May 08, 2024

Repco Micro Finance Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based TL	300.00	400.00	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced portion
Total	300.00	400.00	

**Instrument details are provided in Annexure I*

Rationale

The rating takes into consideration Repco Micro Finance Limited's (RMFL) extensive track record, its comfortable capitalisation and healthy profitability. RMFL's capitalisation remains comfortable with a gearing of 2.3 times and a capital-to-risk weighted assets ratio (CRAR) of 27.8% as of December 2023, while its profitability (PAT/AMA[1]) improved to 5.5% in 9M FY2024 from 4.1% in FY2023 (1.6% in FY2022). This was driven by the expanding interest margins on the back of higher business yields while incremental credit costs remained minimal.

The rating also considers the company's improving asset quality. RMFL's 90+ days past due (dpd) improved to 2.9% of the loan portfolio as of December 2023 from 4.9% as of March 2023, largely on account of the loan write-offs. Moreover, incremental slippages remained under control in 9M FY2024. RMFL held provisions of 4.1% of the loan book as of December 2023 and the net stage 3 was nil. The rating continues to factor in the track record of support from the promoters – Repco Bank (RB) and Repco Home Finance Limited (RHFL; rated [ICRA]AA- (Stable)/[ICRA]A1+). RMFL has received equity support from the shareholders when required and has a credit line of Rs. 500 crore from RB.

The rating is constrained by the moderate scale (~Rs. 1,251 crore as of December 2023) and the geographically concentrated operations with Tamil Nadu and the Union Territory (UT) of Puducherry accounting for ~100% of the loan book, though it opened branches in Kerala and Karnataka recently. RMFL's active borrowing member base has declined steadily since March 2020 because of loan write-offs and the ineligibility of some members for microfinance loans due to the regulatory guidelines. ICRA notes that it would be crucial for the company to diversify its operations geographically and acquire new customers, going forward, which would support a sustainable member-base 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

Extensive track record and support from shareholders – RMFL was incorporated as a non-banking financial company (NBFC) in 2010 and obtained a microfinance licence in 2013. Before incorporation as an NBFC[2], the Repco Group operated in the field of sourcing microloans from 2005 until these operations were transferred to RMFL in 2016. RB and RHFL held a 68% and 32% stake, respectively, in RMFL as of December 2023.

The promoters have demonstrated support in the past by extending financial, managerial, and operational aid to the company. RMFL has received equity support from the shareholders as required with Rs. 50 crore infused in the last five years. It has a

[1] *Profit after tax/Average managed assets*

[2] *As a not-for-profit entity, namely Repco Foundation for Micro Credit*

sanctioned funding line of Rs. 500 crore from RB, of which 45% was outstanding as of December 2023. Nevertheless, ICRA notes that RMFL has been steadily reducing its dependence on RB for its funding requirements. The company benefits from the managerial and operational support from the Repco Group for its existing business, future growth and geographical expansion. The board has four representatives from the Repco Group and five independent directors; also, some of the key management personnel are on deputation from RB.

Comfortable capitalisation profile – RMFL's capitalisation profile remains comfortable with a capital adequacy ratio of 27.8% as of December 2023. However, it was impacted, to a certain extent, by the increase in risk weights (for its non-qualifying microfinance institution (MFI) loans), post the Reserve Bank of India's directions on consumer credit. The net worth improved to Rs. 367.3 crore as of December 2023 and the gearing stood at 2.3 times, supported by improving internal accruals. RMFL has been receiving equity support from the shareholders (Rs. 50 crore infused in the past five years), which has also boosted its capitalisation profile. The capitalisation profile is expected to remain comfortable in the near-to-medium term, with the gearing expected to remain below 4 times, considering the growth plans over the medium term.

Improving asset quality indicators – RMFL's 90+ dpd improved to 2.9% of the loan portfolio (Rs. 36.5 crore) as of December 2023, supported by minimal slippages from the book sourced after the Covid-19 pandemic and the write-off of loans affected during the pandemic. The company wrote off around Rs. 27 crore (~3% of portfolio as of March 2023) in 9M FY2024. Further, the total provision stood comfortable at 4.1% of the loan book while RMFL maintained its stage 3 provision coverage at 100% as of December 2023.

