

South Central Railway Employees' Co-operative Credit Society Limited

April 19, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash credit facilities	75.00	[ICRA]BBB+(Stable); Assigned
Term loans	75.00	[ICRA]BBB+(Stable); Assigned
Unallocated bank lines	60.00	[ICRA]BBB+(Stable); Assigned
Total	210.00	

Rating action

ICRA has assigned a rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 75.00-crore cash credit facilities, the Rs. 75.00-crore term loans and the Rs. 60.00-crore unallocated bank lines of South Central Railway Employees' Co-operative Credit Society Limited (SCRECCSL or the Society)¹. The outlook on the long term rating is Stable.

Rationale

The rating favourably factors in SCRECCSL's long track record of operations (for over 90 years), strong business model being a credit cooperative society of employees of South Central Railways, good asset quality led by adequate loan origination mechanism and security in the form of sureties / member deposits coupled with strong recovery processes. The Society's capitalisation profile is comfortable with net worth²/total portfolio of 22.79% and moderate gearing of 3.29 times as on March 31, 2017. The rating also takes cognisance of the society's access to low cost deposits from its members which provides comfort from liquidity perspective.

The rating is however constrained by SCRECCSL's limited financial flexibility and lack of stringent regulatory supervision for cooperative societies. By virtue of its constitution as a society, SCRECCSL remains exposed to risks pertaining to withdrawal of share capital by its members which could impact its net worth adversely. Going forward, the society's ability to maintain good asset quality, capitalization metrics and profitability indicators, while scaling up its portfolio would be critical rating sensitivities. Additionally, any regulatory changes for cooperative societies and its implications on the credit profile of SCRECCSL would be key monitorable.

Outlook: Stable

ICRA believes that SCRECCSL will continue to benefit from its strong borrower profile and its robust collection mechanism which are expected to support its overall asset quality. The outlook may be revised to Positive if SCRECCSL is able to report sustained improvement in profitability, capitalization and diversification in borrowing mix thereby strengthening the financial risk profile. The outlook may be revised to Negative if the Society witnesses deterioration in asset quality, weakening of earnings profile or capitalization indicators.

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

² Comprises paid up share capital, surplus from profit and loss and various funds created by appropriation of profits.

Key rating drivers

Credit strengths

Long track record of operations with stable business growth – Established in 1923, SCRECCS has been operational for over 90 years with steady business growth supported by expansion in deposit base and increase in loan ticket sizes. SCRECCS extends loans and other welfare services to its members and collects monthly compulsory deposit (interest bearing) which has supported its steady portfolio growth over the years. As on March 31, 2017 the society had as deposit base and advances of Rs. 408.16 crore and Rs. 685.03 crore, respectively. SCRECCS's membership base stood at 45,556 as on March 31, 2017 as compared to 45,163 members as on March 31, 2016 thereby reversing the declining trend of past few years.

Good asset quality supported by strong recovery mechanism and borrower profile – The society has been able to maintain good asset quality supported by strong collection mechanism characterized by deduction of monthly instalments at the source of income by virtue of being an employee cooperative society of south central division of the Indian Railways, the society has entered into a memorandum of understanding with the Indian Railways for the recovery of monthly loan instalments from the salaries of borrowing members. Additionally, personal guarantee by two members, availability of the borrower's deposit with the society and recourse on the borrower's retiral benefits in the event of delinquencies has cushioned its asset quality metrics. As on February 28, 2018 the society's 90+ dpd stood at 2.42% (3.08% as on March 31, 2017); however, the eventual loss has been nil supported the strong recovery mechanism. Going forward, its ability to maintain low delinquencies would be crucial from profitability perspective.

Comfortable Capitalisation profile – The capital profile of the society is comfortable with net worth/ total portfolio of 22.79% and moderate gearing of 3.29 times as on March 31, 2017. SCRECCS collects subscription from its members in the form of compulsory monthly thrift deposit (CMTD). Additionally, every member is required to deposit 10% of the proposed loan amount as share capital which ensures a floor of capital adequacy at 10%. The net worth³ of the society has increased to Rs. 156.14 crore as on March 31, 2017 from Rs.130.60 crore as on March 31, 2016 supported by regular contribution towards share capital by the members coupled with improved internal generation.

Credit challenges

Ability to diversify funding sources crucial from growth and profitability perspective – SCRECCS has limited financial flexibility with funding relationship with two banks. The society has sectioned cash credit limit of Rs. 75 crore from State Bank of India carrying an interest rate of 10.00% per annum and term loan facility of Rs.59 crore from Canara Bank at an interest rate of 9.65%. Going forward, the Society's ability to secure funding from diverse sources and at competitive rates would be critical for its growth given its lending rates of 5-7%. While access to low-cost deposit base provides comfort, it remains vulnerable to share capital withdrawal by members which could impact its net worth and liquidity adversely thereby impeding its growth.

Lack of stringent regulatory oversight for cooperative societies – Currently, the society is governed by the Multi-State Co-operative Societies Act, 2002 and is not regulated by the Reserve Bank of India (RBI). The regulatory framework for cooperative societies remains limited compared to the prudential requirements of RBI regulated non-banking finance companies. .

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

³ Comprises paid up share capital, surplus from profit and loss and various funds created by appropriation of profits.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

South Central Railway Employees' Co-operative Credit Society Limited (SCRECCS) was established in 1923 under State Co-operative society Act 1912. Currently the society is governed by the Multi-State Co-operative Societies Act, 2002 as it has spread its operations in more than one state. As on February 28, 2018 SCRECCS operated through 21 branches spread across six states (Telangana, Andhra Pradesh, Maharashtra, Madhya Pradesh, Karnataka and Goa). SCRECCS collects subscription from its society members in the form of compulsory monthly thrift deposit (CMTD) and offer loans under various schemes to its members who are employees and officers working under South Central division of Indian Railways.

As on March 31, 2017 the society had as deposit base and advances of Rs. 408.16 crore and Rs. 685.03 crore respectively. SCRECCS reported a net surplus of Rs. 19.13 crore in FY2017 on an asset base of Rs. 721.84 crore as on March 31, 2017 against a net surplus of Rs. 16.01 crore in FY2016 on an asset base of Rs. 636.44 crore as on March 31, 2016.

Key Financial Indicators (Audited)

	FY2015	FY2016	FY2017
Total Income	51.80	59.52	63.60
Net surplus	12.30	16.01	19.13
Net Worth	115.70	130.60	156.14
Total Portfolio	572.56	602.44	685.03
Total Assets	603.30	636.44	721.84
Net worth/ Total portfolio	20.21%	21.68%	22.79%
Gearing	3.75	3.52	3.29
RoE	11.07%	13.00%	13.34%

Amount in crore

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	April 2018	FY2018	FY2017	FY2016	FY2015
Cash credit facilities	Long Term	75.00	56.00	[ICRA]BBB+(Stable)	-	-	-	-
Term loans	Long Term	75.00	57.75	[ICRA]BBB+(Stable)	-	-	-	-
Unallocated bank lines	Long Term	60.00	-	[ICRA]BBB+(Stable)	-	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit facilities	30.03.2017	10.00%	-	75.00	[ICRA]BBB+(Stable)
NA	Term loans	20.04.2017	9.65%	17.04.2022	75.00	[ICRA]BBB+(Stable)
NA	Unallocated bank lines	-	-	-	60.00	[ICRA]BBB+(Stable)

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