March 01, 2024

South Central 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 – Term loan	195.30	177.03	[ICRA]BBB+ (Stable); reaffirmed
Long-term fund based – Cash credit	145.00	145.00	[ICRA]BBB+ (Stable); reaffirmed
Long term – Unallocated	109.70	127.97	[ICRA]BBB+ (Stable); reaffirmed
Total	**450.00**	**450.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in South Central Railway Employees' Co-operative Credit Society Limited's (SCRECCSL) vintage of over 90 years and its good asset quality, supported by its target borrower segment, which consists of railway employees under the South-Central Railway jurisdiction. Monthly loan instalments, along with contributions towards thrift deposits from members, are directly deducted by Southern Railway from the members' salaries and remitted to the society. The credit loss on the exposures is, therefore, expected to remain low. The society's 90+ days past due (dpd) stood at 0.02% as of September 2023. The rating continues to consider SCRECCSL's access to low-cost deposits from its members. With a portfolio of Rs. 1,322.3 crore as of September 2023 (Rs. 1,258.4 crore as of March 2023) spread over four states, the society's scale of operations remains moderate.

The rating takes into consideration the moderation in the capitalisation profile over the last few years, with the gearing increasing to 7.0x as of March 2023 from 6.5x as of March 2021. The rating also factors in SCRECCSL's limited financial flexibility and lower regulatory oversight compared to non-banking financial companies (NBFCs), which are under the Reserve Bank of India's (RBI) purview. ICRA takes note of the prudential norms for multi-state co-operative societies, which were notified recently. This would bring in incremental regulations for various aspects such as capital structure, deposit raising, liquidity, etc, which is a positive for the long term. Going forward, the society's ability to improve its capitalisation metrics and profitability indicators, while scaling up its portfolio, would be a critical rating sensitivity.

Key rating drivers and their description

Credit strengths

Established track record of operations – SCRECCSL has been operational for over 90 years, supported by the expansion of its member base and the increase in its loan ticket size. It had 46,291 and 46,343 members, respectively, as of March 2023 and September 2023 compared to 45,922 members as of March 2022. Railway employees under the South-Central Railway jurisdiction are eligible to become members of SCRECCSL, which extends loans and other welfare services to its members and collects compulsory monthly thrift deposits (CMTDs; interest bearing). This has supported its steady growth over the years. As of March 2023, the society had a deposit base and advances of Rs. 662.6 crore and Rs. 1,258.4 crore, respectively, compared to Rs. 614.5 crore and Rs. 1,219.7 crore, respectively, as of March 2022. Total advances stood at Rs. 1,322.3 crore as of September 2023.

Good asset quality – The society has been able to maintain good asset quality supported by its strong collection mechanism, which is characterised by the deduction of monthly instalments at the source of income. As the borrowers of the co-operative society are employees of the South-Central division of Indian Railways, it has entered into a memorandum of understanding with Indian Railways for the recovery of monthly loan instalments from the salaries of the borrowing members. Additionally, personal guarantees by two members, the availability of the borrower's deposit with the society, and recourse on the borrower's retiral benefits in the event of delinquencies have cushioned its asset quality metrics. The society's 90+ dpd delinquencies stood at 0.02% as of September 2023. Going forward, SCRECCSL's ability to keep the asset quality under control would be crucial from a profitability perspective.

Credit challenges

Moderate capitalisation profile – SCRECCSL's gearing stood at 7.0x as of March 2023 (6.8x as of March 2022 and 6.5x as of March 2021). Its net worth (adjusted for dividends and other appropriations for the benefit of members) increased to Rs. 151.3 crore as of March 2023 from Rs. 142.5 crore as of March 2022. Given SCRECCSL's restricted internal capital generation and modest incremental equity contribution from members, the capital profile is expected to remain moderate over the near-to-medium term. Going forward, the society's ability to strengthen its member base would be an important factor as this is a key avenue for raising incremental equity capital.

