June 28, 2024

The 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/Non-fund based bank facilities	0.00	1,500.00	[ICRA]A- (Stable); reaffirmed
Long term – Fund-based term loan	1,099.14	0.00	-
Long term – Unallocated	400.86	0.00	-
Total	**1,500.00**	**1,500.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in The Railway Employees Co-operative Credit Society Limited's (RECCS) sustained track record of extending unsecured personal credit to its members, who are employees of the Indian Railways (IR). However, its overall portfolio continued to decline for the second successive year, standing at Rs. 2,152.5 crore as of March 2024 vis-à-vis Rs. 2,250.1 crore as of March 2022 (cumulative annual decline of 2.2%). Previously, the portfolio had increased at a modest compound annual growth rate (CAGR) of 3.9% during FY2021-FY2022 and a healthy CAGR of 15.8% during FY2017-FY2020. ICRA notes that the subdued portfolio growth trend over the last few years was on account of a decline in the member base, mainly due to several retirements and transfers while fresh recruitment remained modest. RECCS expects the portfolio to increase at a modest CAGR of 3-5% over the medium term, given the continued decline in the member base, though increasing loan ticket sizes would provide some support.

RECCS continues to maintain healthy asset quality indicators, backed by its arrangement with its borrowers to deduct their monthly loan instalments and thrift deposit contributions by the IR directly from their salaries for remittance to the society. Consequently, it has been able to maintain stable operating efficiency while keeping its credit costs under control on a sustained basis, resulting in good profitability indicators with PAT/AMA[1] of 6.0% in FY2024 (6.0% in FY2023). The rating also considers the society's comfortable capitalisation with a gearing of 2.1 times as of March 2024 (2.6 times as of March 2023).

As a credit co-operative society, RECCS has limited funding avenues and moderate regulatory oversight compared to non-banking financial companies (NBFCs), which are under the purview of the Reserve Bank of India (RBI). The Ministry of Cooperation recently notified prudential norms for multi-state co-operative societies. These norms, enforced by the Central Registrar of Co-operative Societies from January 2024, include the maintenance of a cash reserve ratio (CRR) of 2% and a statutory liquidity ratio (SLR) of 8% for the next three years (12% subsequently), a capital-to-risk (weighted) assets ratio (CRAR) of 9% and a leverage cap of up to 10 times. Currently, the society is complying with all these prudential norms.

The Stable outlook factors in ICRA's expectation that RECCS would continue to maintain stable performance metrics over the medium term, including healthy asset quality and profitability.

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

Key rating drivers and their description

Credit strengths

Healthy asset quality – RECCS' asset quality is healthy with the 90+ days past due (dpd) at 1.8% as of March 2024 and March 2023 (1.5% as of March 2022). The asset quality is expected to remain healthy with low delinquencies, going forward, as the borrowers are employees of the IR and the loan instalments along with the monthly contributions of thrift deposits, etc, are directly deducted by the IR from the members' salaries and remitted to the society. The credit costs incurred in FY2024 (0.5%) and FY2023 (0.4%) were largely on account of the death of members or other employment-related issues like suspension and transfers.

Good profitability indicators – RECCS' profitability is healthy with PAT/AMA of 6.0% in FY2024 (6.0% in FY2023 and 5.7% in FY2022). The overall profitability is supported by low credit costs and stable yields. The net interest margin had declined slightly in FY2024 due to the higher cost of borrowings, while internal generation was healthy and portfolio growth was limited. RECCS' credit cost has remained under control at 0.4-0.7% for the last five years. Going forward, it would be crucial to keep the credit and operating costs under control as it expands the portfolio. RECCS' net profitability is, however, expected to remain at 5.0-6.0% of the AMA in the medium term.

Comfortable capitalisation profile – RECCS' gearing[2] was comfortable at 2.1 times as of March 2024 (2.6 times as of March 2023). The gearing improved because of healthy internal generation and moderation in portfolio growth. RECCS has targeted portfolio growth at a modest CAGR of 3-5% in the medium term due to the declining member base and the conservative approach towards extending credit. Considering the borrowing member contribution of 10% of the loans availed towards equity capital and RECCS' good internal generation, ICRA expects the capital profile to remain comfortable over the near to medium term. The overall strength of the member base remains a key monitorable, given its overall contribution to the share capital.

