

## Rashtriya Seva Samithi

April 18, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based -Term Loan	10.71	9.65	[ICRA]BB+ (Stable); Reaffirmed
Fund Based - Working Capital Facilities	42.50	47.50	[ICRA]BB+ (Stable); Reaffirmed
Long Term - Unallocated Limits	0.00	1.06	[ICRA]BB+ (Stable); Reaffirmed
<b>Total</b>	<b>53.21</b>	<b>58.21</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation factors in Rashtriya Seva Samithi's (RASS) extensive track record in microlending, established franchise in its area of operations, experienced management in rural development and microfinance operations, healthy asset quality indicators (90+ dpd at 0.01% as on December 31, 2018) in the microfinance operations and comfortable capitalisation profile (gearing<sup>1</sup> of 0.8 times as on March 31, 2018).

The rating is, however, constrained by the society's moderate scale (AUM<sup>2</sup> of Rs. 118.1 crore as on December 31, 2018) and the geographically concentrated microfinance operations, exposing it to regional risks. ICRA notes that there is scope for improvement in RASS' internal control and risk management systems, including the loan origination and audit processes, which would be crucial as the microfinance portfolio grows. The society's borrowing profile is limited only to bank borrowings, at present. RASS, being a society, is not subject to regulatory supervision. However, it is a member of Sa-Dhan and adheres to some of its codes of conduct, which, to an extent, mitigates the risks associated with the microfinance operations. ICRA also notes that while RASS' microfinance operations generate an earning 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.

### Outlook: Stable

ICRA believes that RASS would continue to benefit from its strong member franchise, comfortable capitalisation and asset quality profile. The outlook may be revised to Positive with a steady improvement in the geographical diversification while maintaining a healthy asset quality profile and improving the funding diversity. The outlook may be revised to Negative in case of a significant deterioration in the asset quality or weakening in its liquidity, earnings or capitalisation profile.

<sup>1</sup> Borrowings/total corpus (including unspent programme surpluses)

<sup>2</sup> AUM - Assets under management

## Key rating drivers

### Credit strengths

**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 to build a member base of ~62,000 with about 53,000 active borrowers, at present, under the microfinance programme. RASS' presence is, however, concentrated in two districts, namely Andhra Pradesh (AP) and Tamil Nadu (TN).

**Fairly experienced board and management team for current scale of operations** – RASS has a 10-member board comprising experienced personnel in the rural development and microfinance sector. The board is involved in the strategic decision-making process and meets every quarter and whenever required. RASS' General Secretary, Dr. G Muriratnam, is a social welfare activist and a member of the executive committee of the Central Social Welfare Board, Government of India. The senior management team is headed by Mr. Venkataratnam, Executive Director, 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.

**Healthy asset quality indicators** – RASS' asset quality indicators are comfortable with a 0+ dpd as well as 90+ dpd of 0.01% as on December 31, 2018 (0+ dpd and 90+ dpd at 0.06% in March 2018). The asset quality is supported by its good relationships with the borrowers, who have been associated with the society for other welfare programmes. ICRA notes that RASS does not perform credit bureau checks of its borrowers, which exposes it to credit risks arising from borrower overleveraging. While not many microfinance players are active in AP at present, the highly concentrated nature of its portfolio exposes RASS to regional risks.

**Comfortable capitalisation profile** – RASS' capitalisation profile is comfortable, at present, with a gearing of 0.8 times as on March 31, 2018 (0.7 times as on March 31, 2017). Its total corpus (including unspent programme balances) was Rs. 81.08 crore as on March 31, 2018 (Rs. 71.44 crore as on March 31, 2017) with microfinance accounting for 89% of the same. RASS expects to grow its microfinance portfolio to about Rs. 140 crore by March 2020. The current level of capitalisation would be adequate for the envisaged near-term growth plan.

### Credit challenges

**Modest scale and geographically concentrated operations** – RASS's operations are currently moderate with a microfinance portfolio of Rs. 118.1 crore as on December 31, 2018. The portfolio grew by 18% YoY in FY2018 and the society's targeted growth rate is 15-20% per annum with a loan portfolio of Rs. 140 crore expected by March 2020. RASS' AUM is regionally concentrated in AP and TN, which accounted for 89% and 11%, respectively, as on December 31, 2018. It has a presence via five branches across the districts of Chittoor (AP) and Thiruvallur (TN). The Tirupati (Chittoor district) branch accounted for about 64% of the portfolio as on December 31, 2018. RASS' geographical concentration exposes it to regional risks and limits the scope for portfolio expansion.

