April 10, 2023

The 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	1,145.79	1,099.14	[ICRA]A- (Stable); reaffirmed
Long term – Unallocated	354.21	400.86	[ICRA]A- (Stable); reaffirmed
Total	**1,500.00**	**1,500.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in the sustained track record of The Railway Employees Co-operative Credit Society Limited (RECCS) in extending unsecured personal credit to its members, who are employees of the Indian Railways (IR). RECCS continues to maintain healthy asset quality indicators, backed by its arrangement with its borrowers to deduct their monthly loan instalments directly and thrift deposit contributions by IR from their salaries for remittance to the society. Consequently, the society has been able to maintain stable operating efficiency while keeping its credit costs under control on a sustained basis, resulting in good profitability indicators with PAT/AMA[1] of 6.0% in 9M FY2023 (5.7% in FY2022). The rating also factors in the society's adequate capitalisation with a gearing of 2.7 times as on December 31, 2022 (3.1 times as on March 31, 2022).

ICRA notes the decline in the member base over the last five years, mainly on account of the large number of retirements and transfers while fresh recruitments remained modest. The overall portfolio declined by 1.1% year-on-year (YoY) in 9M FY2022 to Rs. 2,219.2 crore, given the modest growth of 4.9% in FY2022 and 2.9% in FY2021, compared to the healthy compound annual growth rate (CAGR) of 15.8% during FY2017-FY2020. The portfolio growth in the recent past was mainly supported by an increase in the exposure per borrower. RECCS has targeted portfolio growth at a modest CAGR of about 3-5% in the medium term due to the declining member base and the conservative approach towards extending credit, given the post-Covid complications observed in the affected members. As it is a credit cooperative society, RECCS has limited funding avenues and lower regulatory oversight compared to non-banking financial companies (NBFCs), which are under the Reserve Bank of India's (RBI) purview.

The Stable outlook factors in ICRA's expectation that RECCS would maintain its healthy asset quality indicators as well as its adequate capitalisation and liquidity profile while ensuring a good profitability profile.

Key rating drivers and their description

Credit strengths

Healthy asset quality indicators – RECCS' asset quality is healthy with the 90+ days past due (dpd) at 1.5% as on December 31, 2022 and March 31, 2022 (1.9% as on March 31, 2021). The asset quality is expected to remain healthy with low delinquencies, going forward, as the borrowers are employees of IR and the loan instalments and monthly contributions of thrift deposits, etc, are directly deducted by IR from the members' salaries and remitted to the society. The credit costs incurred in FY2022

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

(0.6%) and 9M FY2023 (0.4%) were largely on account of the death of members or other employment-related issues like suspension and transfers.

Good profitability indicators – RECCS' profitability is healthy with PAT/AMA of 6.0% in 9M FY2023 (5.7% in FY2022 and 5.3% in FY2021). The overall profitability is supported by low credit costs and stable yields. The net interest margins have improved due to the improvement in the gearing level as internal generation was healthy and portfolio growth has been limited. RECCS' credit cost has remained under control at 0.4-0.7% for the last five years. Going forward, it would be crucial to keep the credit and operating costs under control as it expands the portfolio. RECCS' net profitability is, however, expected to remain at 5.0-6.0% of the AMA in the medium term.

Adequate capitalisation profile – RECCS' gearing[2] was adequate at 2.7 times as on December 31, 2022 (3.1 times as on March 31, 2022 and March 31, 2021). The gearing improved because of healthy internal generation and the moderation in portfolio growth. RECCS has targeted portfolio growth at a modest CAGR of about 3-5% in the medium term due to the declining member base and its conservative approach towards extending credit, given the post-Covid complications observed in the affected members. Considering the borrowing member's contribution of 10% of the general loans availed towards equity capital and RECCS' good internal generation, ICRA expects the capital profile to remain adequate over the near to medium term. The overall strength of the member base remains a key monitorable, considering its overall contribution to the share capital.

Credit challenges

Portfolio growth impacted by declining member base – RECCS had a member base of 57,754 as on December 31, 2022 vis-à-vis 58,566 as on March 31, 2022 (61,195 as on March 31, 2021). The member base declined over the last five years on account of substantial retirements and transfers. Active loan accounts declined to 52,846 as on December 31, 2022 (56,400 as on March 31, 2022) from 76,618 as on March 31, 2019, reflecting an increase in the ticket size. RECCS' disbursements have been lower than the pre-Covid-19 pandemic level, especially from the peak in FY2018. It declined by 16.2% YoY in 9M FY2023 after growing 15.2% in FY2022 (Rs. 597.0 crore) on a lower base, given the 19.6% decline in FY2021 to Rs. 518.4 crore (Rs. 644.9 crore in FY2020) due to the pandemic.

