

July 22, 2019

South Central Railway Employees' Co-operative Credit Society Limited: Rating of [ICRA]BBB+(Stable) assigned to enhanced bank facilities

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit facilities	75.00	75.00	[ICRA]BBB+(Stable); outstanding
Term loans	75.00	75.00	[ICRA]BBB+(Stable); outstanding
Unallocated bank lines	60.00	100.00	[ICRA]BBB+(Stable); assigned; rated amount enhanced
Total	210.00	250.00	

*Instrument details as annexure

Rationale

The assigned rating takes into account South Central Railways Employees' Co-operative Credit Society Limited's (SCRECCSL) vintage of over 90 years, its comfortable capitalization profile with gearing of 2.7x as on March 31, 2019 and adequate loan origination mechanism supporting good asset quality. During FY2019, while the society's 90+ days past dues (dpd) delinquencies increased to 2.9% in March 2019 (from 2.4% in February 2018), ICRA notes that the ultimate loss is expected to remain low given the strong recovery mechanism underscored by presence of guarantors and deposits by borrowers. The rating continues to take into account SCRECCSL's good borrower profile comprising employees of South Central Railways and access to low cost deposits from its members supporting its liquidity. With portfolio of Rs.858.2 crore as on March 31, 2019 (Rs.817.1 crore as on March 31, 2018) spread over six states, the society's scale of operations remains moderate.

The rating also factors in SCRECCSL's limited financial flexibility, and lack of stringent regulatory supervision for cooperative societies. SCRECCSL also remains exposed to risks of withdrawal of share capital and deposits by its members which may adversely impact its net worth and liquidity profile. 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.

Key rating drivers

Credit strengths

Long track record of operations with stable business growth – SCRECCS has been operational for over 90 years with steady business growth supported by expansion in member base and increase in loan ticket sizes. As on Dec 31, 2018 Society had 44,700 members against 44,477 members as on March 31, 2018. SCRECCS extends loans and other welfare services to its members and collects monthly compulsory monthly thrift deposit (CMTD, interest bearing) which has supported its steady growth over the years. As on March 31, 2019 (provisional financials) the society had a deposit base and advances of Rs.502.9 crore and Rs.858.2 crore respectively compared to deposit base and advances of Rs.460.0 crore and Rs.817.1 crore respectively as on March 31, 2018.

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. During FY2019, the society's 90+ dpd delinquencies increased to 2.9% in March 2019 (from 2.4% in February 2018), ICRA notes that the ultimate loss is expected to remain negligible. Going forward, SCRECCSL's ability to keep asset quality under control would be crucial from profitability perspective.

Comfortable Capitalisation profile – The society's capitalization profile is comfortable with net worth / total portfolio of 27.2% and gearing of 2.7 times as on March 31, 2019 (provisional). SCRECCSL's net worth is supported by compulsory contribution of 10% of the loan amount by borrowing members towards share capital, thereby ensuring minimum capital adequacy of 10% besides good internal accruals. SCRECCSL's net worth stood at Rs.234.1 crore as on March 31, 2019 compared to Rs.210.2 Crore as on March 31, 2018. Nevertheless, ICRA notes that the society remains vulnerable to withdrawal of share capital by members which may impact the capitalization adversely.

Credit challenges

Ability to diversify funding profile – SCRECCSL's funding profile primarily consists of deposits accounting to 78.9% of total debt (considering deposits as debt) as on March 31, 2019 with balance 21.1% accounted by bank borrowings. The society has banking relationships with two public sector banks with total funding lines of Rs.134.0 crore (Rs.75.0 Crore OD limits, Rs.59.0 Crore term loan) as on March 31, 2019. Access to member deposits has aided SCRECCSL in maintaining low cost of funds; however, ICRA notes that the society's ability to secure funding lines from diverse lenders would be crucial for long term liquidity and growth.

Possibility of increased regulatory oversight

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). But, going forward, the employee co-operatives society might come under the jurisdiction of the RBI, which could impose prudential norms on the capital structure similar to those currently applicable to other RBI-regulated entities like banks and NBFCs.

Liquidity Position:

SCRECCSL's liquidity profile remains adequate supported by granular deposit base, undrawn sanctions to the extent of Rs.21.0 crore and cash and liquid investment balances of Rs.2.3 crore as on June 05, 2019 in relation to repayment obligations of about Rs.1.4. crore per month over the next six months. Of the total deposit base of Rs.502.9 crore as on

March 31, 2019, ICRA notes that fixed deposits (predominantly with tenor of 1 year) account for close to Rs.10.0 crore with balance being accounted by thrift deposits of members. While the deposit base has remained largely stable in the past, SCRECCSL remains vulnerable to withdrawal of deposits by members thereby impacting its liquidity. ICRA notes that the society's ability to diversify its funding profile would be crucial for long term liquidity.

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	Rating is based on standalone financial statements

About the company:

South Central Railway Employees' Co-operative Credit Society Limited (SCRECCS) was established in 1923 under Sate Cooperative 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 December 31, 2018, SCRECCSL operated through 17 branches spread across six states/UTs (Telangana, Andhra Pradesh, Maharashtra, Madhya Pradesh, Karnataka and Goa). As on March 31, 2019 (provisional financials) the society had a deposit base and advances of Rs.502.9 crore and Rs.859.8 crore respectively. SCRECCSL reported a net profit of Rs.21.2 crore in FY2019 (provisional financials) on a total asset base of Rs.906.6 crore as on March 31, 2019 (provisional financials) against a net profit of Rs.21.3 crore in FY2018 on a total asset base of Rs.858.6 crore as on March 31, 2018.

Key Financial Indicators (Audited)

	FY2017	FY2018	FY2019*
Total Income	63.60	73.12	78.85
Net profit	19.13	21.25	21.22
Net Worth	177.71	210.16	234.06
Total Portfolio	685.03	817.06	858.20
Total Assets	721.84	858.62	906.58
Net worth/ Total portfolio	22.79%	25.72%	27.22%
Gearing	3.29	2.92	2.72
RoE	13.34%	10.96%	9.56%

*Provisional Financials; Fig in Rs. Crore

Status of non-cooperation with previous CRA:

Non-cooperation by Issuer

CRISIL has been consistently following up with South Central Railway Employees Co-op Credit Society Limited (SCRECS) for obtaining information through letters and emails dated March 26, 2018, Apr 06, 2018, among others; apart from telephonic communication. However, the issuer has remained non-cooperative. 'Investors, lenders, and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING'. These ratings lack a forward-looking component as they are arrived at without any management interaction and are based on best available or limited or dated information on the company.

Detailed Rationale

Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of SCRECS, which restricts CRISIL's ability to take a forward-looking view on the entity's credit quality. CRISIL believes information available on SCRECS is consistent with 'Scenario 2' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BBB rating category'.

Therefore, on account of inadequate information and lack of management cooperation, CRISIL has migrated the rating on the bank loan facility of SCRECS to '**CRISIL BBB-/Stable Issuer Not Cooperating**'

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)	July 2019 (Enhancement)	FY2020	FY2019	FY2018
					July 2019	April 2018	-
Cash credit facilities	Long Term	75.00	56.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
Term loans	Long Term	75.00	57.75	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
Unallocated bank lines	Long Term	100.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[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	10.15%	17.04.2022	75.00	[ICRA]BBB+(Stable)
NA	Unallocated bank lines	-	-	-	100.00	[ICRA]BBB+(Stable)

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About ICRA Limited:

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