**Limited funding flexibility** – RASS' funding profile is limited to borrowings from a few banks and financial institutions (FIs). It receives domestic and foreign grants 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.

**Profitability susceptible to adverse movements in grant receipts; however, microfinance segment performance is healthy** – RASS receives grants and donations for its welfare programmes and the excess of income over expenditure for its welfare activities (excluding microfinance activities) in FY2017 and FY2018 was Rs. 1.3 crore and Rs. 0.5 crore,

respectively. The microfinance operations, however, reported healthy net surpluses of Rs. 6.7 crore and Rs. 8.3 crore in FY2017 and FY2018, respectively. RASS' overall profitability is supported by the surpluses generated from the microfinance segment on the back of good segmental operating efficiencies (operating expenses/ATA of 2.9% FY2018) and low credit cost (0.1% in FY2018). Any significant shortfall in the grants or donations could have an adverse impact on profitability if higher expenses are incurred towards social/welfare activities.

**Scope for improvement in risk management systems** – RASS uses FIMO for its microfinance operations and captures both member and group-level data. The internal audit is conducted by a team of seven members on an annual basis. RASS' internal audit is adequate for the present level of operations though there is scope for improvement in the frequency of the process. While the loan appraisal system is adequate with verification of the track record of internal savings and lending, the absence of a credit bureau check increases the risk of overleveraging of borrowers. ICRA notes that there is scope for improvement in the internal audit and loan appraisal systems, which are crucial as the portfolio expands.

**Lack of regulatory supervision** – Being 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 NBFC-MFIs. However, it is member of Sa-Dhan, one of the self-regulatory bodies for microfinance institutions, and it adheres to some of Sa-Dhan's codes of conduct. This, to an extent, mitigates the risks associated with the microfinance operations.

## Liquidity position

The liquidity profile is adequate because of the low leverage, sufficient internal generation from the microfinance segment and regular receipt of donations and grants (Rs. 15-25 crore over the last two years) for other welfare activities. However, any significant shortfall in the grants/donations, going forward, in relation to the envisaged or incurred expenses towards social/welfare activities could adversely impact RASS' liquidity profile. Further, it is crucial for the society to diversify its funding profile to support growth in the microfinance portfolio, going forward.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

RASS was established in 1981 under the Societies Act, with its registered office in Tirupati (AP). It was established by Padma Shri recipient, Dr. Gutta Muniratnam, a welfare activist. RASS currently has close to 35 different welfare and development programmes, including microfinance, in AP, TN, Odisha, and Delhi, primarily for women and children development and for the welfare of the aged and physically challenged. RASS receives funding support through grants and donations, for its various welfare programmes, from domestic as well as international sources.

RASS' microfinance programme commenced in 1989 and its operations are concentrated in the Chittoor(AP) and Thiruvallur (TN) districts. The loan portfolio stood at Rs. 99.12 crore as on March 31, 2018 and Rs. 118.10 crore as on December 31, 2018.

In FY2018, the society reported a net profit of Rs. 9.87 crore on an operating income of Rs. 27.90 crore compared to a net profit of Rs. 9.51 crore on an operating income of Rs. 28.30 crore in the previous year.

### Key financial indicators (adjusted)

	FY2017	FY2018
Operating Income (Rs. crore)	28.3	27.9
PAT (Rs. crore)	9.5	9.9
Total Corpus (Rs. crore)	71.4	81.1
Total Managed Portfolio (Rs. crore)	83.8	99.1
Total Managed Assets (Rs. crore)	125.4	148.5
PAT/ATA (%)	7.9%	7.2%
Return on Net Worth (%)	14.4%	12.9%
Total Debt/TNW (times)	0.7	0.8

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2019	January 2018	September 2016
1 Fund Based -Term Loan	Long Term	9.65	9.65	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Fund Based - Working Capital Facilities	Long Term	47.50		[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3 Long Term – Unallocated Limits	Long Term	1.06		[ICRA]BB+ (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](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based -Term Loan	Sep-2017 to Dec-2018	8.50% - 12.00%	Dec-2019 to Dec-2022	9.65	[ICRA]BB+ (Stable)
NA	Fund Based - Working Capital Facilities				47.50	[ICRA]BB+ (Stable)
NA	Long Term - Unallocated Limits				1.06	[ICRA]BB+ (Stable)

Source: Rashtriya Seva Samithi

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