Limited diversification of funding profile – As of March 2023, SCRECCSL's funding profile comprised funding from banks (36.9%) and thrift deposits from members (63.1%). The growth in deposits during FY2018-FY2023 was moderate {compound annual growth rate (CAGR) of 6.3%} as the member base remained range-bound during this period. The society has a sanctioned cash credit limit of Rs. 145 crore from State Bank of India (SBI; cash credit facility utilisation stood at Rs. 52.35 crore as of September 2023) and an outstanding term loan of Rs. 198.5 crore from SBI as of September 2023. ICRA notes that the society would have to onboard more lenders and diversify its funding profile going forward, given the stagnant member base because of retirements and transfers, etc, relatively lower new member additions and increasing ticket sizes.

Moderate internal accruals – SCRECCSL's net interest margin improved to 4.2% in FY2023 from 4.0% in FY2022 and the operating expense (opex) ratio improved moderately {opex/average managed assets (AMA)} to 1.4% in FY2023 from 1.7% in FY2022 and 2.2% in FY2018. As a result, its net profitability rose to 2.3% in FY2023 from 2.1% in FY2022 as well as FY2021. ICRA, however, notes that only 25% of the net profit goes towards internal accruals while the balance is distributed as dividend or appropriated for various reserves for the benefit of the members. As such, going forward, it would be crucial for the society to improve its margins and keep the operating costs under control to shore up its internal accruals further.

Limited regulatory oversight – SCRECCSL is a multi-state co-operative society. The regulatory framework for co-operative societies is quite limited compared to the requirements of RBI-regulated NBFCs. Moreover, ICRA notes that prudential norms for multi-state co-operative societies were notified recently. This would bring in incremental regulations for various aspects such as capital structure, deposit raising, liquidity, etc, which should support the governance of multi-state co-operative societies like SCRECCSL. ICRA also takes note of the qualifications by the statutory auditor in the annual report for FY2023, indicating scope for the society to improve its internal controls and processes.

Liquidity position: Adequate

The society's liquidity profile is supported by on-book liquidity and the availability of unutilised cash credit facility of Rs. 92.65 crore as on September 30, 2023 vis-à-vis debt repayments of Rs. 16.3 crore between November 2023 and January 2024. Further, it is expected to have monthly collections of about Rs. 65 crore. The on-book liquidity and collections are sufficient to cover the obligations in the near term. Additionally, the liquidity profile remains supported by the long-term deposit base, which has increased steadily over the years.

Rating sensitivities

Positive factors – Improvement in capitalisation and earnings profile, while scaling up the portfolio and maintaining strict control over asset quality indicators.

Negative factors – Sustained weakening in the society's capital or liquidity profile from the current levels

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

South Central Railway Employees' Co-operative Credit Society Limited (SCRECCSL) was established in 1923 under the State Cooperative Society Act, 1912. It is currently governed by the Multi-State Co-operative Societies Act, 2002 as it has operations in more than one state. As on September 30, 2023, SCRECCSL operated through 16 branches across Telangana, Andhra Pradesh, Maharashtra, and Karnataka. As on March 31, 2023, it had a deposit base and advances of Rs. 662.6 crore and Rs. 1,258.4 crore, respectively. SCRECCSL reported a net profit of Rs. 30.9 crore on a total asset base of Rs. 1,407.4 crore in FY2023 compared with a net profit of Rs. 26.0 crore in FY2022 on a total asset base of Rs. 1,292.8 crore.

Key financial indicators

SCRECCSL	FY2021	FY2022	FY2023
Total income	95.2	99.5	109.0
Profit after tax	23.3	26.0	30.9
Total managed assets	1,183.1	1,292.8	1,407.4
Return on managed assets	2.1%	2.1%	2.3%
Adjusted gearing (times)	6.5	6.8	7.0

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

Status of non-cooperation with previous CRA: Non-cooperation by Issuer

CRISIL has been consistently following up with South Central Railway Employees' Co-op Credit Society Limited to obtain information through letters and emails dated January 31, 2023 and March 31, 2023 among others, apart from telephonic communication. However, the issuer has remained non-cooperative. 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.

