 thus registering growth of around 104% supported by increase in the number of borrowers from 229,941 as on March 31, 2017 to 349,438 as on March 31, 2018. The company expanded by opening 10 new branches during FY18 and H1FY19 thus increasing the total branches from 75 in 31 districts as on March 31, 2017 to 85 branches in 32 districts in September 30, 2018. As on September 30, 2018, the loan portfolio of the company is Rs. 771.16 crore with 375,300 active borrowers. The company disbursed around Rs.402.25 crore during H1FY19.

Good Asset Quality

RMFL have maintained healthy asset quality primarily on account of better collection efficiency. The collection efficiency has been consistently strong and maintained above 99% in the past three years. The company follows 90 DPD (days past due) for NPA recognition norms. Gross NPA and Net NPA stood at 1.01% and NIL as on March 31, 2018 as against 0.90% and NIL respectively as on March 31, 2017. 30+ DPD stood at 1.13% of portfolio outstanding as on March 31, 2018 as against 0.93% as on March 31, 2017. 30+ DPD was remained at 1.15% of portfolio outstanding as on September 30, 2018.

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 H1FY19 of Rs. 20 crore to the extent of maintaining shareholding of 68%:32% respectively which also supported the growth during current financial year. As on March 31, 2018, CAR stood at 16.33% (Tier I: 14.93%) as against 17.70% (Tier I: 17.70%) as on March 31, 2017. As on September 30, 2018, CAR stood at 19.41% (Tier I: 18.02%). Net worth has increased from Rs. 84.4 crore as on March 31, 2017 to Rs.105.8 crore as on March 31, 2018 and further to 145.3 crore as on September 30, 2018. Overall gearing was at 5.53x (PY: 4.73x) as on March 31, 2018 and 4.30x as on September 30, 2018.

Comfortable Liquidity position

Company's ALM profile remains comfortable on account of short term nature of its loan assets, as most of the loans amortize on a monthly/fortnightly basis with a maximum tenure of up to 2 years. The funding profile is concentrated towards long term funds and the trend is likely to be continued resulting in comfortable liquidity profile. As per ALM profile as on September 30, 2018, there are no cumulative mismatches in any of the time buckets.

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 9.24% in FY18 which is much lower compared to its peers. The company's NIM was around 10.20% during FY18 which improved from 9.88% during FY17. The company's operating expenses were 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 company's ROTA was 4.84% and RONW was around 30.51% in FY18.

Key Rating Weaknesses

Geographically concentrated loan portfolio

The company's operations are confined only to Tamil Nadu. 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 September 30, 2018, RMFL operated in 32 districts in Tamil Nadu with 85 branches as against 31 districts with 75 branches as on March 31, 2017.

Moderate Resource Profile

RMFL's major source of funding is from bank borrowings which constituted 100% of the total borrowings as on March 31, 2018 and September 30, 2018. Further, the company also has OD Limits from Repco Bank for Rs. 300 crore at an interest rate of 10.75%. The weighted average cost of borrowings during FY18 stood at 10.5%.

Industry Outlook and Prospects

On account of various events post demonetization, collection efficiency of the MFIs/newly converted SFBs has deteriorated in some of the regions. This has impacted the asset quality of the MFIs/SFBs leading to increase in credit costs for MFIs with significant presence in these regions. It is expected that the loss on account of this event is likely to be in the range of 5-10% of the total loan portfolio for the sector.

Given the current situation and any further deterioration in the situation from hereon, the profitability of the MFIs/SFBs are expected to take a severe hit in FY18 on account of higher provisioning costs. Overall FY18 is expected to be a challenging year for the sector with growth expected to moderate on the back of demonetization as the MFIs/SFBs will primarily concentrate on overhaul of entire operations to minimize future losses. The portfolio growth for the sector is

expected to be around 25 to 30% y-o-y in FY18 as compared to 50-60% y-o-y growth achieved in the past few years. However given the market potential, the sector is likely to continue its high growth post normalization of situation with MFIs continuing to attract funds and improving operational efficiencies to maintain profitability. 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, 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 50% during FY18 in terms of AUM and collection efficiency of the overall industry improved during FY18 with 30+dpd improved to 4.44% as on March 31, 2018 from 11.05% as on March 31, 2017 (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.

Analytical approach:
Standalone approach also factoring in the linkages with group/parent

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Non-Banking Financial Companies
Financial ratios – Financial sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
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 Ltd (Repco Bank, Repatriates Cooperative Finance & Development Bank Ltd.) a Govt. of India Enterprise. As on March 31, 2018, Repco Bank holds 68% stake and another group company, Repco Home Finance Limited (RHFL, rated **CARE AA; Stable/A1+**) holds 32% stake.

Repco Bank registered on 19.11.1969 as a Cooperative Society under the relevant provisions of Madras Cooperative Societies Act, 1961. The Bank is under the administrative control of FFR (Freedom Fighters and Rehabilitation) Division, Ministry of Home Affairs, Govt. of India. The stake of the GOI is about 49% as on March 31, 2018 and the Board of Directors are appointed by the Govt. of India. The remaining stake held by Repatriates to the extent of 44.49% and Government of Tamil Nadu, Kerala, Karnataka, Andhra and Telengana together held about 6.26% stake.

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)	FY17 (A)	FY18 (A)
Total operating income	77.2	113.8
PAT	17.0	29.0
Interest coverage (times)	1.83	1.98
Total Assets	493.4	705.5
Net NPA (%)	0.0	0.0
ROTA (%)	4.12	4.84

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

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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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	-	-	September 2021	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term	LT	400.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Dec-17)	1)CARE BBB+; Stable (26-Dec-16)	-

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