

December 04, 2017

Repco Micro Finance Limited

Summary of rated instrument

Instruments*	Rated Amount (Rs. crore)	Rating Action
Long term bank facilities	50.00	[ICRA]BBB(Stable); reaffirmed

*Instruments details are provided in Annexure-1

Rating action

ICRA has reaffirmed the [ICRA]BBB (pronounced ICRA triple B) rating for the Rs. 50.00 crore¹ bank facilities of Repco Micro Finance Limited (RMFL). The outlook on the rating is Stable².

Rationale

The rating continues to factor in the operational, managerial and financial support received by RFML from its holding entities, Repco Home Finance Limited (RHFL; rated [ICRA]AA-Stable/[ICRA]A1+) and Repco Bank (RB). The rating also factors in the company's comfortable capitalisation profile, its healthy profitability and comfortable asset quality.

The rating takes note of RMFL' moderate scale (assets under management, AUM of Rs. 560.7 crore as on September 30, 2017) and geographically concentrated operations. ICRA also takes note of the limited diversity in RMFL's funding profile, with high dependence on Repco Bank and other commercial banks; however, the company's liquidity profile is expected to remain comfortable because of the shorter tenures of its assets and the expected funding support from the parent. Going forward, RMFL's ability to diversify its funding profile would be crucial to meet the targeted portfolio, CAGR of 45% over the next three years.

ICRA notes that since FY2016 RMFL has gradually reduced its dependence on Repco Foundation for Micro Credit (RFMC, a section 8 not-for-profit company of the Repco Group) for its microfinance operations. Currently, the microfinance operations, monitoring and inspection functions are managed by RMFL employees. Over the past two years, the company absorbed the employees of RFMC and also recruited new employees to manage its operations. ICRA takes cognisance of RMFL's efforts in strengthening its senior management team by appointing experienced department heads and improving its risk management systems by revising its inspection policies and procedures. The company is in an advance stage of implementing IT systems which have been exclusively designed for microfinance operations; currently, RMFL uses RB's IT systems. ICRA notes that, notwithstanding the initiatives taken, there is scope for further improvement in operational processes, MIS and internal controls, and strengthening of the senior management team, to meet the needs of the growing loan portfolio.

¹Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

²For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit strengths

- **Strong shareholders provide financial, managerial and operational support:** RB and RHFL held 68% and 32% respectively of the stake in RMFL, as on September 30, 2017). The holding entities have demonstrated financial support to the company in the past and are committed to continue to provide financial support to RMFL. RB also provides managerial and operational support to RMFL. The board of RMFL largely includes representatives from the Repco Group, with experience in banking and other financial services. The Managing Director of RMFL, Ms. R.S. Isabella is also the Managing Director in charge of RB. The experienced board members guide the operational and strategic decision making process at RMFL. During FY2017, the shareholders infused equity capital of Rs. 10.0 crore and are expected to infuse further equity of about Rs. 20.0 crore in Q4FY2018. RMFL also has access to funding lines from RB, which stood at 59% of its total borrowings as on September 30, 2017.
- **Initiatives to strengthen the senior management team and improve overall risk management and internal controls:** With RMFL discontinuing its dependence on RFMC for its operations, its employee base has increased sharply from 150 employees in March 2016 to 618 employees in September 2017. During FY2017, the company strengthened its senior management team by appointing experienced staff members of RFMC as department heads and is also in the process of recruiting professionals in technology, human resources and legal departments to augment the team further. During FY2017, the company improved its risk management systems by strengthening its inspection team and by increasing the frequency of branch inspection audit from quarterly to twice a month. While RMFL currently uses the loan origination software of RB, it is in an advanced stage of implementation of its own new IT system, which is being customised for microfinance operations.
- **Comfortable capitalisation profile:** The current capitalisation profile of the company is comfortable, with gearing at 4.6 times as on March 31, 2017. The company aims to grow at a CAGR of 45% in the next three years and the gearing is expected to increase from 4.6 times as on March 31, 2017 to about 6 times by March 2019. RMFL's ability to maintain comfortable capitalisation in view of the envisaged portfolio growth would be crucial, given the moderate internal generation expected. ICRA takes comfort from the capital infusion by the shareholders in the past and their willingness to infuse further capital.
- **Healthy profitability indicators supported by improved operational efficiency:** RMFL's profitability indicators are healthy with PAT/ATA at 4.11% for FY2017, supported by its good operational efficiencies (operating expenses/AMA³ of 4.2% in FY2017) and moderate credit costs (0.6% in FY2017). ICRA expects RMFL's operating expenses to increase from the current levels with the augmentation of the management team and the increased focus on risk management and internal controls and processes. It would therefore be crucial for the company to contain its credit costs while growing the portfolio and diversifying to new geographies going forward.
- **Comfortable asset quality indicators:** RMFL's asset quality indicators are comfortable with 90+ dpd at 0.7% as on March 31, 2017 and 0.8% as on September 30, 2017. ICRA notes that the company's concentration in Tamil Nadu, where the impact of demonetisation on microfinance collection efficiency was lower than in other states, has supported its asset quality indicators.

