

October 30, 2024

South Central Railway Employees' Co-operative Credit Society Limited: Rating reaffirmed/assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	177.03	-	[ICRA]BBB+ (Stable); reaffirmed
Long-term fund based – Cash credit	145.00	-	[ICRA]BBB+ (Stable); reaffirmed
Long term – Unallocated	127.97	-	[ICRA]BBB+ (Stable); reaffirmed
Long term – Fund-based/Non-fund based bank facilities	-	950.00	[ICRA]BBB+ (Stable); reaffirmed /assigned for enhancement
Total	450.00	950.00	

*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 100 years and its good asset quality, supported by its target borrower segment, which consists of railway services 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 0.01% as of March 2024. The rating continues to consider SCRECCSL's access to low-cost deposits from its members. With a portfolio of Rs. 1,336.4 crore as on March 31, 2024 (Rs. 1,258.4 crore as on March 31, 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 of 6.5x as of March 2024 (7.0x as of March 2023) vis-à-vis 6.8x as of March 2022 (6.5x in March 2021, 6.1x in March 2020 and 5.3x in March 2019). In line with the planned increase in disbursements and loans, ICRA expects the society's gearing to rise from the current level to 7.8 times as of March 2025. However, a sustained increase in the gearing beyond these levels would be a key monitorable.

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.

ICRA notes that a new board was formed in February 2024 (via elections) by the society after the previous board's tenure ended in July 2023. The formation of the new board was delayed on account of disputes during elections, which were finally settled through a ruling issued by the High Court of Secunderabad. In March 2024, the new board ordered a special audit of the society to review the transactions made in FY2024, with particular emphasis on the interim period (i.e. from July 2023 to February 2024). The new board has also paused certain loans, such as gold loans, tour loans, and vehicle loans, to streamline the product offerings and limit the overall offerings. The outcome of the special audit (especially in case of any materially adverse findings) would be a key monitorable.

Key rating drivers and their description

Credit strengths

Established track record of operations – SCRECCSL has been in operations for more than a century. Its growth has been driven by the increase in the size of its loan ticket size. As on March 31, 2024, the society had 45,890 members (46,291 members as on March 31, 2023). Railways 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 on March 31, 2024, the society had a deposit base and advances of Rs. 714.4 crore and Rs. 1,336.4 crore, respectively, compared to Rs. 662.6 crore and Rs. 1,258.4 crore, respectively, as on March 31, 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 0.01% as on March 31, 2024. 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 6.5x as of March 31, 2024 (7.0x as on March 31, 2023 and 6.8x as of March 31, 2022). Its net worth (adjusted for dividends paid to borrowers and other post-profit appropriations towards creation of reserves) increased to Rs. 160.3 crore as on March 31, 2024 from Rs. 151.3 crore as of March 2023 and 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. In line with the planned increase in disbursements and loans, ICRA expects the society's gearing to rise from the current level to 7.8 times as of March 2025. However, a continued increase in the gearing beyond these levels would be a key monitorable. 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 on March 31, 2024, SCRECCSL's funding profile comprised funding from banks (30.4%) and thrift deposits from members (69.6%). The growth in deposits during FY2018-FY2024 was moderate as the member base remained range-bound during this period. The society had a sanctioned cash credit limit of Rs. 145 crore from State Bank of India (SBI) and an outstanding term loan of Rs. 166.3 crore as of March 2024. ICRA notes that the society would have to onboard more lenders as well as diversify its funding profile, 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 profitability remained stable at 2.2% in FY2024 vis-a-vis 2.3% in FY2023, supported by steady interest margins (4.4% in FY2024 vis-à-vis 4.2% in FY2023) and credit costs (1.0% in FY2024 vis-à-vis 0.5% in FY2023). Additionally, the operating expense (opex) ratio improved moderately to 1.1% in FY2024 from 1.4% in FY2023 and 1.7% in FY2022 (1.9% in FY2021), supported by the improving scale. 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. Thus, 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. ICRA notes that the 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, over the medium term, which would support the governance of multi-state co-operative societies like SCRECCSL.

ICRA notes that a new board was formed in February 2024 (via elections) by the society after the previous board’s tenure ended in July 2023. The formation of the new board was delayed on account of disputes during elections, which were finally settled through a ruling issued by the High Court of Secunderabad. During the interim period, the Vice President managed all the operations of the society. The new board has also paused certain loans, such as gold loans, tour loans, and vehicle loans, to streamline the product offerings and limit the overall offerings. The outcome of the special audit (especially in case of any materially adverse findings) would be a key monitorable. ICRA also takes note of the qualifications by the statutory auditor in the annual report for FY2024, 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 an unutilised bank line of Rs. 230.0 crore as on September 30, 2024 vis-à-vis debt repayments of Rs. 58.1 crore between October 2024 and March 2025. Further, it is expected to have monthly collections (inflow) of ~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 – An improvement in the capitalisation and earnings profile, while scaling up the portfolio and maintaining strict control over the asset quality indicators.

Negative factors – The 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 March 31, 2024, SCRECCSL operated through 16 branches across Telangana, Andhra Pradesh, Maharashtra, and Karnataka. As on March 31, 2024, it had a deposit base and advances of Rs. 714.4 crore and Rs. 1,336.4 crore, respectively. SCRECCSL reported a net profit of Rs. 31.6 crore on a total asset base of Rs. 1,418.8 crore in FY2024 compared with a net profit of Rs. 30.9 crore in FY2023 on a total asset base of Rs. 1,407.4 crore.

Key financial indicators

SCRECSL	FY2022	FY2023	FY2024
Total income	99.5	109.0	119.9
Profit after tax	26.0	30.9	31.6
Total managed assets	1,292.8	1,407.4	1,418.8
Return on managed assets	2.1%	2.3%	2.2%
Adjusted gearing (times)	6.8	7.0	6.5

Source: SCRECSL, 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 rated South Central Railway Employees' Co-operative Credit Society Limited (SCRECSL) at CRISIL B/Stable (ISSUER NOT COOPERATING) as per rationale published on June 29, 2024.

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Oct 30, 2024	Date	Rating	Date	Rating	Date	Rating
Long-term fund based – Term loan	Long term	-	-	01-MAR-2024	[ICRA]BBB+ (Stable)	24-JAN-2023	[ICRA]BBB+ (Stable)	21-Dec-2021	[ICRA]BBB+ (Stable)
Long-term fund based – Cash credit	Long term	-	-	01-MAR-2024	[ICRA]BBB+ (Stable)	24-JAN-2023	[ICRA]BBB+ (Stable)	21-Dec-2021	[ICRA]BBB+ (Stable)
Long term – Unallocated	Long term	-	-	01-MAR-2024	[ICRA]BBB+ (Stable)	24-JAN-2023	[ICRA]BBB+ (Stable)	21-Dec-2021	[ICRA]BBB+ (Stable)
Long-term fund-based/Non-fund based – Others	Long term	950.00	[ICRA]BBB+ (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	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Non-fund based – Others	NA	NA	NA	950.0	[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:

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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.

For more information, visit www.icra.in

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Branches



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