The overall portfolio declined by 1.1% YoY in 9M FY2022 to Rs. 2,219.2 crore and grew at a modest rate of 4.9% in FY2022 and 2.9% in FY2021 compared to the CAGR of 15.8% during FY2017-FY2020. The portfolio growth was mainly supported by the increase in the exposure per member to Rs. 3.8 lakh as of December 2022 and March 2022 from Rs. 2.0 lakh in FY2017. The ability to grow, while controlling the exposure per borrower and adding new members, would be crucial going forward.

Limited funding avenues – RECCS' funding profile comprised funding from banks (57%) and thrift deposits from members (43%) as on December 31, 2022. The growth in thrift deposits during FY2018-FY2022 was moderate (CAGR of 5.0%) due to the declining member base. As it is a society, RECCS has access to limited funding avenues compared to corporates. Therefore, liquidity management shall be crucial, going forward, as the loan tenors are up to 108 months while bank borrowings typically have a tenor of 48 months.

Limited regulatory oversight – RECCS is a multi-state cooperative society. The regulatory framework for cooperative societies is quite limited compared to the requirements of RBI-regulated NBFCs.

Liquidity position: Adequate

RECCS' liquidity profile is adequate with positive cumulative mismatches across maturity buckets for less than 1 year. As of December 31, 2022, RECCS had repayment obligations of Rs. 538 crore (bank borrowings including overdraft (OD), thrift deposits and share capital) against inflows of Rs. 773 crore (loan collections and investments) over the next 12 months. It had

[2] *Net worth includes the share capital and the society's unmarked reserve funds*

undrawn bank lines of Rs. 380 crore as on December 31, 2022 and would continue to maintain the same above Rs. 70 crore. RECCS' ability to improve its financial flexibility and manage liquidity would be a monitorable, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade RECCS' rating if it demonstrates member-base-driven portfolio growth over the medium term while maintaining healthy earnings and an adequate liquidity profile and keeping its gearing below 3.5 times on a sustained basis.

Negative factors – ICRA could downgrade RECCS' rating if its leverage increases beyond 5.5 times or if it undertakes any sizeable non-core investment, thereby adversely impacting its liquidity or earnings.

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 RECCS

About the company

RECCS was established in 1907 and is governed by the Multi-State Co-operative Societies Act, 2002. Railway employees, who are employed in Southern, South-Central, South-Western, and Central Railways, and employees of Rail Wheel Factory, Yelahanka and Integral Coach Factory, Chennai can become members of the society for thrift savings and to avail loans.

As on December 31, 2022, it had 30 branches across 5 states, deposits of Rs. 687.2 crore (Rs. 673.5 crore as on March 31, 2022 and Rs. 652.7 crore as on March 31, 2021), and advances of Rs. 2,219.2 crore (Rs. 2,250.1 crore as on March 31, 2022 and Rs. 2,144.3 crore as on March 31, 2021). Net surplus was Rs. 141.3 crore for FY2022 (Rs. 126.5 crore in FY2021) on total income of Rs. 335.9 crore (Rs. 315.6 crore for FY2021). It was Rs. 116.7 crore for 9M FY2023 on total income of Rs. 258.6 crore. RECCS does not come under the purview of the RBI as it is not registered as an NBFC and is governed by the Multi-State Co-operative Societies Act.

Key financial indicators

Standalone	FY2021	FY2022	9M FY2023*
Total income	315.6	335.9	258.6
Profit after tax	126.5	141.3	116.7
Net worth^	492.5	554.0	599.6
Loan book	2,168.6	2,275.4	2,241.1
Total managed assets	2,410.7	2,587.4	2,644.5
Return on managed assets	5.3%	5.7%	6.0%
Return on net worth	27.2%	27.0%	27.0%
Managed gearing (times)	3.3	3.1	2.7
90+dpd	1.9%	1.5%	1.5%
CRAR	NA	NA	NA

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; ^Net worth considers only 35% of the net surplus; *Provisional*
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 Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 10, 2023	Feb 25, 2022	Jan 05, 2021	Oct 31, 2019
1	Long term – Fund-based term loan	Long term	1,099.14	1,099.14	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Long term – Unallocated	Long term	400.86	0.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Fund-based term loan	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 Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2020 to FY2023	-	FY2024 to FY2027	1,099.14	[ICRA]A- (Stable)
NA	**Unallocated**	-	-	-	400.86	[ICRA]A- (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

ANALYST CONTACTS

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

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

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Shaik Abdul Saleem
+91 44 4596 4325
shaik.saleem@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches