

July 26, 2024

Mulkanoor Cooperative Rural Credit & Marketing Society Ltd. (erstwhile Mulkanoor Co-operative Rural Bank and Marketing Society Ltd.): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash credit	180.00	180.00	[ICRA]BB (Stable); reaffirmed
Total	180.00	180.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation factors in Mulkanoor Cooperative Rural Credit & Marketing Society Ltd.'s (MCRCMSL) track record of operations of over 60 years and its diversified earnings profile. The society primarily extends loans to its members for agriculture and allied activities. Further, it offers value-added services such as rice milling and cotton ginning and is involved in the trading/selling of fertilisers, pesticides and seeds to its members.

The rating also takes into account MCRCMSL's geographically concentrated and small scale of operations with a portfolio of Rs. 135.9 crore and a member base of 7,641 as on March 31, 2024 (Rs. 130.1 crore and 7,628, respectively, as on March 31, 2023). It reported 0+ and 365+ days past due (dpd) of 1.5% and 0.1%, respectively, as on March 31, 2024. MCRCMSL's asset quality and earnings would remain largely dependent on agro-climatic conditions and the price of agri-produce, given its modest borrower profile. The society's gearing improved to 2.3 times as on March 31, 2024 from 2.6 times as on March 31, 2023 (3.0 times as on March 31, 2022) on the back of stable profitability and limited growth.

ICRA takes note of the recently announced crop loan waiver scheme of the Government of Telangana. As per the notified rules, the society expects Rs. 73.0 crore of loans outstanding, as on date, to be eligible under the scheme. However, the same is yet to be approved by the government. Thus, it would be crucial for the society to sustain steady collections from its borrowers until the receipt of the amount under the scheme.

The rating continues to factor in MCRCMSL's limited financial flexibility and the limited regulatory supervision for cooperative societies. Going forward, any regulatory changes for cooperative societies and their impact on MCRCMSL's credit profile would be monitorable.

Key rating drivers and their description

Credit strengths

Track record of operations – MCRCMSL is a cooperative society established in 1956 in the Mulkanoor region, Warangal district (Telangana), registered under the Telangana State Mutually Aided Co-operative Societies Act. It extends loans to its members primarily for agriculture and allied activities in 14 villages/20 Gram Panchayats in and around Mulkanoor. Apart from purchasing fertilisers, pesticides and seeds from Indian Farmers Fertiliser Cooperative (IFFCO) and selling them to farmers, the society supports farmers by purchasing their agricultural produce and processing and marketing the same under its own brand.

Fairly diversified income profile and stable profitability – Although MCRCMSL commenced operations as a cooperative society to extend loans to its members, it has gradually forayed into value-addition services such as seed production and processing and marketing its members' agricultural produce. Consequently, its revenue profile is fairly diversified with income from loans,

trading revenues and investments accounting for 37%, 45% and 15%, respectively, of its total income in FY2024 (32%, 49% and 12%, respectively, in FY2023). MCRCMSL has the requisite infrastructure such as rice mills, cotton ginning mills and warehouses, enabling it to offer a wide range of services to its members. The diversified income profile continues to support the society's profitability (profit after tax/average total assets), which was stable at 2.0% in FY2024 (2.0% in FY2023 and 2.1% in FY2022).

Credit challenges

Modest scale and limited geographical diversity – MCRCMSL had a loan portfolio of Rs. 135.9 crore as on March 31, 2024 (Rs. 130.1 crore as on March 31, 2023 and Rs. 125.2 crore as on March 31, 2022), largely concentrated in the Mulkanoor region and its surrounding villages. The criteria to become a member of the society are that the farmer should hold land and have residence within the jurisdiction of MCRCMSL. Hence, the member base is small (7,641 as of March 2024 and 7,628 as of March 2023) and has remained stagnant over the last four years. The society's ability to scale up its loan portfolio remains limited at present as its scope of operations is limited to 14 villages in the Warangal district. This also exposes it to risks arising from high geographical concentration, especially given the vulnerability of its borrowers to agro-climatic factors.

ICRA notes that while the annual disbursements stood at Rs. 236.0 crore in FY2024 (Rs. 222.6 crore in FY2023), the year-ending loan portfolio remained stable due to the short-term nature of most of the disbursements, which are repayable within one crop cycle. The gearing improved to 2.3 times as on March 31, 2024 from 2.6 times as on March 31, 2023 (3.0 times as on March 31, 2022) on the back of stable profitability and limited growth.

