February 21, 2017

Swashryee Mahila Sakh Sahkari Sanstha Maryadit

Instrument*	Rated Amount	Rating Action
Long-term bank lines	Rs. 10.00 crore	[ICRA]B+(Stable); assigned

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the rating of [ICRA]B+(Stable) (pronounced ICRA B plus with a stable outlook)[1] to the Rs. 10 crore long-term bank lines of Swashryee Mahila Sakh Sahkari Sanstha Maryadit (SMSSM).

Rationale

The assigned rating takes into account the relatively small scale of operations of SMSSM, as reflected in its membership base of around 14,000 and deposits of Rs. 10.73 crore and loan portfolio of Rs. 8.89 crore as on November 30, 2016. While the society's loan book consists of group loans (~80% of the portfolio as on November 30, 2016)) and individual loans (20%), ICRA notes that the book is concentrated towards loans for small business (52%); other loans include loans for housing (12%), agriculture and cattle (11%), seasonal businesses (11%), and education (7%). The rating is constrained by the entity's constitution as a society which limits its access to external capital. SMSSM is thus entirely dependent on internal accruals and contributions from members for own capital, which has impacted its ability to raise debt and expand operations. The rating also factors in the society's limited financial flexibility with dependence entirely on customer deposits, high geographical concentration with presence limited to some regions of Madhya Pradesh (M.P.). ICRA also takes note of the lack of regulatory oversight for multi-state co-operative societies and the inherent uncertainty associated with future regulatory tightening

Key Rating Drivers

Credit Strengths

- Good track record of operations albeit on a small scale
- Depth of engagement with clients by virtue of their being members of the society and partners to dividend
- Range of offerings, including of savings and loan products for the member to chose as per her financial condition
- Improvement in profitability in FY2016, supported by a 48% growth in the income generating loan portfolio

Credit Challenges

- Limited funding with dependence on customer deposits
- Capital structure highly skewed towards deposits from members
- Competition from other organisations engaged in similar operations

[1] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Key Rating Sensitivities

- Strengthening of regulatory supervision of credit co-operative societies in terms of capital requirements, NPA recognition, provisioning norms, and reserve requirements could have a negative impact on the entity's financials

Description of key rating drivers highlighted above

The society, founded in 1989, is registered under the M.P. Co-operative Society (Amendment) Act, 2012 and the M.P. Co-operative Society Rules, 1962.

The society has had a steady member base with over 14,000 members as on December 31, 2016. As per society's philosophy, the engagement with clients is by virtue of their members and partners to dividend. The promoters of the society have over 25 years of experience in lending operations. SMSSM's deposits from members stood at Rs. 10.25 crore as on November 30, 2016 (Rs. 8.65 crore as on March 31, 2016); the society's Swayam Siddha savings is the largest contributor accounting for 37% of total savings as on November 30, 2016, followed by recurring deposits (15%), fixed deposits (14%), savings deposits (10%), and compulsory deposits (10%). As on November 30, 2016, the society's outstanding advances stood at Rs. 8.89 crore consisting of Swayam Siddha loans (self-empowering loans; 73%) and depositor/guarantor loans (27%).

The entity has a comfortable liquidity profile with deposits ranging in tenures from one year to 21 years. The society however has limited financial flexibility in the absence of bank facilities and complete dependence on members for funding. While the society benefits from the current low regulatory oversight for co-operative societies, any changes in the regulatory framework for the sector would remain a key rating sensitivity.

The society's operations are largely concentrated around Indore in M.P. While the society plans to expand to other districts, it will remain focussed around Indore. ICRA notes that the entity's net-worth, comprising of membership fee, can be affected in case of members leaving the society. The society faces competition from other MFIs operating in the area.

During FY2016, the society's total income grew by 19% to Rs. 1.53 crore. With higher interest expenses of Rs. 0.51 crore in FY2016 as against Rs. 0.42 crore in FY2015, its net interest margin (as a percentage of average total assets, ATA) moderated to 8.61% in FY2016 from 9.16% in FY2015. However, with a decline in its operating expenses to 8.55% in FY2016 from 10.73% in FY2015, the society's profitability (profit after tax/ATA) improved to 2.57% in FY2016 from 0.93% in FY2015. Also, the improvement in profitability is also attributable to 48% YoY rise in income generating loan portfolio in FY2016.

Links to Applicable Criteria: Not Applicable

About the credit co-operative society

Swashryee Mahila Sakh Sahkari Sanstha Maryadit (SMSSM) is a credit co-operative society registered under the M.P. Co-operative Society (Amendment) Act, 2012 and the M.P. Co-operative Society Rules, 1962. The society was set up by Mrs. Manorama Joshi in 1989 with the objective of empowering women engaged in unorganised sectors to be self-sufficient and independent.

The society encourages its members to save through its various schemes, and also provides loans for various income generating activities. It had a loan portfolio of Rs. 8.89 crore as on November 30, 2016, including loans for small businesses (52% of the portfolio), seasonal loan (11%), education loan (7%), housing loan (12%), and agriculture & cattle loan (11%).

Recent results
SMSSM reported a net surplus of Rs. 0.24 crore on an asset base of Rs. 10.33 crore in FY2016 vis-à-vis a net surplus of Rs. 0.07 crore on an asset base of Rs. 8.13 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Feb 2017	FY2016	FY2015	FY2014
1	Proposed Bank Lines	Long Term	10.00	[ICRA]B+(Stable)	NA	NA	NA

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

Annexure-1
Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Issue Size (In Rs. crore)	Current Rating and Outlook
Proposed Bank Lines	-	-	-	10.00	[ICRA]B+(Stable)

Source: Society

Name and Contact Details of the Rating Analyst(s):

Mr. Rohit Inamdar
(Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Ms. Supreeta Nijjar
(Tel. No. +91-124-4545324)
supreetan@icraindia.com

Mr. Rajat Mehta
(Tel. No. +91-124-4545377)
rajat.mehta@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. Jayanta Chatterjee
(Tel. No. +91-80-43326401)
jayantac@icraindia.com

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For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	