February 10, 2025

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 bank facilities	400.00	600.00	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced portion
Total	**400.00**	**600.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating takes into consideration Repco Micro Finance Limited's (RMFL) comfortable capitalisation and healthy profitability. The gearing stood at 2.3 times with a capital-to-risk weighted assets ratio (CRAR) of 28.8% as of September 2024 while the profitability (PAT/AMA[1]) improved to 6.1% in H1 FY2025 from 5.5% in FY2024 (4.1% in FY2023). This was supported by the higher interest margins on the back of better business yields and controlled cost of funds while incremental credit costs remained minimal.

The rating also considers the company's relatively stable asset quality amid the significant ongoing concerns in the microfinance industry. RMFL's 90+ days past due (dpd) improved to 1.0% of the loan portfolio as of September 2024 from 2.7% as of March 2024, largely on account of loan write-offs of certain Covid-19 pandemic-related delinquent loans. Excluding the impact of the same, the 90+dpd remained under control, with incremental slippages in H1 FY2025 remaining modest. RMFL held provisions of 2.5% of the loan book as of September 2024 and the net stage 3 was nil. The rating continues to factor in the company's extensive track record and the support from the promoters – Repco Bank (RB) and Repco Home Finance Limited (RHFL; rated [ICRA]AA- (Stable)/[ICRA]A1+). It 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. 1,389 crore as of September 2024) and the geographically concentrated operations with Tamil Nadu and the Union Territory (UT) of Puducherry accounting for ~100% of the loan book, though it has 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, 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. As of September 2024, RB and RHFL continued to hold a 68% and 32% stake, respectively, in RMFL.

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

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

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 during FY2019-FY2022. It has a sanctioned funding line of Rs. 500 crore from RB, of which 45% was outstanding as of September 2024. Nevertheless, ICRA notes that RMFL has been steadily reducing its dependence on RB for its funding requirements. The company benefits from managerial and operational support from the Repco Group for its existing business, future growth and geographical expansion. The board has six 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 28.8% as of September 2024, including the impact of the increase in risk weights (for its non-qualifying microfinance institution (MFI) loans), following the Reserve Bank of India's directions for consumer credit. The net worth improved to Rs. 415.5 crore as of September 2024 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 during FY2019-FY2022), 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.

Improved asset quality indicators – RMFL's 90+ dpd improved to 1.0% of the loan portfolio (Rs. 13.8 crore) as of September 2024, supported by the write-off of certain loans impacted during the pandemic. Incremental slippages from the book sourced after the pandemic have been under control. The company wrote off around Rs. 27 crore (~2% of portfolio as of March 2024) in H1 FY2025. Further, the total provision stood comfortable at 2.5% of the loan book while RMFL continued to maintain its stage 3 provision coverage at 100% as of September 2024.

Healthy profitability indicators – RMFL's net profitability improved to 6.1% in H1 FY2025 from 5.5% in FY2024 (4.1% in FY2023), supported by better net interest margins (14.2% in H1 FY2025 vis-à-vis 13.3% in FY2024) and comparatively lower operating expenses (4.6% in H1 FY2025 vis-à-vis 4.9% in FY2024). The interest margins were supported by better business yields and controlled cost of funds while the operating cost, despite declining in H1 FY2025, remained elevated on account of higher employee and branch expansion costs. Credit costs remained under control on the back of controlled asset quality indicators during the year. RMFL's ability to maintain the credit cost in the current industry scenario would be a key monitorable.

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 ~22% in FY2024 and 9% (annualised) in H1 FY2025 and stood at Rs. 1,389 crore as of September 2024, while disbursements grew by ~31% in FY2024 and 7% (annualised) in H1 FY2025. As of September 2024, the company had ~980 employees, including field-level personnel. RMFL's active borrowing member base has declined steadily since March 2020 because of loan write-offs and member attrition due to the revised MFI guidelines. However, it continued to onboard new customers and the borrower base remained steady at 2.7 lakh since December 2023. ICRA notes that it would be crucial to acquire new customers, which would support a sustainable member-base-driven portfolio growth.

As of September 2024, RMFL's operations were spread across Tamil Nadu, Puducherry, Kerala and Karnataka with 120 branches in 40 districts. Tamil Nadu accounted for 99.1% of the portfolio as of September 2024. 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 entities in this sector. The sector is currently experiencing asset quality stress largely due to the overleveraging of microfinance borrowers from multiple microfinance lenders. Though RMFL's 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 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 company'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

As of December 2024, RMFL had on-balance sheet liquidity of Rs. 7.2 crore and sanctioned but unutilised lines of Rs. 95.0 crore from commercial banks and NBFCs. Further, the company had unutilised credit lines of Rs. 307.6 crore from RB. These, along with the collections from advances, are expected to be adequate for its debt repayment obligations of Rs. 274.9 crore during January-June 2025.

As of September 2024, RB accounted for 25% (12% as of March 2024) of the company's overall borrowings with term loans from banks and financial institutions (FIs) comprising the rest. RMFL had funding lines from 13 other banks/FIs as of September 2024.

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 affects 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. 42.4 crore in H1 FY2025 on a total asset base of Rs. 1,431.8 crore compared to Rs. 68.3 crore and Rs. 1,370.4 crore, respectively, in FY2024.

Key financial indicators (Ind-AS)

Repco Micro Finance Limited	FY2023	FY2024	H1 FY2025
Total income	177.7	246.8	145.6
Profit after tax	46.2	68.3	42.4
Total managed assets	1,132.9	1,370.4	1,431.8
Return on managed assets	4.1%	5.5%	6.1%
Gearing (reported; times)	2.2	2.3	2.3
Gross stage 3	5.4%	2.7%	1.0%
CRAR	30.7%	27.7%	28.8%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb-10-2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term fund based – Bank facilities	Long term	600.00	[ICRA]BBB+ (Stable)	May-08-2024	[ICRA]BBB+ (Stable)	Jun-30-2023	[ICRA]BBB+ (Stable)	Apr-29-2022	[ICRA]BBB (Stable)	May-10-2021	[ICRA]BBB (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 name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
NA	**Long-term fund based – Bank facilities**	NA	NA	NA	600.00	[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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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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