Healthy profitability indicators – RMFL's net profitability improved to 5.5% in 9M FY2024 from 4.1% in FY2023 (1.6% in FY2022), supported by better net interest margins (13.2% in 9M FY2024 vis-à-vis 11.2% in FY2023) and lower credit costs (1.2% in 9M FY2024 vis-à-vis 1.4% in FY2023). The interest margins were supported by increase in the lending rates in FY2023 following the hike in systemic interest rates, while the credit costs declined on the back of controlled asset quality indicators during the year. However, operating costs were elevated and stood at 4.5% in 9M FY2024 (4.3% in FY2023) on account of higher employee and branch expansion costs.

Credit challenges

Moderate scale and geographically concentrated operations – RMFL obtained an NBFC-MFI licence in 2013 and has a track record of over 11 years. Its portfolio grew by ~37% on a YoY basis to ~Rs. 1,251 crore as of December 2023, while disbursements grew by ~79% YoY in 9M FY2024, albeit on a lower base. As of December 2023, the company had ~934 employees, including field-level personnel. RMFL's active borrowing member base has declined steadily since March 2020. It reached a low of 2.7 lakh members as of December 2023 because of loan write-offs and member attrition due to the revised MFI guidelines, while the company continued to onboard new customers during this period. As RMFL targets a portfolio growth of 15-20% in FY2025, it would be crucial to acquire new customers, which would support a sustainable member-base-driven portfolio growth.

As of December 2023, RMFL's operations were spread across Tamil Nadu, Puducherry and Kerala with 111 branches in 40 districts. Tamil Nadu accounted for 99.1% of the portfolio as of December 2023. The company's operations are expected to remain concentrated in Tamil Nadu, as its diversification in other states, including Kerala and Karnataka, is expected to be in a phased manner.

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 the 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 income shocks, the unsecured nature of lending, and the political, communal and other risks in its portfolio and across new geographies, 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 key monitorables.

Liquidity position: Adequate

As of March 2024, RMFL had on-balance sheet liquidity of Rs. 5.3 crore and sanctioned but unutilised lines of Rs. 50.0 crore from commercial banks and financial institutions (FIs). Further, the company had unutilised credit lines of Rs. 393.5 crore from RB. These, along with the collections from advances, are expected to be adequate for its debt repayment obligations of Rs. 286.6 crore during April-September 2024.

As of December 2023, RB accounted for 26% (37% as of March 2023) of the overall borrowings with term loans from banks and FIs comprising the rest. RMFL had funding lines from 15 other banks/FIs as of December 2023.

Rating sensitivities

Positive factors – The rating could be impacted positively if RMFL demonstrates a sustained portfolio growth and diversifies its geographical presence while maintaining good asset quality.

Negative factors – The rating could be impacted negatively if a deterioration in the asset quality impacts the profitability or the gearing crosses 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

Repco 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. It is promoted by RB, which holds a 68% stake in the company, while the balance is held by RHFL. RMFL extends loans to members of women self-help groups for income generation.

RMFL reported a net profit of Rs. 50.1 crore in 9M FY2024 on a total asset base of Rs. 1,294.6 crore compared to a net profit of Rs. 46.2 crore on a total asset base of Rs. 1,132.9 crore in FY2023.

Key financial indicators (Ind-AS)

Repco Micro Finance Limited	FY2022	FY2023	9M FY2024 (P)
Total income	165.7	177.7	177.8
Profit after tax	16.7	46.2	50.1
Total managed assets	1,100.7	1,132.9	1,294.6
Return on managed assets	1.6%	4.1%	5.5%
Gearing (reported; times)	2.5	2.2	2.3
Gross NPA	8.5%	4.9%	2.9%
CRAR	27.3%	30.7%	27.8%

Source: Company, ICRA Research; Amount in Rs. crore; P - Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May-08-2024	Jun-30-2023	Apr-29-2022	May-10-2021
1	**Long-term fund-based TL**	Long term	400.00	400.00	**[ICRA]BBB+ (Stable)**	**[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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	NA	NA	NA	400.00	[ICRA]BBB+ (Stable)

Source: RMFL

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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