

June 30, 2023

Repco Micro Finance Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based TL	46.72	300.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long-term unallocated	253.28	0.00	-
Total	300.00	300.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action takes into consideration the improvement in asset quality and profitability indicators of Repco Micro Finance Limited's (RMFL). RMFL's 90+ days past due (dpd) improved to 4.9% as of March 2023 from a peak of 8.5% of the loan portfolio as of March 2022, largely on account of the loan write-offs and incremental slippages remaining under control during FY2023. RMFL held provisions of about 5.9% of the loan book as of March 2023 and net stage 3 stood at 1.3%. RMFL's profitability (PAT/AMA¹) improved to 4.4% in FY2023 vis-à-vis 1.7% in FY2022, as interest margins expanded on the back of higher business yields while the incremental credit costs remained limited. The rating also takes into consideration the comfortable capitalisation profile, with RMFL's gearing at 2.2 times and CRAR of 30.7% as of March 2023. The rating continues to factor in the track record of support from the holding entities, Repco Bank (RB) and Repco Home Finance Limited (RHFL; rated [ICRA]AA-(Stable)/[ICRA]A1+), which have a stake of 68% and 32%, respectively, in the company. RMFL has been receiving equity support from the shareholders basis the requirement and has credit line of Rs. 500 crore from RB.

The rating is, however, constrained by the moderate scale (~Rs. 1,087 crore as of March 2023) and the geographically concentrated operations with ~100% of the loan book concentrated in Tamil Nadu and the Union Territory (UT) of Puducherry. RMFL's active borrowing member base has steadily declined since March 2020, on the back of loan write-offs and attrition of members due to the pandemic, while the company was cautious in adding new members during the pandemic. ICRA notes that, going forward, it would be crucial for the company to acquire new customers, which would support a sustainable member-based driven portfolio growth. The rating also takes cognisance of the risks associated with the unsecured nature of the loans, the marginal borrower profile and other socio-political and operational risks inherent in the microfinance business.

Key rating drivers and their description

Credit strengths

Track record of support from shareholders – RB and RHFL held 68% and 32%, respectively, of the shares in RMFL as of March 2023. The shareholders have demonstrated their support in the past by extending financial, managerial, and operational support to the company. RMFL has received equity support from the shareholders in the past as required; Rs. 50 crore was infused cumulatively by them in the last five years. It has a sanctioned funding line of Rs. 500 crore from RB, of which 37% was outstanding as of March 2023. RMFL has steadily been reducing its dependence on RB for its funding requirements. RMFL benefits from the managerial and operational support from the Repco Group for its existing business and its future growth and geographical expansion. Ms. R.S. Isabella is the Managing Director for both RMFL and RB. She is also the Chairperson for the board of directors; apart from her the board has three representatives from the Repco Group and five independent directors.

¹ Profit after tax / Average managed assets

Comfortable capitalisation profile – RMFL’s capitalisation profile is comfortable with a capital adequacy ratio of 30.7% and net worth of Rs. 327.1 crore as of March 2023. The gearing improved to 2.2 times as of March 2023 from 2.5 times as of March 2022, supported by internal accruals. RMFL has been receiving equity support from the shareholders (Rs. 50 crore infused in the past five years), which has also supported its capitalisation profile. The capitalisation profile is expected to remain comfortable in the near to medium term, with its gearing expected to remain within the 4 times threshold, considering the growth plans over the medium term.

Improving asset quality indicators – RMFL’s 90+ dpd, which was at 8.5% of loan portfolio (Rs. 86.8 crore as of March 2022), remained steady (between Rs. 80-85 crore) during the first three quarters of FY2023, supported by limited incremental slippages during the period. The company undertook write-offs of around Rs. 32 crore (~3% of portfolio as of March 2022) during the year, which improved the 90+ dpd to 4.9% as of March 2023. With the company maintaining its stage-3 provision coverage at around 77%, its net stage-3 remained low at 1.3% as of March 2023. Further, the total provisions stood comfortable at 5.9% of the loan book as of March 2023. Going forward, RMFL's ability to keep its incremental slippages under control as its scales up its operations, would be crucial.

Healthy profitability indicators – RMFL’s net profitability improved to 4.4% in FY2023 vis-a-vis 1.7% in FY2022 (3.9% in FY2021), supported by better net interest margins (12.0% in FY2023 vis-à-vis 10.8% in FY2022) and lower credit costs (1.5% in FY2023 vis-à-vis 5.1% in FY2022). The interest margins were supported by an increase in the yields (lending rate on loans was increased to around 22-23% during FY2023 from 18-20% previously), while the credit costs declined on the back of controlled asset quality indicators during the year. However, the operating costs were elevated and stood at 4.6% in FY2023 (3.5% in FY2021), on account of higher employee and branch expansion costs. Going forward, RMFL’s ability to keep the credit costs under control and maintain good operating efficiency would be key.

Credit challenges

Moderate scale and geographically concentrated operations – RMFL obtained a non-banking financial company-microfinance institution (NBFC-MFI) licence in 2013 and has a track record of over ten years. Its portfolio grew by ~6% on a YoY basis and stood at ~Rs. 1,087 crore as of March 2023, while the disbursements grew by ~6% on a YoY basis due to the slowdown in Q1 FY2023, which was affected due to adoption of new MFI guidelines. As of March 2023, the company had ~794 employees, including ~318 field-level personnel. RMFL’s active borrowing member base has steadily declined since March 2020 and reached a low of 2.85 lakh members as of March 2023, on the back of loan write-offs and attrition of members, while the company was cautious in adding new members during the pandemic. As RMFL targets a portfolio of Rs. 1,300 crore by March 2024, it would be crucial for the company to acquire new customers, which would support a sustainable member-base driven portfolio growth.

RMFL’s operations are confined to Tamil Nadu, Puducherry and Kerala with 104 branches across 40 districts as of March 2023. The top-five and 10 districts comprised 38.0% and 57.9%, respectively, of the total portfolio as of March 2023. The company’s operations are expected to remain concentrated in Tamil Nadu, though it recently started a branch in Kerala and is exploring to enter neighbouring states. The ability to scale up its operations and diversify its portfolio geographically would remain a monitorable.

Ability to manage risks associated with microfinance sector – The microfinance industry is prone to socio-political and operational risks, which could negatively impact the financial performance of entities in this sector. RMFL’s ability to manage the risks arising out of the marginal profile of its borrowers, who have limited ability to absorb any income shocks, the unsecured nature of lending, and the political, communal and other risks in its portfolio and across new geographies that it expands into, would be crucial. Additionally, in line with the industry, the company’s ability to onboard borrowers with a good credit history, along with the recruitment and retention of employees, and the risks pertaining to borrower overleveraging, given their access to other funding sources, would be the key monitorable issues.

Liquidity position: Adequate

RMFL had free cash of Rs. 5.1 crore and sanctioned but unutilised lines from commercial banks & financial institutions (FI) of Rs. 100.0 crore as of March 2023. Further, the company had utilised credit lines of Rs. 60.5 crore from its promoter, RB. These, along with the collections from advances, are expected to be adequate towards its debt repayment obligations of Rs. 198.2 crore during April-September 2023.

As of March 2023, RB accounted for 37% (64% as of December 2021) of the overall borrowings with term loans from banks and FIs comprising the rest. RMFL had funding lines from 12 other banks/FIs as of March 2023.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive, if RMFL demonstrates a sustained portfolio growth and diversifies its geographical presence, while maintaining the good asset quality.

Negative factors – ICRA could downgrade the rating or revise the outlook to Negative, in case a deterioration in the asset quality impacts the profitability, or, in case of an increase in the gearing beyond 6 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of RMFL

About the company

Repro Micro Finance Limited (RMFL) was incorporated in 2007 as Repco MSME Finance & Development Limited. It obtained NBFC registration from the Reserve Bank of India (RBI) in 2010 and subsequently became an NBFC-MFI in December 2013. RB held 68% equity in the company as on March 31, 2023, while the balance was held by RHFL. RMFL extends loans to members of women self-help groups for income generation.

For FY2023, RMFL reported a net profit of Rs. 46.2 crore on a total asset base of Rs. 1,068.3 crore compared to a net profit of Rs. 16.7 crore on a total asset base of Rs. 1,019.5 crore in FY2022.

Key financial indicators (Ind-AS)

Repro Micro Finance Limited	FY2021	FY2022	FY2023
Total income (Rs. crore)	176.4	165.7	177.7
Profit after tax (Rs. crore)	40.5	16.7	46.2
Net worth (Rs. crore)	264.9	286.1	327.1
AUM (Rs. crore)	865.0	1,020.7	1,087.1
Total managed assets (Rs. crore)	972.6	1,019.5	1,068.3
Return on managed assets %	3.9%	1.1%	4.4%
Return on net worth %	17.0%	6.1%	15.1%
Gearing (reported; times)	2.6	2.5	2.2
Gross NPA %	4.5%	8.5%	4.9%
Net NPA%	Nil	Nil	1.3%
CRAR%	27.0%	27.3%	30.7%

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	FY2023	FY2022	FY2021	
				Jun-30-2023	Apr-29-2022	May-10-2021	-	
1	Long-term fund-based TL	Long-term	300.00	0.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Long-term unallocated	Long-term	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans- Unallocated	NA	NA	NA	300.00	[ICRA]BBB+ (Stable)

Source: RMFL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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