December 23, 2024

# Rashtriya Seva Samithi: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long term – Fund-based bank facilities | 69.21 | 69.21 | [ICRA]BBB- (Stable); reaffirmed |
| Total | 69.21 | 69.21 | |

**Instrument details are provided in Annexure I*

## Rationale

The rating factors in Rashtriya Seva Samithi's (RASS) longstanding track record of maintaining healthy profitability indicators in its microfinance operations, supported by its comfortable asset quality indicators. RASS' microfinance operations had reported net profitability[1] of 8.9% and 9.1% in FY2023 and FY2024, respectively, aided by steady interest margins and low operational and credit costs. The entity's 30+ days past due (dpd) stood at 0.0% as of September 2024 vis-à-vis 0.3% as of March 2023. ICRA expects RASS to sustain its asset quality and profitability metrics over the near-to-medium term. Further, it maintained a comfortable capitalisation profile with a gearing of 0.40 times as of March 2024 (0.45 times in the microfinance operations). ICRA expects the capitalisation profile to remain comfortable in the near-to-medium term, supported by steady internal accruals and modest growth expectations.

The rating, however, remains constrained by RASS' modest scale and the geographical concentration of operations, with its loan book at Rs. 226.3 crore as of September 2024 focused on three districts, i.e. Chittoor and Tirupati (Andhra Pradesh; AP) and Tiruvallur (Tamil Nadu; TN). As it is not planning any significant expansion, the entity's geographical diversification is expected to remain restricted over the medium term.

ICRA also notes that even though RASS' microfinance operations generate stable earnings surplus, its overall profitability and liquidity are susceptible to adverse movements in the receipt of grants and donations and expenses pertaining to the non-microfinance activities. Going forward, it would be crucial for the entity to improve its funding diversity, as the microfinance portfolio expands, and to maintain an adequate liquidity profile. Further, as RASS is a society registered under the Societies Registration Act, 1860, it is not subject to commensurate regulatory supervision. However, it is a member of Sa-Dhan and adheres to some of its codes of conduct, partially mitigating the risks associated with the microfinance operations. Additionally, RASS' ability to manage the socio-political and operational risks inherent in the microfinance sector, especially those related to the marginal profile and overleveraging of borrowers in the current scenario, is monitorable.

The Stable outlook factors in ICRA's expectation that RASS will maintain its comfortable asset quality and profitability indicators over the near-to-medium term.

## Key rating drivers and their description

### Credit strengths

**Comfortable asset quality indicators** – RASS has demonstrated comfortable asset quality over the years, except during the Covid-19 pandemic-affected years when its delinquencies were elevated. Currently, its delinquency levels remain under

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

control, supported by steady collections. As of September 2024, the 30+dpd was nil compared to 0.3% as of March 2023 (0.8% in March 2022). The collection efficiency (including overdue collections and excluding prepayments) stood at ~99% in FY2024.

RASS uses FIMO for its microfinance operations and captures both member and group-level data. The internal audit is conducted by a team of 12 members on an annual basis. While the loan appraisal system is adequate with the verification of the track record of internal savings and lending, the absence of a credit bureau check increases the risk of overleveraging of borrowers. However, this risk is partly mitigated as there are not many microfinance lenders competing currently in the geography in which RASS operates.

**Healthy profitability metrics** – The microfinance operations reported a healthy net surplus of Rs. 20.1 crore in FY2024 vis-à-vis Rs. 17.6 crore in FY2023 (Rs. 17.8 crore in FY2022), supported by good segmental operating efficiency (operating expenses/average managed assets (AMA) of 2.9% in both FY2024 and FY2023) and low credit costs (1.0% in FY2024 and 0.9% in FY2023). RASS' consolidated surplus was also healthy at Rs. 21.7 crore in FY2024 (Rs. 17.5 crore in FY2023), which includes the grants received and the expenditure incurred towards the various welfare activities and social programmes undertaken by the society. A significant shortfall in grants or donations could have an adverse impact on the profitability if higher expenses are incurred towards social/welfare activities.

**Comfortable capitalisation profile** – RASS' microfinance operations account for a predominant portion of the overall assets (~83% of the total assets as of March 2024) with the remaining assets pertaining to the society's social welfare programmes. The microfinance business has a comfortable capitalisation profile with a gearing of 0.45 times as of March 2024 (0.42 times as of March 2023). Its net worth was Rs. 164.3 crore in March 2024 (Rs. 142.4 crore in March 2023). While RASS expects to grow its microfinance portfolio by ~10% in FY2025, the current capitalisation profile, along with internal accruals, would be comfortable for achieving the envisaged growth.

**Established franchise and experience in microfinance operations** – RASS was established in 1981 in Tirupati and commenced microfinance operations in 1989. The society conducts various welfare programmes including health, education, accommodation and vocational activities for children, women, farmers, physically challenged people and senior citizens. This has helped it build a member base of ~65,000 with ~56,000 active borrowers as of March 2024 under the microfinance programme. RASS' presence is, however, concentrated in three districts, i.e. Chittoor and Tirupati (AP) and Tiruvallur (TN).

