September 18, 2023(Revised)

# Rashtriya Seva Samithi: Long-term rating upgraded to [ICRA]BBB- (Stable)

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long term – Fund-based term loans** | 2.23 | 0.72 | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable) |
| **Long term – Fund-based CC** | 62.50 | 68.49 | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable) |
| **Long term – Unallocated** | 4.48 | - | - |
| **Total** | **69.21** | **69.21** | |

**Instrument details are provided in Annexure I*

## Rationale

The rating upgrade factors in Rashtriya Seva Samithi's (RASS) longstanding track record of maintaining healthy profitability indicators in its microfinance operations and comfortable asset quality indicators. RASS has maintained its net profitability[1] consistently above 7.5% in its microfinance operations over the past five years, supported by steady interest margins and low operational and credit costs. The entity's asset quality position has recovered post the Covid-19 pandemic, with its delinquency levels remaining under control over the past 18 months (30+ days past due (dpd) stood at 0.3% as of March 2023 and 0.8% as of March 2022). ICRA expects the entity to sustain its asset quality and profitability metrics over the near-to-medium term. Further, supported by steady internal accruals and modest growth over the years, the entity is expected to maintain a comfortable capitalisation profile (gearing of 0.4 times as of March 2023 in the microfinance business and consolidated gearing of 0.5 times as of March 2022), going forward.

The rating, however, remains constrained by RASS' modest scale and geographical concentration of operations, with its loan book at Rs. 173.0 crore as of March 2023 focused on three districts, i.e. Chittoor and Tirupati (Andhra Pradesh; AP) and Tiruvallur (Tamil Nadu; TN). As it is not planning any significant expansion, the entity's geographical diversification is expected to remain restricted over the medium term.

Further, as RASS is a society registered under Societies Registration Act, 1860, it is not subject to commensurate regulatory supervision. However, it is a member of Sa-Dhan and adheres to some of its codes of conduct, which partially mitigates the risks associated with the microfinance operations. ICRA also notes that even though RASS' microfinance operations generate stable earnings surplus, its overall profitability and liquidity are susceptible to adverse movements in the receipt of grants and donations and expenses pertaining to the non-microfinance activities. Going forward, it would be crucial for RASS to improve its funding diversity, as the microfinance portfolio expands, and to maintain an adequate liquidity profile.

## Key rating drivers and their description

### Credit strengths

**Comfortable asset quality indicators** – RASS has demonstrated comfortable asset quality over the years, except during the pandemic-affected years when its delinquencies were elevated. Currently, its delinquency levels remain under control supported by steady collections, with its 30+dpd at 0.3% as of March 2023 vis-à-vis 0.8% as of March 2022 (8.6% in March 2021). The collection efficiency (including overdue collections and excluding prepayments) stood at ~97% in FY2023.

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

RASS uses FIMO for its microfinance operations and captures both member and group-level data. The internal audit is conducted by a team of 10 members on an annual basis. While the loan appraisal system is adequate with the verification of the track record of internal savings and lending, the absence of a credit bureau check increases the risk of overleveraging of borrowers.

**Healthy profitability metrics** – The microfinance operations reported a healthy net surplus of Rs. 17.6 crore in FY2023 vis-à-vis Rs. 17.8 crore in FY2022 (Rs. 14.7 crore in FY2021), supported by good segmental operating efficiency (operating expenses/average managed assets (AMA) of 2.9% FY2023 and 2.8% in FY2022) and low credit costs (0.9% in FY2023 and 1.0% in FY2022). RASS' consolidated surplus was also healthy at Rs. 13.9 crore in FY2022 (Rs. 14.9 crore in FY2021), though it was lower on account of the expenditure incurred towards the various welfare activities and social programmes undertaken by the society. A significant shortfall in grants or donations could have an adverse impact on the profitability if higher expenses are incurred towards social/welfare activities.

