

## Repro Micro Finance Limited

February 07, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore <sup>1</sup> )	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	50.00	50.00	[ICRA]BBB(Stable); Reaffirmed
<b>Total</b>	<b>50.00</b>	<b>50.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

Repro Micro Finance Limited's (RMFL) rating<sup>2</sup> factors in the operational, managerial and financial support from the holding entities, Repco Bank (RB) and Repco Home Finance Limited (RHFL; rated [ICRA]AA-(Stable)/A1+), which hold 68% and 32%, respectively. The rating also factors in the company's healthy profitability indicators (PAT/AMA<sup>3</sup> of 4.8% in FY2018) and its adequate capital structure. RMFL's managed gearing improved to 4.0 times (provisional) as on September 30, 2018 from 5.4 times as on March 31, 2018, supported by a capital infusion of Rs. 20 crore from RB and RHFL in H1 FY2019. ICRA expects timely capital support from the shareholders to maintain an adequate capital structure (managed leverage of about 5.5 times) as RMFL envisages portfolio growth at a CAGR of 28-30% during FY2019-FY2021. The rating takes cognisance of the augmentation in RMFL's senior management team and internal controls in the recent past.

The rating is, however, constrained by the geographically concentrated operations (Tamil Nadu accounted for 100% of the book as on December 31, 2018), 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. ICRA takes note of the increase in the softer bucket delinquencies with the 0+ dpd moving to 2.6% in December 2018 from 1.2% in March 2018 as collections in a few districts were impacted by the Gaja cyclone. Ability to improve collections from these districts and keep overall credit costs under control would be crucial in the near term. RMFL has limited funding diversity with high dependence on RB for its borrowings. Its liquidity profile is, however, expected to remain comfortable because of the shorter tenure of assets and expected funding support from RB. RMFL's ability to diversify its funding sources would be critical in view of the envisaged growth plans.

### Outlook: Stable

ICRA believes that RMFL would continue to derive operational, managerial and financial support from RB and RHFL. The outlook may be revised to Positive as RMFL improves its geographical diversity and further strengthens its senior management team and internal controls while maintaining a good asset quality and healthy financial risk profile. The outlook may be revised to Negative in the event of a significant deterioration in RMFL's asset quality or financial risk profile. Significant weakening in the credit profile of the shareholders or lower-than-expected support from them would also have a negative impact on the rating outlook.

<sup>1</sup> 100 lakh= 1 crore= 10 million

<sup>2</sup> For complete rating scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> PAT/AMA - Profit after tax/average managed assets

## Key rating drivers

### Credit strengths

**Strong shareholders provide financial, managerial and operational support** - RB and RHFL are RMFL's shareholders, with a stake of 62% and 38% (as on September 30, 2018), respectively. The parent companies have demonstrated their support in the past by extending financial, managerial and operational support to the company. RMFL's board mainly comprises representatives from the Repco Group, with experience in banking and other financial services. Ms. R S Isabella is the Managing Director of RMFL and the Managing Director (In-Charge) of RB. The experienced board members guide the operational and strategic decision making at RMFL. The company's dependence on RB for its existing operations has reduced in the recent past with the installation of its own IT/MIS system and segregation of branch operations. However, RMFL continues to leverage RB's presence for commencing operations in new geographies and until the achievement of a reasonable business size. The shareholders infused Rs. 20 crore in H1 FY2019 (Rs. 10 crore in FY2017) in proportion to their shareholding. During FY2013 to FY2016, the shareholders infused about Rs. 21.20 crore in RMFL. The company also has access to funding lines from RB, which stood at 48% of the total borrowings as on September 30, 2018. ICRA expects timely and adequate support (financial, managerial and operational) from RB and RHFL, going forward.

