

October 31, 2019

The Railway Employees Co-operative Credit Society Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore) #	Rating Action
Long term - Fund based Term Loan	886.93	[ICRA]A- (Stable); assigned
Long term - Unallocated	313.07	[ICRA]A- (Stable); assigned
Total	1,200.00	

* Instrument details are provided in Annexure-1
Outstanding amount as on August 31, 2019

Rationale

The assigned rating factors in The Railway Employees Co-operative Credit Society Limited (RECCS)'s track record of healthy asset quality. As the society's borrowers are employees of Indian Railways (IR) and monthly loan instalments along with contributions of thrift deposits are directly deducted by IR from their salaries and remitted to the society, the asset quality therefore is expected to remain healthy going forward also. The rating also factors in RECCS' good profitability indicators with a net profit/AMA¹ at 5.3% during FY2019 (5.0% in FY 2018) and its adequate capitalization with gearing of 4.0 times as on March 31, 2019. RECCS has targeted a portfolio growth at a CAGR of about 18% over the next 3 years to reach a portfolio of about Rs. 3,000 crore by March 2022.

ICRA notes that there has been a stagnancy in the member base for the last 3 years mainly on account of large number of retirements and transfers to Northern part of the country. Portfolio growth moderated to 14% in FY2019 compared to about 20-30% in the prior 4 years. The portfolio growth in the recent past was mainly supported by increase in the per borrower exposure. Being a credit cooperative society RECCS has limited funding avenues and less regulatory oversight compared to NBFCs which are under RBI' purview.

The Stable outlook factors ICRA' expectation that RECCS' would keep healthy asset quality indicators under control, have a good profitability profile and maintain an adequate capitalisation and liquidity profile.

Key rating drivers

Credit strengths

Healthy asset quality indicators: RECCS's asset quality was healthy with 30+ dpd at 0.3% as on March 31, 2019 vis-à-vis 0.2% as on March 31, 2018. The delinquencies in 90+ dpd bucket is negligible at 0.04% on March 31, 2019 vis-à-vis 0.06% in March 31, 2018. As, the borrowers are employees of the Indian Railways (IR) and as the loan instalments along with monthly contributions of thrift deposits are directly deducted by IR from the member salaries and remitted to the society asset quality is expected to remain healthy with low delinquencies going forward also. Credit costs stood at 0.4% for

¹ Net profit/Average managed assets

FY2019 (0.4% in FY2018) due to write-offs occurring largely on account of death of members or other employment related issues like suspension, dismissals, transfers etc.

Good profitability indicators: RECCS's profitability was healthy with a PAT/AMA at 5.3% during FY2019 (5.0% in FY 2018) improved from 3.7% in FY2015. The increase in profitability was supported by improvement in operating efficiency (opex/AMA at 2.9% in FY2019 vis a vis 3.3% in FY2018 and 5.4% in FY2015) due to economies of a large scale. RECCS's credit cost has remained under control at 0.4% for the last 5 years. However, there is a decline in Net Interest Margin in FY2019 to 8.0% from 8.9% in FY2015 mainly due to decline in yields and increase in borrowing cost. The cost of borrowing has also gradually increased due to the increasing share bank funding vis-a-vis low-interest deposits from members. Going forward, RECCS's net profitability is expected to remain at about 5.0% in the medium term. It would be crucial to keep its credit and operating costs under check while expanding its portfolio, as ICRA expects the share of bank funding to increase further going forward.

Adequate capitalization profile: RECCS's gearing² stood moderate at 4.0 as on March 31, 2019 vis-a-vis 4.7 times as on March 31, 2015. The gearing reduction was supported by internal generation leading to increase in reserve funds and, the increase in share capital. RECCS has envisaged a portfolio growth at a CAGR of 18% over the next 3 years to reach a portfolio of about Rs. 3,000 crore by March 2022. Considering the borrowing member contribution of 10% of the general loans availed towards equity capital and supported by internal generation, ICRA expects the capital profile to remain adequate over the near to medium term.