**Comfortable capitalisation profile** – RASS' microfinance operations account for a predominant portion of the overall assets (~82% of the total assets in March 2022) with the remaining assets pertaining to the social welfare programmes conducted by the society. The microfinance business has a comfortable capitalisation profile with a gearing of 0.4 times as of March 2023 (0.5 times as of March 2022). Its net worth was Rs. 142.4 crore in March 2023 (Rs. 123.1 crore in March 2022). RASS expects to grow its microfinance portfolio to Rs. 200.0 crore in FY2024. The current capitalisation profile, along with internal accruals, would be comfortable for achieving the envisaged growth.

**Established franchise and experience in microfinance operations** – RASS, which was established in 1981 in Tirupati, commenced microfinance operations in 1989. The society conducts various welfare programmes including health, education, accommodation and vocational activities for children, women, farmers, physically challenged people and senior citizens. This has helped it build a member base of ~62,000 with ~53,000 active borrowers as of March 2023 under the microfinance programme. RASS' presence is, however, concentrated in three districts, i.e., Chittoor and Tirupati (AP) and Tiruvallur (TN).

RASS' 10-member board comprises personnel who are experienced in rural development and microfinance. The board is involved in the strategic decision-making process and meets every quarter and whenever required. The senior management team is headed by Mr. Venkataratnam, General Secretary, who has been associated with the society since its inception. However, there is scope for broad-basing the middle-and-lower-level management to support the envisaged portfolio growth.

## Credit challenges

**Modest scale and geographically concentrated operations** – RASS' operations are currently modest with a microfinance portfolio of Rs. 173.0 crore as of March 2023. The portfolio declined marginally in FY2023 vis-à-vis the growth of 33% in FY2022 and the society expects to achieve a loan portfolio of about Rs. 200.0 crore by March 2024. RASS' microfinance portfolio is regionally concentrated in AP and TN, which accounted for 94% and 6%, respectively, as of March 2023. It has a presence via six branches across the districts of Chittoor and Tirupati (AP) and Thiruvallur (TN). The Tirupati branch accounted for about 60% of the portfolio as of March 2023. RASS' geographical concentration exposes it to regional risks and limits the scope for portfolio expansion.

**Limited funding diversity** – RASS' funding profile is limited to borrowings from a few banks and financial institutions (FIs). As of March 2023, it had borrowings from four lenders. However, the cost of average funds remained lower at 9.3% in FY2023 vis-à-vis 9.6% in FY2022. It receives grants and donations for other welfare activities. Going forward, the society's ability to secure funds from diverse sources at competitive rates would be critical for the growth of its microfinance operations.

**Lack of regulatory supervision** – As it is a society, RASS does not come under the purview of the Reserve Bank of India and is not required to follow the prudential norms applicable for non-banking financial companies-microfinance institutions (NBFC-MFIs). However, it is member of Sa-Dhan, one of the self-regulatory bodies for microfinance institutions (MFIs) and it adheres to some of Sa-Dhan's codes of conduct. This partially mitigates the risks associated with the microfinance operations.

**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. RASS' ability to manage the risks arising out of the marginal profile of its borrowers, who have limited ability to absorb any 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 entity's ability to onboard borrowers with a good credit history, along with the recruitment and retention of employees, and the risks pertaining to borrower overleveraging, given their access to other funding sources, would be key monitorable issues.

## Liquidity position: Adequate

RASS' liquidity position is adequate with a cash and bank balance of Rs. 8.9 crore as of June 30, 2023 against total outflows of Rs. 6.0 crore (including operating expenses) during July-December 2023. The liquidity profile is also supported by sufficient collections in the microfinance segment and the regular receipt of donations and grants (~Rs. 28 crore in FY2022) for welfare activities. Further diversification of the funding profile of the society would support the growth of its microfinance portfolio.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating or revise the outlook to Positive if RASS is able to steadily improve its scale and geographical presence while keeping its asset quality under control.

**Negative factors** – ICRA could downgrade the rating or revise the outlook to Negative if the asset quality weakens, leading to pressure on the earnings performance and capitalisation profile.

## 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** | Standalone |

## About the company

RASS is a non-governmental organisation (NGO) with focus on welfare and developmental activities as well as microfinance lending. It was established in 1981 under the Societies Act, with its registered office in Tirupati (AP). RASS is implementing 27 different welfare and development programmes in AP, TN, Odisha, and Delhi, primarily targeted towards women and children development and welfare of elderly and specially challenged people. RASS receives funding support for its various welfare programmes through grants and donations from domestic as well as international sources.

