

September 22, 2023

Southern Railway Employees' Co-operative Credit Society Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Overdraft	105.0	25.0	[ICRA]BBB (Stable); reaffirmed
Long-term fund based – Term loan	50.0	130.0	[ICRA]BBB (Stable); reaffirmed
Total	155.0	155.0	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in Southern Railway Employees' Co-operative Credit Society Limited's (SRECCS) adequate capitalisation profile with a gearing of 3.1x (provisional) as of March 2023 (3.2x as of March 2022 and 3.0x as of March 2021) and stable profitability indicators with profit after tax (PAT)/average managed assets (AMA) of 3.0% in FY2023 (2.9% in FY2022 and 2.7% in FY2021). SRECCS has been in existence for over 100 years, and it currently extends loans to its members who are permanent employees of the Southern Railways division of the Indian Railways (Southern Railways). It had a loan portfolio of Rs. 899.0 crore (provisional) outstanding as of March 2023, up from Rs. 818.5 crore as of March 2022. However, ICRA notes the decline in the member base over the years, mainly on account of the large number of retirements and transfers in the Southern Railways, while fresh recruitments have been modest. Thus, the portfolio growth in recent years has been largely supported by the increasing ticket sizes of the loans, while the borrower base has declined steadily. Nevertheless, monthly loan instalments along with contributions towards thrift deposits from members are directly deducted by the Southern Railways from the members' salaries and remitted to the society. The credit risk on the exposures is, therefore, expected to remain low.

The society has secured funding lines from two banks, which has diversified its borrowing profile to some extent. However, deposits remain its key source of funding. SRECCS only accepts thrift deposits from its members, which are redeemable post-retirement or when the member exits the society, which also provides comfort from a liquidity perspective. The rating considers the limited regulatory supervision for cooperative societies; ICRA notes that prudential norms are expected to be prescribed for multi-state cooperative societies over the near-to-medium term; however, since this is still in preliminary stages, the impact of the same on SRECCS remains to be seen. Going forward, the society's ability to further improve its funding diversity, scale up its operations and keep the capitalisation profile under control would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Loans to railway employees with an established collection mechanism support the risk profile – The society's asset quality is supported by its established collection mechanism, which is characterised by the deduction of monthly instalments from the borrowers at the source of their income. The asset quality is expected to remain healthy as the borrowers are employees of the Southern Railways and the loan instalments, along with the monthly contributions of thrift deposits, etc., are directly deducted by the Southern Railways from the members' salaries and remitted to the society. Additionally, personal guarantees by two other members for the key loan product offered by the society (90.0% of the book as on March 31, 2023; provisional), availability of the borrowers' deposits and their investment in SRECCS' share capital provide additional comfort from an asset quality perspective.

Stable profitability indicators – SRECCS' profitability has remained stable and range-bound with PAT/AMA of 3.0% (provisional) in FY2023 (2.9% in FY2022, 2.7% in FY2021 and 2.5% in FY2020). The profitability has been supported by low credit costs and stable portfolio yields. In FY2023, the net interest margin declined slightly to 6.1% (provisional) from 6.6% in FY2022; however, the operating expense ratio (operating expenses/AMA) improved moderately to 3.5% in FY2023 (provisional) from 3.8% in FY2022 and FY2021. Given the expected increase in the share of bank borrowings (which would be at a higher interest rate vis-à-vis member deposits) with the growth in the portfolio, it would be crucial for SRECCS to keep its operating costs under control while expanding its portfolio.

Adequate capitalisation profile – SRECCS' gearing stood at 3.1x as on March 31, 2023 (provisional) vis-à-vis 3.2x as on March 31, 2022. It improved marginally in FY2023 on account of healthy internal capital generation and the relatively moderate asset growth. The society's net worth increased to Rs. 205.9 crore as on March 31, 2023 (provisional) from Rs. 187.2 crore as on March 31, 2022. Considering the borrowing members' contribution of 10% of the loans availed towards the equity capital and SRECCS' good internal capital generation, ICRA expects the capitalisation profile to remain adequate over the near to medium term.

Credit challenges

Augmentation of member base is key – SRECCS had a lower member base of 25,124 as on March 31, 2023 compared to 25,931 as on March 31, 2022 and 27,498 as on March 31, 2021. The decline can largely be attributed to sizeable retirements and transfers compared to lower commensurate onboarding of members during this period. Total disbursements stood at Rs. 796.2 crore in FY2023 (provisional) compared to Rs. 627.7 crore in FY2022 and Rs. 549.1 crore in FY2021. The portfolio grew by 9.8% in FY2023 and stood at Rs. 899.0 crore as of March 2023 (provisional) vis-à-vis the growth of 16.1% in FY2022. However, the portfolio growth was mainly supported by the increase in the exposure per member to Rs. 3.6 lakh in FY2023 and Rs. 3.2 lakh in FY2022 from Rs. 1.5 lakh in FY2018. The ability to add new members, going forward, would be key for maintaining a sustained portfolio growth.

Limited diversification of funding profile – SRECCS' funding profile comprised funding from banks (16.6%) and deposits from members (83.4%) as on March 31, 2023. The growth in deposits during FY2018-FY2023 was moderate (cumulative annual growth rate of 3.4%) due to the declining member base. As it is a society, SRECCS has access to limited funding avenues compared to corporates. ICRA notes that the society would have to diversify its funding further, going forward, besides augmenting its member base to provide stability to its deposit profile.