**Strengthening of senior management team and internal controls** - To support the increasing scale of operations, RMFL has taken initiatives to strengthen its senior management team. However, due to its recruitment policy, which currently restricts lateral recruitments, it has recruited ex-bankers as officers on special duty, for a fixed tenure (1-2 years), to oversee key business functions. RMFL has recruited a chief technology officer and senior managers for legal and credit inspection as officers on special duty, while senior officers heading the credit, risk management, training, HR, etc, comprise personnel who have been promoted from the branch operations. The company's staff strength stood at 625 as on September 30, 2018, of which 600 were branch-level personnel. RMFL was previously using the IT systems of RB. Currently, the company has established its own data centre & DR<sup>4</sup> centre at Chennai and Bangalore cities of Tamil Nadu respectively with its own hardware and software infrastructure. The company has core banking solutions, LSW<sup>5</sup> and HRMS<sup>6</sup> solutions with real time connectivity to the branches. The company has an eight-member inspection team, which undertakes monthly/fortnightly audit of the branch operations. Nevertheless, in view of the increasing scale of operations, it is essential to further strengthen the senior management team and management information systems.

**Healthy profitability indicators supported by improving operational efficiency** - RMFL's profitability (PAT/AMA of 4.8% in FY2018 vis-à-vis 4.1% in FY2017) is supported by improving operating efficiencies. The portfolio per branch increased to Rs. 8.8 crore as on March 31, 2018 from Rs. 6.3 crore as on March 31, 2017 and stood at ~Rs. 10 crore as on December 31, 2018. The operating profit/ATA for H1 FY2019 stood at 9.2% (provisional; 8.1% in FY2018). ICRA notes that the incremental borrowing cost is expected to increase, in line with systemic trends. RMFL is also expected to face some credit cost because of the exposures in the districts impacted by cyclone Gaja. The company is augmenting its field staff in view of the expansion plans, which could also result in some increase in operating expenses in the near term. It is, therefore, crucial to keep credit costs under control and to maintain profitability at healthy levels as RMFL is not envisaging a change in its lending rate.

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<sup>4</sup> DR-Data recovery centre

<sup>5</sup> LSW- Loan sanction workflow

<sup>6</sup> HRMS- Human Resource Management Software

**Adequate capitalisation profile** - The company's current capitalisation profile is adequate with a capital adequacy ratio of 19.4% and a net worth of Rs. 155.3 crore as on September 30, 2018. The gearing stood at 4.0 times (provisional) as on September 30, 2018, which is expected to increase to about 5.0-5.5 times by March 2019. RMFL's ability to maintain comfortable capitalisation in view of the envisaged portfolio growth (28-30% CAGR during FY2018-FY2021) would be crucial, given the relatively moderate internal generation expected. ICRA takes comfort from the capital infusion by the shareholders in the past and their ability to infuse further capital, when required.

## Credit challenges

**Geographically concentrated and moderate scale of operations** - RMFL's portfolio grew by 37% YoY to Rs. 771 crore in September 2018 (Rs. 560.7 crore in September 2017) and by 48% YoY in FY2018. The company's portfolio stood at Rs. 810 crore as on December 31, 2018, growing by ~16% in 9M FY2019. RMFL obtained an NBFC-MFI<sup>7</sup> licence in 2013 and has a moderate track record of about five years. Its loan portfolio is concentrated in Tamil Nadu (100% of the total portfolio in December 2018), exposing it to regional, political and competitive pressures. While the company has plans of venturing into Karnataka and Kerala in FY2019-FY2020, the portfolio is expected to remain largely concentrated in Tamil Nadu over the medium term. RMFL is targeting to grow its portfolio at a CAGR of 28-30% during FY2019 to FY2021.

**Increase in softer bucket delinquencies** - Delinquencies in the softer buckets (0+ dpd) increased to 2.6% in December 2018 from 1.2% in March 2018 (0.8% in March 2017) as a few districts of Tamil Nadu were impacted by the cyclone, Gaja, in November 2018. The 90+ dpd remained stable and stood at 0.7% in March 2017 and March 2018 and 0.9% in December 2018. Ability to control slippages into the harder delinquency buckets, in view of the spike witnessed in the softer buckets, would be crucial for the near-term asset quality indicators.