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)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2021	Date & rating in FY2020
					Mar 01, 2024	Jan 24, 2023	Oct 22, 2020	Jul 22, 2019 Jul 01, 2019
1	Long-term fund based – Term loan	Long term	177.03	177.03	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Long-term fund based – Cash credit	Long term	145.00	145.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Long term – Unallocated	Long term	127.97	127.97	[ICRA]BBB+ (Stable)	[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 – Cash credit	Simple
Long term – Unallocated	Not Applicable

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	**Term loan**	2021	NA	2027	177.03	[ICRA]BBB+ (Stable)
NA	**Cash credit**	2022	NA	NA	145.00	[ICRA]BBB+ (Stable)
NA	**Unallocated**	NA	NA	NA	127.97	[ICRA]BBB+ (Stable)

Source: SCRECCSL

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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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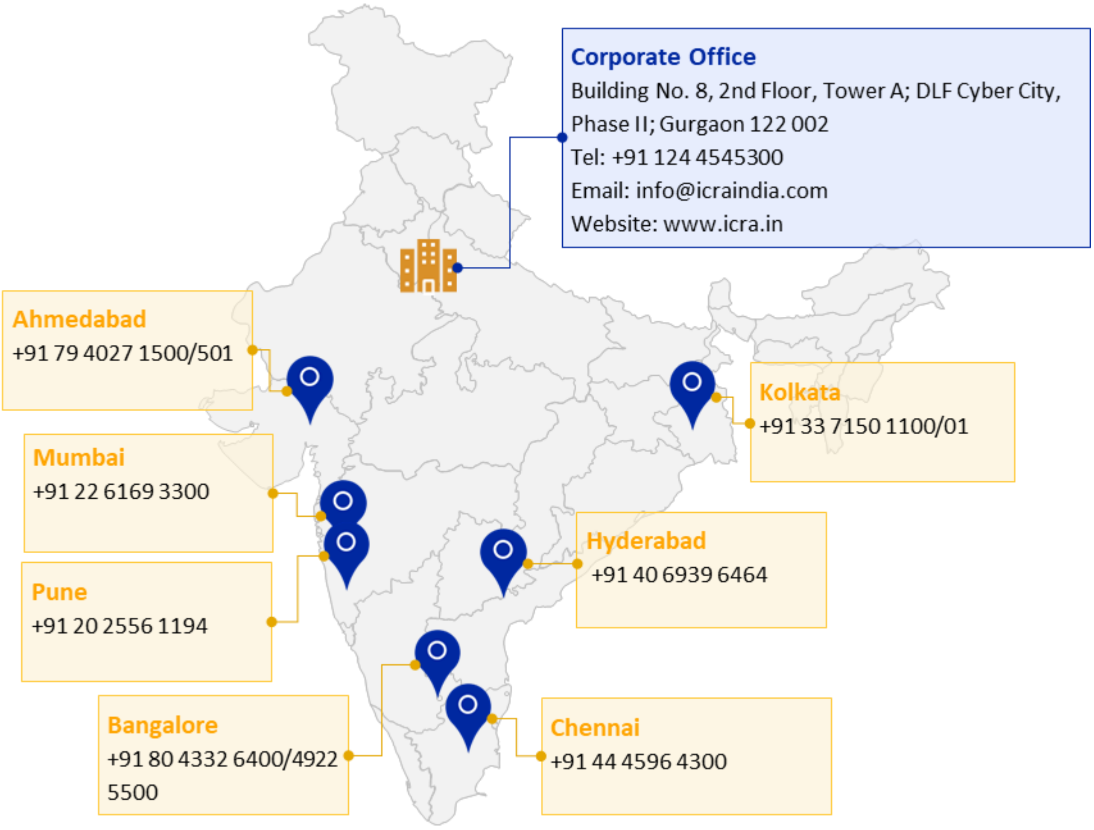

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