Credit challenges

Portfolio growth impacted by declining member base – RECCS had a member base of 56,885 as of March 2024 vis-à-vis 57,429 as of March 2023 (58,566 as of March 2022). The member base declined over the last five years on account of several retirements and transfers. Active loan accounts declined to 44,300 as of March 2024 from 50,354 as of March 2023 (56,400 as of March 2022), reflecting an increase in the ticket size. RECCS' disbursements have been lower than the pre-Covid-19 pandemic level, especially from the peak in FY2018. It declined by 5.8% in FY2024 (Rs. 465.4 crore) and 17.3% in FY2023 (Rs. 493.9 crore) after growing by 15.2% in FY2022 (Rs. 597.0 crore). The growth in FY2022 was on account of the lower base, given the 19.6% decline witnessed in FY2021 (Rs. 518.4 crore from Rs. 644.9 crore in FY2020) due to the pandemic.

The overall portfolio decreased by 2.2% in FY2024 and FY2023 to Rs. 2,152.5 crore and Rs. 2,200.2 crore, respectively, while it grew at a modest rate of 4.9% in FY2022 and 2.9% in FY2021 compared to the CAGR of 15.8% during FY2017-FY2020. The portfolio growth was mainly supported by the increase in the exposure per borrower. The ability to grow, while controlling the exposure per borrower and adding new members, would be crucial going forward.

Limited funding avenues – RECCS' funding profile comprised funding from banks (52% as of March 2024) and thrift deposits from members (48%). The growth in thrift deposits during FY2018-FY2024 was moderate (CAGR of 2.8%) due to the declining member base. As it is a society, RECCS has access to limited funding avenues compared to corporates. Therefore, liquidity management shall be crucial, going forward, as the loan tenors are up to 108 months while bank borrowings typically have a tenor of 48 months.

[2] *Net worth includes share capital and society's unmarked reserve funds*

Moderate regulatory oversight, though improvement witnessed with notification of prudential norms – As a credit co-operative society, RECCS has moderate regulatory oversight compared to NBFCs, which are under the purview of the RBI. However, the Ministry of Cooperation has notified prudential norms for multi-state co-operative societies. These norms are enforced by the Central Registrar of Co-operative Societies from January 22, 2024, including the requirement to maintain a CRR of 2% and an SLR of 8% for the next three years (12% subsequently), CRAR of 9% and leverage of up to 10 times. Currently, the society is complying with all the prudential norms.

Liquidity position: Adequate

RECCS' liquidity profile is adequate with positive cumulative mismatches across maturity buckets of less than 1 year. As on March 31, 2024, it had repayment obligations of Rs. 527 crore (bank borrowings including overdraft (OD), thrift deposits and share capital) against inflows of Rs. 728 crore (loan collections and investments) over the next 12 months. It had undrawn bank lines of Rs. 105 crore as on March 31, 2024 and would continue to maintain the same above Rs. 70 crore. RECCS' ability to improve its financial flexibility and manage liquidity would be a monitorable, going forward.

Rating sensitivities

Positive factors – Member-base driven portfolio growth over the medium term, while maintaining healthy earnings and keeping the gearing below 3.5 times on a sustained basis, would be a positive factor.

Negative factors – An increase in the leverage beyond 5.5 times or any sizeable non-core investment, which could adversely impact the liquidity or earnings, would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of RECCS

About the society

RECCS was established in 1907 and is governed by the Multi-State Co-operative Societies Act, 2002. Railway employees, who are employed in Southern, South Central, South Western, and Central Railways, and employees of Rail Wheel Factory, Yelahanka and Integral Coach Factory, Chennai can become members of the society for thrift savings and to avail loans.

As on March 31, 2024, it had 29 branches across 5 states with deposits of Rs. 690.5 crore (Rs. 689.3 crore as of on March 31, 2023) and advances of Rs. 2,177.0 crore (Rs. 2,250.1 crore as on March 31, 2023). The net surplus was Rs. 155.3 crore in FY2024 (Rs. 154.7 crore in FY2023) on total income of Rs. 342.6 crore (Rs. 345.6 crore in FY2023). RECCS does not come under the purview of the RBI because it is not registered as an NBFC and is governed by the Multi-State Co-operative Societies Act.

