

January 24, 2023

South Central Railway Employees' Co-operative Credit Society Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	156.30	195.30	[ICRA] BBB+ (Stable); reaffirmed
Long-term fund based – Cash credit	145.00	145.00	[ICRA] BBB+ (Stable); reaffirmed
Long term – Unallocated	148.70	109.70	[ICRA] BBB+ (Stable); reaffirmed
Total	450.00	450.00	

*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 90 years and its good asset quality, supported by its target borrower segment, which consists of employees of railway services 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 are 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 0.04% in September 2022. The rating continues to take into account SCRECCSL's access to low-cost deposits from its members. With a portfolio of Rs. 1,250.0 crore as on September 30, 2022 (Rs. 1,219.7 crore as on March 31, 2022 and Rs. 1,117.2 crore as on March 31, 2021) spread over four states, the society's scale of operations remains moderate.

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. Moreover, SCRECCSL remains exposed to the risk of withdrawal of share capital and deposits by its members, which may adversely impact its net worth and liquidity profile. Going forward, the society's ability to maintain good asset quality, capitalisation metrics and profitability indicators, while scaling up its portfolio, would be a critical rating sensitivity. Additionally, any regulatory changes for co-operative societies and their impact on the credit profile of SCRECCSL would be key monitorables.

Key rating drivers and their description

Credit strengths

Established track record of operations – SCRECCSL has been operational for over 90 years, supported by the expansion of its member base and the increase in its loan ticket sizes. As on March 31, 2022, the society had 45,922 members compared with 45,393 members as on March 31, 2021. Employees of the railway services 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, 2022, the society had a deposit base and advances of Rs. 614.5 crore and Rs. 1,219.7 crore, respectively, compared to Rs. 578.17 crore and Rs. 1,117.2 crore, respectively, as on March 31, 2021.

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 0.04% as on September 30, 2022. Going forward, SCRECCSL's ability to keep the asset quality under control would be crucial from a profitability perspective.

Adequate capitalisation profile – SCRECCSL's gearing stood at 6.8x as of March 31, 2022 (6.5x as of March 31, 2021 and 6.1 times as of March 31, 2020). Its net worth (adjusted for dividends paid to borrowers and other post-profit appropriations towards creation of reserves) increased to Rs. 142.5 crore as of March 2022 from Rs. 135.1 crore as of March 2021. Considering the borrowing member contribution of 10% of the general loans availed towards the equity capital and SCRECCSL's good internal capital generation, ICRA expects the capital profile to remain adequate over the near to medium term. The strength of the member base remains a key monitorable, considering their overall contribution to the share capital.

Credit challenges

Limited funding avenues – As on September 30, 2022, SCRECCSL's funding profile comprised funding from banks (29.5%) and thrift deposits from members (70.5%). The growth in thrift deposits during FY2018-FY2022 was moderate (compound annual growth rate (CAGR) of 7.5%) as the member base remained range-bound during this period. As on September 30, 2022, the society had a sanctioned overdraft (OD) limit of Rs. 145 crore and outstanding term loans of Rs. 195.3 crore from State Bank of India (SBI). As it is a society, SCRECCSL has access to limited funding avenues compared to corporates. ICRA notes that the society would have to diversify its funding profile going forward, given the stagnant member base because of retirements and transfers, etc, relatively lower new member additions and increasing ticket sizes. This would be crucial for its long-term liquidity and for creating adequate funding backup in the event of sizeable deposit withdrawals.

Moderate profitability – SCRECCSL's net profitability reduced to 2.1% in FY2022 from 2.7% in FY2018 as the margin was impacted by the decline in yields to 8.4% in FY2022 from 9.7% in FY2018. The net interest margin reduced slightly to 4.0% in FY2022 from 5.2% in FY2018 though the operating expense (opex) ratio improved moderately {opex/average managed assets (AMA)} to 1.7% in FY2022 from 2.2% in FY2018 (1.9% in FY2021). SCRECCSL's net profitability is expected to remain in the range of 1.8-2.1% in the near to medium term. As the portfolio expands, it would be crucial to keep the operating costs under control and improve the margins to maintain adequate profitability.

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 also takes note of the qualifications by the statutory auditor in the annual report for FY2021-2022, indicating scope for the society to improve its internal controls and processes.

Liquidity position: Adequate

SCRECCSL's liquidity profile is adequate, supported by its long-term deposit base, which has increased steadily over the years to Rs. 626.2 crore as on September 30, 2022. As of November 30, 2022, SCRECCSL has repayment obligations of Rs. 44.3 crore between November 2022 and May 2023 against average monthly collections of ~Rs. 65 crore. It had undrawn bank lines of Rs. 115 crore as on November 30, 2022. Limited financial flexibility and managing liquidity with the expected increase in the share of bank funding would be monitorable from a liquidity perspective, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the society improves its capitalisation profile with strict control over its overall asset quality indicators, while improving the earnings, as the portfolio expands.

Negative factors – ICRA could downgrade the rating if there is a significant weakening in the society's capital or liquidity profile from the current levels.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standard financial statements

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 September 30, 2022, SCRECCSL operated through 16 branches across Telangana, Andhra Pradesh, Maharashtra, and Karnataka. As on September 30, 2022, it had a deposit base and advances of Rs. 614.5 crore and Rs. 1,219.7 crore, respectively. SCRECCSL reported a net profit of Rs. 26.0 crore on a total asset base of Rs. 1,292.8 crore in FY2022 compared with a net profit of Rs. 23.3 crore in FY2021 on a total asset base of Rs. 1,183.1 crore.

Key financial indicators (audited)

SCRECCSL	FY2020	FY2021	FY2022
Total income	82.4	95.2	98.3
Profit after tax	24.3	23.3	26.0
Net worth	128.5	135.1	142.5
Loan book	1,030.2	1,118.0	1,220.5
Total assets	1,085.3	1,183.1	1,292.8
Yield on average gross loans	8.7%	8.8%	8.4%
Cost of average interest-bearing funds	4.8%	5.5%	5.3%
Return on assets	2.4%	2.1%	2.1%
Return on net worth	19.6%	17.7%	18.8%
Adjusted gearing (times)	6.1	6.5	6.8

Source: Company, 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 been consistently following up with South Central Railway Employees' Co-op Credit Society Limited to obtain information through letters and emails dated January 31, 2022 and February 14, 2022 among others, apart from telephonic communication. However, the issuer has remained non-cooperative. The investors, lenders and all other market participants should exercise due caution with reference to the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING' as the rating is arrived at without any management interaction and is based on best available or limited or dated information on the company. Such non co-operation by a rated entity may be a result of deterioration in its credit risk profile. These ratings with 'ISSUER NOT COOPERATING' suffix lack a forward-looking component.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jan 24, 2023	Dec 28, 2021	Oct 22, 2020	Jul 22, 2019 Jul 01, 2019
1 Long-term fund based – Term loan	Long term	195.30	195.30	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Long-term fund based – Cash credit	Long term	145.00	145.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3 Long term – Unallocated	Long term	109.70	109.70	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
Long-term fund based – Cash credit	Simple
Long-term – Unallocated	Not Applicable

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	Term loan	2021	NA	2027	195.30	[ICRA]BBB+ (Stable)
NA	Cash credit	2022	NA	NA	145.00	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	109.70	[ICRA]BBB+ (Stable)

Source: Company

[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.

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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