RASS' 10-member board comprises personnel, who are experienced in rural development and microfinance. The board is involved in the strategic decision-making process and meets bi-monthly and whenever required. The senior management team is headed by Mr. Venkataratnam, General Secretary, who has been associated with the society since its inception. However, there is scope for broad-basing the middle-and-lower-level management to support the envisaged portfolio growth.

## Credit challenges

**Modest scale and geographically concentrated operations** – RASS' operations are currently modest with a microfinance portfolio of Rs. 226.3 crore as of September 2024. The portfolio had grown by 27% in FY2024 vis-à-vis the modest decline of 1% in FY2023 and the society expects to achieve a loan portfolio growth of 10% in FY2025. RASS' microfinance portfolio is regionally concentrated in AP and TN, which accounted for 94% and 6%, respectively, as of March 2024. It has a presence via six branches across the districts of Chittoor and Tirupati (AP) and Tiruvallur (TN). The Tirupati branch accounted for about 60% of the portfolio as of March 2024. RASS' geographical concentration exposes it to regional risks and limits the scope for portfolio expansion.

**Limited funding diversity** – RASS' funding profile is limited to borrowings from a few banks. As of March 2024, it had borrowings from four lenders, totalling Rs. 72.7 crore, exclusively for the microfinance operations. The cost of average funds increased to 10.2% in FY2024 from 9.3% in FY2023, given the rise in systemic rates. It receives grants and donations for its other welfare activities. The society's ability to secure funds from diverse sources at competitive rates would be crucial for the growth of its microfinance operations in the medium term.

**Lack of regulatory supervision** – As it is a society, RASS does not come under the purview of the Reserve Bank of India and is not required to follow the prudential norms applicable for non-banking financial companies-microfinance institutions (NBFC-MFIs). However, it is member of Sa-Dhan, one of the self-regulatory bodies for microfinance institutions (MFIs) and it adheres to some of Sa-Dhan's codes of conduct. This partially mitigates the risks associated with the microfinance operations.

**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 entities in this sector. Currently, the microfinance sector is experiencing asset quality stress largely attributable to the overleveraging of microfinance borrowers from multiple microfinance lenders. Though RASS' asset quality is currently stable, its ability to manage this challenge in the current scenario remains to be seen. Further, its ability to manage the risks arising out of the marginal profile of its borrowers, who have limited ability to absorb any income shocks, the unsecured nature of lending, and the political, communal and other risks in its portfolio, would be crucial. Additionally, in line with the industry, the entity's ability to onboard borrowers with a good credit history, along with the recruitment and retention of employees, would be key monitorable issues.

## Liquidity position: Adequate

RASS' liquidity position is adequate with a cash and bank balance of Rs. 9.0 crore as on September 30, 2024 against total outflows of Rs. 6.6 crore (including operating expenses) during October 2024-March 2025. The liquidity profile is also supported by sufficient collections in the microfinance segment and the regular receipt of donations and grants for welfare activities. Further diversification of the funding profile of the society would support the growth of its microfinance portfolio.

## Rating sensitivities

**Positive factors** – The rating could be positively impacted if RASS is able to steadily improve its scale and geographical presence while keeping its asset quality under control.

**Negative factors** – The rating could be negatively impacted if the asset quality weakens, leading to pressure on the earnings performance and capitalisation profile.

## 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** | Standalone |

## About the company

RASS is a non-governmental organisation (NGO) with focus on welfare and developmental activities as well as microfinance lending. It was established in 1981 under the Societies Act, with its registered office in Tirupati (AP). RASS is implementing 21 different welfare and development programmes in AP, TN, Odisha, and Delhi, primarily targeted towards women and children development and welfare of elderly and specially challenged people. RASS receives funding support for its various welfare programmes through grants and donations from domestic as well as international sources.

RASS' microfinance operations are concentrated in the Chittoor and Tirupati districts of AP and the Tiruvallur district of TN. Its microfinance loan portfolio stood at Rs. 226.3 crore as of September 2024 vis-à-vis Rs. 173.0 crore as of March 2023.

In FY2024, the society reported a net profit of Rs. 21.7 crore on total income of Rs. 54.1 crore compared to a net profit of Rs. 17.5 crore on total income of Rs. 47.6 crore in FY2023. The net profit of the microfinance business stood at Rs. 20.1 crore in FY2024 on a total asset base of Rs. 240.4 crore against Rs. 17.6 crore and Rs. 204.0 crore, respectively, in FY2023.