Asset quality vulnerable to agro-climatic conditions – MCRCMSL lends to members who are involved in agriculture and allied activities. Almost 97% of the loans disbursed during any fiscal are short term in nature and are provided for agriculture, thereby exposing the society to adverse climatic changes. MCRCMSL reported 0+ and 365+ dpd of 1.5% and 0.1%, respectively, as on March 31, 2024 (1.6% and 0.2%, respectively, as on March 31, 2023). Going forward, the society's asset quality will remain largely dependent on favourable monsoons and the price of agri-produce.

ICRA takes note of the recently announced crop loan waiver scheme of the Government of Telangana. As per the notified rules, the society expects Rs. 73.0 crore of loans outstanding, as on date, to be eligible under the scheme. However, the same is yet to be approved by the government. Thus, it would be crucial for MCRCMSL to sustain steady collections from its borrowers until the receipt of the amount under the scheme.

Limited regulatory oversight – MCRCMSL is registered under the Telangana Mutually Aided Co-operative Societies Act. The regulatory framework for cooperative societies is quite limited compared to the prudential requirements of Reserve Bank of India (RBI)-regulated non-banking financial companies.

Liquidity position: Adequate

Short-term loans (96% of disbursements for FY2024), with a tenor of less than 12 months, account for the majority of MCRCMSL's loans while funding (deposits and bank borrowings) is mainly for a tenor of 12 months, thereby creating a well-matched asset-liability profile. The society is eligible for Rs. 50-crore cash credit (CC) utilisation per crop season and the CC facility is serviced through the collections of that season. The year-end CC utilisation in FY2024 was around 54% (average utilisation for the year: 66.6%). As of March 31, 2024, the society had a cash and bank balance of Rs. 1.4 crore and liquid investments of Rs. 13.3 crore (maturing within one year) in the form of deposits with State Bank of India. MCRCMSL has repayments of Rs. 1.79 crore towards term loans and a repayment obligation of Rs. 13.3 crore towards fixed deposits in FY2025.

Rating sensitivities

Positive factors – A sustained improvement in the member base and good quality portfolio growth, while maintaining adequate liquidity and profitability indicators, would lead to a positive impact.

Negative factors – Weakening in MCRMSL’s asset quality, adversely affecting its profitability, or a material deterioration in the capitalisation or liquidity profile would lead to a negative impact.

Analytical approach

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

About the company

Established in 1956, MCRMSL is a cooperative society registered under the Telangana State Mutually Aided Co-operative Societies Act. The society was primarily set up to accept deposits from its members and to extend crop, short-term, medium-term and long-term loans to its members mainly for agriculture and allied activities. In addition to lending operations, the society is engaged in the trading of pesticides, seeds and fertilisers (largely sourced from government agencies) and offers value-added services such as rice milling and seed production and provides supply and marketing support to its members. MCRMSL, via its sole branch in Mulkanoor village, serves 14 villages/20 Gram Panchayats in and around the region. As on March 31, 2024, it had 7,641 members with a total portfolio outstanding of Rs. 135.9 crore.

Key financial indicators

Mulkanoor Cooperative Rural Credit & Marketing Society Ltd.	FY2022	FY2023	FY2024*
Total income	38.1	38.2	30.2
Profit after tax	6.9	7.0	7.1
Loan book	125.2	130.1	135.9
Total assets	353.8	354.8	351.8
Return on assets	2.1%	2.0%	2.0%
Gross gearing (times)	3.0	2.6	2.3
CRAR (%)	-	-	-

Source: MCRMSL, ICRA Research; *Provisional numbers; All ratios as per ICRA’s calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA:

Non-cooperation by issuer

CRISIL Ratings has been consistently following up with The Mulkanoor Cooperative Rural Bank and Marketing Society Limited (MCRBAMS) for obtaining information through letter and email dated April 24, 2024 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.

Detailed Rationale

Despite repeated attempts to engage with the management, CRISIL Ratings failed to receive any information on either the financial performance or strategic intent of MCRBAMS, which restricts CRISIL Ratings' ability to take a forward looking view on the entity's credit quality. CRISIL Ratings believes that rating action on MCRBAMS is consistent with 'Assessing Information Adequacy Risk'. Based on the last available information, the ratings on bank facilities of MCRBAMS continues to be 'CRISIL B/Stable Issuer Not Cooperating'.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2022	Date & Rating in FY2021	
				Jul 26, 2024	May 30, 2023	Mar 25, 2022	Jan 29, 2021	
1	Long-term fund based – Cash credit	Long term	180.0	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Cash credit	Very 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 Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	Mar 2023	NA	-	100.00	[ICRA]BB (Stable)
NA	Unallocated	NA	NA	-	80.00	[ICRA]BB (Stable)

Source: MCRCMSL

[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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Branches



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