RASS' microfinance operations are concentrated in the Chittoor and Tirupati districts of AP and the Tiruvallur district of TN. Its microfinance loan portfolio stood at Rs. 173.0 crore as of March 2023 vis-à-vis Rs. 175.1 crore as on March 2022.

In FY2022, the society reported a net profit of Rs. 13.9 crore on operating income of Rs. 35.4 crore compared to Rs. 14.9 crore and Rs. 37.1 crore, respectively, in FY2021. The net profit of the microfinance business stood at Rs. 17.6 crore in FY2023 on a total asset base of Rs. 204.0 crore against Rs. 17.8 crore and Rs. 191.9 crore, respectively, in FY2022.

### Key financial indicators (audited; IGAAP) – Microfinance business

| | FY2021 | FY2022 | FY2023 |
|---|---|---|---|
| Total income | 26.9 | 30.6 | 31.0 |
| Profit after tax | 14.7 | 17.8 | 17.6 |
| Net worth | 104.0 | 123.1 | 142.4 |
| Assets under management | 131.7 | 175.1 | 173.0 |
| Total managed assets | 164.7 | 191.9 | 204.0 |
| Return on managed assets | 9.1% | 10.0% | 8.9% |
| Return on net worth | 15.3% | 15.7% | 13.3% |
| Managed gearing (times) | 0.6 | 0.5 | 0.4 |
| Gross NPA | NA | NA | NA |
| Net NPA | NA | NA | NA |
| Solvency (Net NPA/Net worth) | NA | NA | NA |
| CRAR | NA | NA | NA |

*Source: RASS, Amount in Rs. crore*

### Key financial indicators (audited; adjusted*) – Consolidated

| | FY2020 | FY2021 | FY2022 |
|---|---|---|---|
| Total income | 44.6 | 43.3 | 41.5 |
| Profit after tax | 11.1 | 14.9 | 13.9 |
| Net worth | 106.6 | 124.4 | 145.1 |
| Assets under management | 146.2 | 131.7 | 175.1 |
| Total managed assets | 180.9 | 189.0 | 219.0 |
| Return on managed assets | 6.3% | 8.1% | 6.8% |
| Return on net worth | 11.0% | 12.9% | 10.3% |
| Managed gearing (times) | 0.7 | 0.5 | 0.5 |
| Gross NPA | NA | NA | NA |
| Net NPA | NA | NA | NA |
| Solvency (Net NPA/Net worth) | NA | NA | NA |
| CRAR | NA | NA | NA |

*Source: RASS, Amount in Rs. crore; *Adjustments made for ICRA's analysis*

## 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 in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Sep-18-2023 | Jul-27-2022 | Apr-07-2021 | Oct-30-2020 |
| 1 | Long term – Fund-based term loan | Long term | 0.72 | 0.72 | [ICRA]BBB- (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) |
| 2 | Long term – Fund-based CC | Long term | 68.49 | 68.49 | [ICRA]BBB- (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) |
| 3 | Long term – Unallocated | Long term | - | - | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) |

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Long term – Fund-based term loan | Simple |
| Long term – Fund-based CC | 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 | Date of Issuance/ Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term loan** | Oct 05, 2018 | NA | Oct 31, 2023 | 0.72 | [ICRA]BBB- (Stable) |
| **NA** | **Cash credit – 1** | NA | NA | NA | 40.00 | [ICRA]BBB- (Stable) |
| **NA** | **Cash credit – 2** | NA | NA | NA | 7.50 | [ICRA]BBB- (Stable) |
| **NA** | **Cash credit – 3** | NA | NA | NA | 20.00 | [ICRA]BBB- (Stable) |
| **NA** | **Cash credit – Unallocated** | NA | NA | NA | 0.99 | [ICRA]BBB- (Stable) |

*Source: RASS*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: List of entities considered for consolidated analysis – NA

## Corrigendum

The rating rationale document dated September 18, 2023 has been corrected with revision as follows:

i) Rating approach corrected to 'Standalone' under 'Analytical approach' in page no. 3

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