Limited regulatory oversight – SRECCS is a multi-state cooperative society. The regulatory framework for cooperative societies is quite limited compared to the requirements of Reserve Bank of India (RBI)-regulated non-banking financial companies (NBFCs). Incrementally, ICRA notes that prudential norms for multi-state cooperative societies are expected to be prescribed in the near-to-medium term; however, since this is still in the preliminary stage, its impact on SRECCS remains to be seen.

Liquidity position: Adequate

SRECCS has repayment obligations (bank borrowings including overdraft (OD) facility availed and settlement of thrift deposits) of Rs. 68.1 crore and operating expenses of Rs. 12.0 crore during April 2023 to September 2023. As of March 31, 2023, cash and liquid investments stood at Rs. 9.6 crore. Further, as per historical trends, the average monthly collection is Rs. 35.0 crore. The on-book liquidity and collections are sufficient to cover the obligations between April 2023 and September 2023. However, SRECCS' ability to improve its financial flexibility and manage liquidity would be monitorable going forward.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if SRECCS demonstrates a steady portfolio growth over the medium term while maintaining its earnings and improving its funding diversity and liquidity profile further.

Negative factors – ICRA could downgrade the rating if the gearing increases beyond 6.0x or in case of a weakening in the earnings or liquidity profile on a sustained basis or if SRECCS undertakes any sizeable non-core investment.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements

About the company

Southern Railway Employees' Co-operative Credit Society Limited is currently registered as a multi-state cooperative society and is governed by the Multi-State Co-operative Societies Act, 2002. As on March 31, 2023, it operated through seven branches across Tamil Nadu, Kerala, Karnataka and Puducherry. SRECCS collects subscriptions from its society members in the form of compulsory monthly thrift deposits (CMTDs) and offers loans under various schemes to its members who are the employees and officers working under the southern division of the Indian Railways (Southern Railways). As on March 31, 2023, the society had a deposit base and advances of Rs. 552.0 crore and Rs. 889.0 crore (provisional), respectively. It reported a net profit of Rs. 29.7 crore on a total asset base of Rs. 1,023.7 crore as on March 31, 2023 compared to Rs. 25.9 crore and Rs. 954.1 crore, respectively, as on March 31, 2022.

Key financial indicators (audited)

Southern Railway Employees' Co-operative Credit Society Limited	FY2021	FY2022	FY2023
	Audited	Audited	Provisional
Total income	86.6	99.1	107.5
Profit after tax	21.9	25.9	29.7
Net worth	164.2	187.2	205.9
Loan book	705.2	818.5	899.0
Total assets	819.8	954.1	1,023.7
Return on assets	2.7%	2.9%	3.0%
Return on net worth	14.0%	14.7%	15.1%
Gross gearing (reported; times)	3.0	3.2	3.1

Source: SRECCS, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA:

Non-cooperation by Issuer

The entity did not provide the No Default Statements (NDS) for the last three months. Therefore, the issuer is classified as 'non cooperative' in line with Clause 11.3 of SEBI CRA Operational Circular dated January 06, 2023.

CRISIL Ratings has been consistently following up with Southern Railway Employees Cooperative Credit Society Limited (SRECCS) for obtaining NDS through letters/emails dated February 28, 2023, March 31, 2023, and April 28, 2023 among others, apart from telephonic communication to seek the same. After non-receipt of NDS for 2 consecutive months, CRISIL Ratings sent a letter dated April 24, 2023, reminding the issuer to share the NDS. However, the issuer has remained non cooperative. CRISIL Ratings has also tried to reach out to the lenders of SRECCS to confirm timely debt servicing during these months but awaits any feedback.

'The investors, lenders and all other market participants should exercise due caution with reference to the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING' as the rating is arrived at without any management interaction and is based on best available or limited or dated information on the company. Such non-co-operation by a rated entity may be a result of deterioration in its credit risk profile. These ratings with 'ISSUER NOT COOPERATING' suffix lack a forward-looking component.'

Detailed Rationale

Despite repeated attempts to engage with the management, CRISIL Ratings failed to receive NDSs from SRECCS, which restricts CRISIL Ratings' ability to take a forward-looking view on the entity's credit quality. Further, non-sharing of NDS by issuers may reflect operational issues faced by issuers in some cases. On the other hand, it may be a beginning of a general non-cooperation and may extend to non-submission of other information.

CRISIL Ratings believes that rating action on SRECCS is consistent with 'Assessing Information Adequacy Risk'. Based on the last available information, the rating on bank facilities of SRECCS migrated to '**CRISIL BBB+/Stable ISSUER NOT COOPERATING**'.

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
				Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
						Jun 08, 2022	Apr 29, 2022		
1	Long-term fund based – Term loan	Long term	130.0	130.0	[ICRA]BBB (Stable) Sep 22, 2023	[ICRA]BBB (Stable) Jun 08, 2022	[ICRA]BBB (Stable) Apr 29, 2022	- -	[ICRA]BBB- (Stable) Feb 25, 2021
2	Long-term fund based – Overdraft	Long term	25.0	0.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
Long-term fund based – Overdraft	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund based – Term loan	FY2023 to FY2024	NA	FY2026 to FY2027	96.0	ICRA]BBB (Stable)
NA	Long-term fund based – Term loan (proposed)	NA	NA	NA	34.0	ICRA]BBB (Stable)
NA	Long-term fund based – Overdraft	NA	NA	NA	25.0	ICRA]BBB (Stable)

Source: SRECCS

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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