³ AMA-Average Managed Assets

Credit weaknesses

- **Geographically concentrated and moderate scale of operations:** RMFL's scale of operations is currently moderate with a portfolio of Rs. 560.7 crore as on September 30, 2017 (Rs. 472.5 crore March 31, 2017 respectively). RMFL obtained an NBFC-MFI licence in 2013 and has a moderate track record of over four years of operations. RMFL's loan portfolio is concentrated in Tamil Nadu with 76 branches in 31 districts of the state, exposing the company to regional, political and competitive pressures. While the company plans to expand its operations to Karnataka and Kerala during FY2018-FY2019, ICRA expects RMFL to remain a regional player in the medium term.
- **Ability to improve funding diversity to support business expansion:** RMFL raises funds mostly from its parent, RB (59% of total borrowings as on September 30, 2017) and from other commercial banks (41%). The company's current liquidity position is comfortable on account of the short tenures of its assets and the support extended by RB to bridge any short term liquidity mismatches. Going forward, RMFL's ability to secure incremental funding at competitive rates from diverse sources would be critical to meet the robust growth targets.
- **Ability to manage political, communal and other risks in the microfinance sector:** RMFL's ability to manage the risks arising out of the marginal profile of borrowers, 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 would face challenges pertaining to reinstatement of field discipline, addressing the changes in borrower behaviour post demonetisation and the risks associated with borrower overleveraging given their access to informal funding sources.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the entity:

Repc Micro Finance Limited (RMFL) was incorporated in the year 2007 as Repco MSME Finance & Development Limited. It obtained the NBFC registration from the Reserve Bank of India in 2010 and subsequently became an NBFC-MFI in December 2013. Repco Bank held 68% equity in the company as on March 31, 2016, while the remaining was held by Repco Home Finance Limited. RMFL extends loans to women self-help groups for income generation.

As on March 31, 2017, the company had a net worth of Rs. 86.1 crore and a Tier-I capital of 17.7%. RMFL was operational in 31 districts of Tamil Nadu, with a portfolio size of Rs. 472.5 crore as on March 31, 2017 (Rs.560.7 crore in September 30, 2017).

Key Financial Indicators (Audited)

	FY2016	FY2017
Total Income	54.1	77.3
PAT	12.6	17.1
Net worth	59.1	86.1
Total Managed Portfolio	330.5	472.5
Total Managed Assets	335.0	495.2
Return on Managed Assets %	3.0%	4.1%
Return on Net worth %	22.8%	23.5%
Gearing (times)	4.5	4.6
Gross NPA%	0.9%	0.9%
Net NPA%	0.0%	0.0%
CRAR%	17.9%	17.7%

Source: RBL and ICRA research; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

S. No	Instrument	Type	Current Rating		Chronology of Rating History for the past 3 years				
			Rated amount (Rs. crore)	FY2018	FY2017	FY2017	FY2016	FY2015	
				December 2017	November 2016	September 2016	August 2015	June 2014	
1	Term Loans	Long term	12.00	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Term Loans	Long term	38.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan-1	-	-	30-11-2019	10.90	[ICRA]BBB (stable)
-	Term Loan-2	-	-	31-10-2019	10.00	
-	Term Loan-3	-	-	30-06-2018	6.18	
-	Term Loan 4	-	-	31-01-2019	6.81	
-	Term Loan-5	-	-	30-06-2018	7.62	
-	Term Loan 6	-	-	30-07-2019	5.43	
	Proposed Limits	-	-	-	3.06	
	Total	-	-	-	50.00	

Contact Details

Analyst Contacts

Mr. Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Mr. A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Ms. Meenakshi D
+91 44 42974324
meenakshi.d@icraindia.com

Relationship Contacts

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

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.

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

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20- 6606 9999; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500