Credit challenges

Stagnant member base, increase in per borrower exposure: RECCS had a member base of 63,810 as on March 31, 2019 (62,857 as on September 30, 2019) vis-à-vis 63,689 as on March 31, 2016. There has been stagnancy in the member base for the last 3 years on account of substantial retirements and transfers to Northern part of the country, and the same is expected to continue over the medium term (estimated retirals in next 3 years shall contribute to withdrawal of 10% of share capital and 18% of thrift deposits outstanding as on March 31, 2019). Out of the total members as in March 2019, only two-third of the members have availed Loans and the rest do not have loans but contributing to monthly thrift deposits. Active loan accounts declined from 87,478 as on March 31, 2016 to 76,618 as on March 31, 2019 indicating an increase in the ticket size. RECCS registered a contraction of 6% in its disbursements during FY2019 to Rs.634.3 crore compared with Rs.674.7 crore during FY2018; portfolio however grew by 14% in FY2019 to Rs.1883.3 crore as compared to growth rate of about 20-30% in the 4 prior years. Growth in portfolio is majorly supported by increase in General Loan sanction amount per active member from Rs.2.52 lakhs in FY2015 to Rs.6.29 lakhs in FY2019. Ability to grow, while keeping a control on the per borrower exposure and by adding new members would be crucial going forward.

Limited funding avenues: RECCS's funding profile comprise of funding from banks (60%) and thrift deposits from members (40%) as on March 31, 2019. The thrift deposits growth over the period FY2015-FY2019 was moderate due to a largely rangebound member base because of retirements and transfers etc. and relatively lower member additions. Consequently, the society's share of funding from banks, which are relatively short-term funding source vis a vis the thrift Deposits, has been gradually increasing since FY2016, share of funds from banks stood at 60% as on March 31, 2019 vis-a-vis 44% as on March 31, 2015. This in turn has increased the funding cost. Being a society, RECCS has access to limited funding avenues as compared to corporate entities therefore liquidity management shall be crucial going forward amidst increase in loan tenor to upto 96 months while the external bank borrowings are of a 48 month tenor.

² Net worth includes the share capital and the society's unmarked reserve funds

Limited regulatory oversight: RECCS is a Multi-State Co-operative Society and is not regulated by the Reserve Bank of India (RBI). The regulatory framework for cooperative societies is quite limited compared to the requirements of RBI-regulated non-banking finance companies.

Liquidity position: Adequate

RECCS's liquidity profile is adequate with positive cumulative mismatches across maturity buckets for less than 1 year. It has repayment obligations of Rs.501 crore (Bank borrowings including OD, thrift deposit and share capital) against inflows of Rs.626 crore (Loan collections and investments) in FY2020. RECCS has maintained an average sanctioned and undrawn bank lines (month end position) of Rs.119.6 crore over the last 12 months and is expected to maintain a minimum of Rs.50 crore on a steady state basis going forward. Limited financial flexibility and managing liquidity with the expected increase in the share of bank funding would be a monitorable going forward.

Rating Sensitivities

Positive triggers – ICRA could upgrade RECCS's rating if the society improves its gearing to less than 3.5 times on a sustained basis and, demonstrate a member base driven portfolio growth over the medium term while maintaining healthy earnings and an adequate liquidity profile.

Negative triggers – ICRA could downgrade RECCS's rating if its leverage increases beyond 5.5 times or if the society undertakes any sizeable non-core investment thereby adversely impacting its liquidity or earnings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on the standalone financials of RECCS

About the Society

RECCS was established in 1907 and is governed by Multi-State Co-operative Societies Act, 2002. Railway employees/officers, who are members of society and employed in Southern, South-Central, South-Western, and Central Railways, and Rail wheel factory, Yelahanka and Integral Coach Factory, Chennai are catered the financial needs by way of developing thrift savings and lending various kinds of loan by the society.

It has 28 branches in operation across 5 states, deposits of Rs 586 crore, advances of Rs 1905 crore and 63,810 members as on March 31,2019. Net surplus was Rs 102.1 crore on total income of Rs 270.7 crore for FY 2019 against a net surplus of Rs 81.6 crore on total income of Rs 232.8 crore for FY 2018.