**To improve funding diversity to support business expansion** - RMFL's funding is largely from RB (52% of the total borrowings as on September 30, 2018) and from some commercial banks (41%). The company had funding relationships with 12 commercial banks as on December 31, 2018. Going forward, RMFL's ability to secure incremental funding at competitive rates from diverse sources would be critical to meet its robust growth targets.

**Ability to manage risks associated with microfinance sector** - The rating factors in the risks associated with the marginal borrower profile, unsecured lending business, political and operational risks and challenges associated with a high pace of growth. The company is taking initiatives to reduce these risks, to an extent, by strengthening its systems and processes further. Going forward, RMFL's ability to geographically diversify its portfolio, on-board borrowers with a good credit history, and recruit and retain employees is crucial, in view of the envisaged business expansion.

## Liquidity position

As on December 31, 2018, RMFL had unutilised funding lines of Rs. 120 crore from five banks. It has total debt repayments (excluding an overdraft facility from RB, which is expected to be rolled over on the maturity date) of about Rs. 140 crore during January-June 2019, which can be adequately serviced with the loan collections. The company's overall liquidity profile is expected to remain comfortable because of the short tenure of the assets and envisaged timely funding support from RB.

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<sup>7</sup> NBFC-MFI - Non-banking finance company-microfinance institution

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Part of the Repco Group with RB holding about 68% and RHFL the rest. Expected timely managerial, operational and financial support from Group entities
Consolidation/Standalone	For arriving at the rating, ICRA has considered 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 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 December 31, 2018, while the balance was held by Repco Home Finance Limited. RMFL extends loans to women self-help groups for income generation.

As on March 31, 2018, the company had a net worth of Rs. 108 crore and a Tier-I capital of 15.4%. As on March 31, 2018, RMFL had operations in 32 districts of Tamil Nadu with a portfolio size of Rs. 701 crore (Rs. 810 crore on December 31, 2018).

## Key financial indicators (audited)

	FY2017	FY2018
Total Income (Rs. crore)	77.3	114.7
Profit after Tax (Rs. crore)	17.1	29.0
Net Worth (Rs. crore)	86.1	108.0
Total Managed Portfolio (Rs. crore)	472.5	700.6
Total Managed Assets (Rs. crore)	495.2	707.7
Return on Average Managed Assets (%)	4.1%	4.8%
Return on Average Managed Net Worth (%)	23.5%	29.9%
GNPA (%)	0.9%	0.8%
NNPA (%)	0.0%	0.0%
Gearing (reported)	4.6	5.4
%CRAR	17.7%	15.4%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Date & Rating February 2019	Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2018 December 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 August 2015
1 Term Loans	Long Term	50.00	<b>50.00</b>	<b>[ICRA]BBB (Stable)</b>	[ICRA]BBB (Stable)	[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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	01-Oct-2016	-	04-Oct-2019	6.20*	[ICRA]BBB (Stable)
-	Term Loan	31-Oct-2016	-	04-Nov-2019	6.34*	[ICRA]BBB (Stable)
-	Term Loan-1	19-Jan-2017	-	31-Jan-2019	1.81*	[ICRA]BBB (Stable)
-	Term Loan-2	03-Sep-2018	-	03-Sep-2020	20.00*	[ICRA]BBB (Stable)
-	Proposed Limits	-	-	-	15.65	[ICRA]BBB (Stable)

\* Balance outstanding as on December 31, 2018

Source: RMFL

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3408

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**A M Karthik**

+91 44 4596 4308

[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

**Meenakshi D**

+91 44 4297 4324

[meenakshi.d@icraindia.com](mailto:meenakshi.d@icraindia.com)

**Govindaraj Prabhu M**

+91 44 4596 4306

[govindaraj.m@icraindia.com](mailto:govindaraj.m@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406/98210 86490

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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