### Key financial indicators (audited; adjusted*)

| RASS | FY2022 | FY2023 | FY2024 |
|---|---|---|---|
| Total income | 43.3 | 47.6 | 54.1 |
| Profit after tax | 15.7 | 17.5 | 21.7 |
| Total managed assets | 219.0 | 230.0 | 264.1 |
| Return on managed assets | 7.7% | 7.8% | 8.8% |
| Managed gearing (times) | 0.5 | 0.4 | 0.4 |
| Gross NPA | NA | NA | NA |
| CRAR | NA | NA | NA |

*Source: RASS; Amount in Rs. crore; *Adjustments made for ICRA's analysis*

### Key financial indicators (audited; IGAAP) – Microfinance business

| RASS (microfinance business) | FY2022 | FY2023 | FY2024 |
|---|---|---|---|
| Total income | 30.6 | 31.0 | 35.6 |
| Profit after tax | 17.8 | 17.6 | 20.1 |
| Total managed assets | 191.9 | 204.0 | 240.4 |
| Return on managed assets | 10.0% | 8.9% | 9.1% |
| Managed gearing (times) | 0.5 | 0.4 | 0.4 |
| Gross NPA | NA | NA | NA |
| CRAR | NA | NA | NA |

*Source: RASS; 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 (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | FY2024 | | FY2023 | | FY2022 | |
| | Type | Amount rated (Rs. crore) | 23-DEC-2024 | Date | Rating | Date | Rating | Date | Rating |
| Long-term – Fund based-bank facilities | Long term | 69.21 | [ICRA]BBB- (Stable) | 18-SEP-2023 | [ICRA]BBB- (Stable) | 27-JUL-2022 | [ICRA]BB+ (Stable) | 07-APR-2021 | [ICRA]BB+ (Stable) |

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| **Long term – 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 | Date of Issuance/ Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Long term – Fund-based bank facilities-CC | NA | NA | NA | 40.00 | [ICRA]BBB- (Stable) |
| NA | Long term – Fund-based bank facilities-CC | NA | NA | NA | 7.50 | [ICRA]BBB- (Stable) |
| NA | Long term – Fund-based bank facilities-CC | NA | NA | NA | 20.00 | [ICRA]BBB- (Stable) |
| NA | Long term – Fund-based bank facilities-CC – Unallocated | NA | NA | NA | 1.71 | [ICRA]BBB- (Stable) |

*Source: RASS*

*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.

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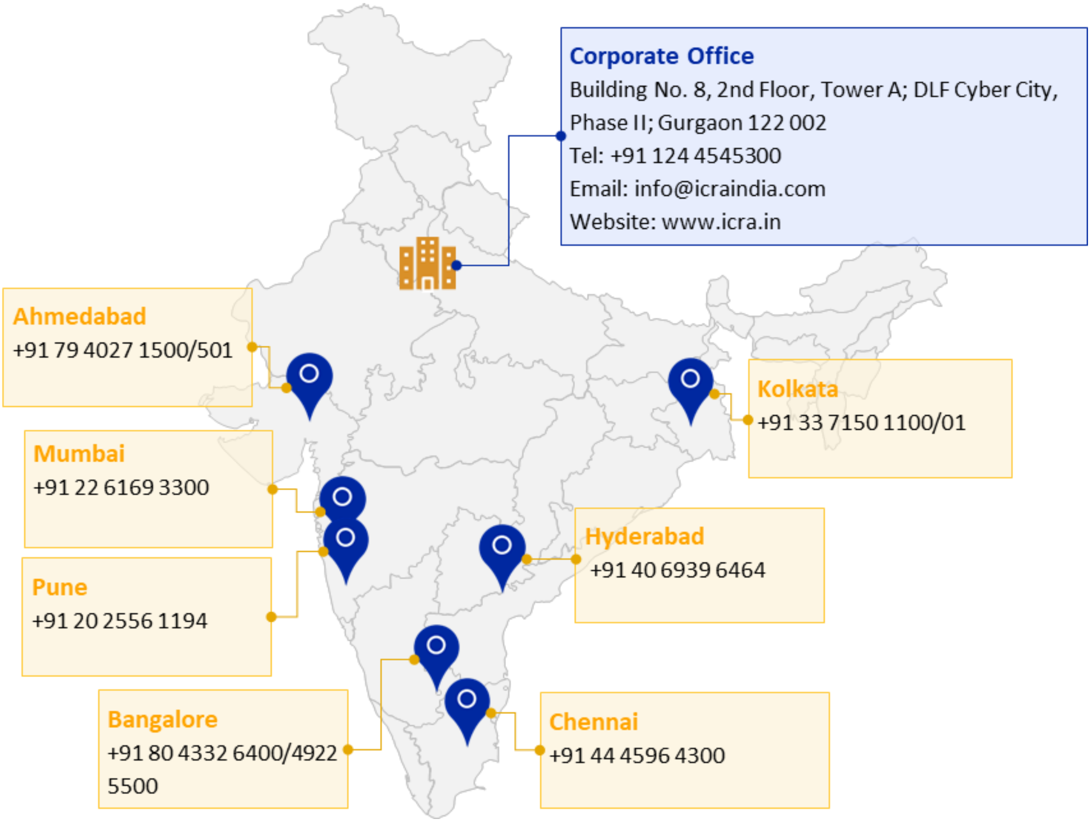




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