Key financial indicators - RECCS

	FY2018	FY2019
Total Income	232.8	270.7
Net Profit	81.6	102.1
Net Worth	310.0	374.0
Total Managed Portfolio	1,677.2	1,905.5
Total Managed Assets	1,802.2	2,063.3
Return on Managed Assets	5.0%	5.3%
Return on Net Worth	29.5%	29.9%
Adjusted Return on Networth ³	10.3%	10.5%
Gearing (times)	4.4	4.0
Gross NPA%	0.06%	0.04%
Net NPA%	0.0%	0.0%
Net NPA/Net Worth	0.0%	0.0%
CRAR %	NA	NA

Source: RECCS and ICRA research; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)		Rating History for the Past 3 Years				
	Type	Amount Rated	Amount Outstanding	Rating 31-Oct-19	FY2019	FY2018	FY2017
1 Term Loans	Long Term	886.93	886.93	[ICRA]A-(Stable)	-	-	-
2 Term Loans – Unallocated	Long Term	313.07	313.07	[ICRA]A-(Stable)	-	-	-

Amounts in Rs. crore

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

³ Adjusted profit consists of only 35% of net surplus which is transferred to reserve funds. The remaining 65% is moved to earmarked funds like building fund, common good fund, dividend equalisation fund, patronage bonus, investment fund, building recoupment reserve, co-operative education fund, ex-gratia, staff voluntary retirement benefit fund and dividend payment.

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated * (Rs. crore)	Current Rating and Outlook
-	Term Loan	Jan-17	NA	Feb-21	25.16	[ICRA]A- (Stable)
-	Term Loan	Jul-18	NA	Aug-22	37.82	[ICRA]A- (Stable)
-	Term Loan	Nov-15	NA	Nov-20	16.46	[ICRA]A- (Stable)
-	Term Loan	Sep-17	NA	Feb-22	35.63	[ICRA]A- (Stable)
-	Term Loan	Sep-19	NA	Dec-19	2.08	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Jun-19	21.06	[ICRA]A- (Stable)
-	Term Loan	Nov-19	NA	May-19	86.21	[ICRA]A- (Stable)
-	Term Loan	Mar-19	NA	Mar-19	19.79	[ICRA]A- (Stable)
-	Term Loan	Aug-19	NA	Sep-19	1.04	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Dec-19	20.00	[ICRA]A- (Stable)
-	Term Loan	Jun-19	NA	Jun-19	35.42	[ICRA]A- (Stable)
-	Term Loan	Aug-19	NA	Aug-23	1.00	[ICRA]A- (Stable)
-	Term Loan	Feb-19	NA	Mar-19	10.08	[ICRA]A- (Stable)
-	Term Loan	May-19	NA	May-19	18.03	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Jan-19	42.58	[ICRA]A- (Stable)
-	Term Loan	Sep-19	NA	Sep-19	15.52	[ICRA]A- (Stable)
-	Term Loan	Mar-19	NA	Jun-19	19.79	[ICRA]A- (Stable)
-	Term Loan	Sep-19	NA	Apr-19	59.17	[ICRA]A- (Stable)
-	Term Loan	Aug-19	NA	Sep-19	77.08	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Dec-19	4.24	[ICRA]A- (Stable)
-	Term Loan	Apr-19	NA	Feb-19	4.72	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Feb-19	39.00	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Feb-19	67.60	[ICRA]A- (Stable)
-	Term Loan	Dec-19	NA	Jan-19	128.12	[ICRA]A- (Stable)
-	Term Loan	Jun-19	NA	Jun-19	33.00	[ICRA]A- (Stable)
-	Term Loan	Aug-19	NA	Feb-19	1.30	[ICRA]A- (Stable)
-	Term Loan	May-19	NA	Nov-19	3.03	[ICRA]A- (Stable)
-	Term Loans (Allocated)	NA	NA	NA	62.00	[ICRA]A- (Stable)
-	Term Loans (Unallocated)	NA	NA	NA	313.07	[ICRA]A- (Stable)
Total					1,200.00	

Source: RECCS

*Outstanding amount as on August 31, 2019

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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