Key financial indicators (audited)

RECCS	FY2022	FY2023	FY2024
Total income	335.9	345.6	342.6
PAT	141.3	154.7	155.3
Total managed assets	2,587.4	2,599.0	2,585.7
Return on managed assets	5.7%	6.0%	6.0%
Reported gearing (times)	3.1	2.6	2.1
Gross stage 3	1.5%	1.8%	1.8%
CRAR	NA	NA	41.9%

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

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
					Jun 28, 2024	Apr 10, 2023	-	Feb 25, 2022
1	**Long-term fund-based/Non-fund based bank facilities**	Long term	1,500.0	623.51	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/Non-fund based bank facilities	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	Sanction Date	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	Mar-2020/ Mar -2023	NA	Aug- 2024/ May-2028	623.51	[ICRA]A- (Stable)
NA	**Unallocated**	NA	NA	NA	876.49	[ICRA]A- (Stable)

Source: Company

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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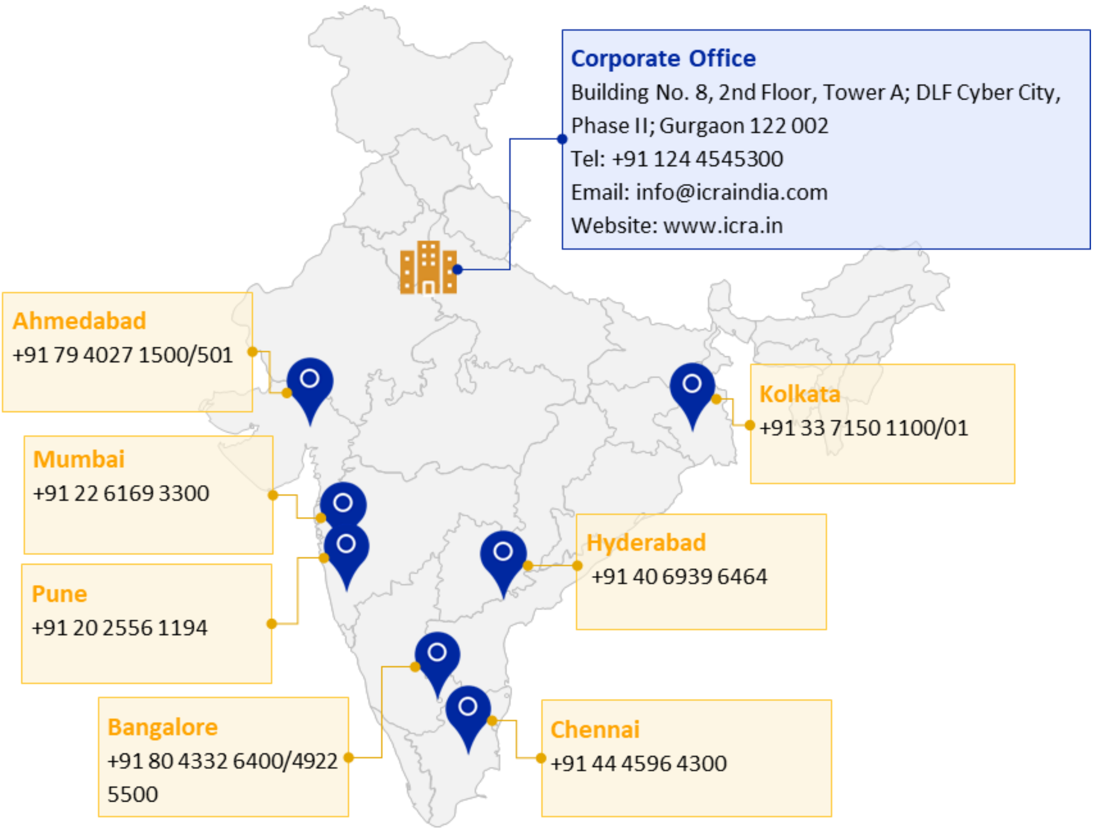

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