

April 07, 2021 ^(Revised)

Rashtriya Seva Samithi: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	58.21	69.21	[ICRA]BB+ (Stable); Assigned/Reaffirmed
Total	58.21	69.21	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Rashtriya Seva Samithi's (RASS) track record in microfinance operations, its established franchise in its area of operations, its experienced management team in rural development and microfinance operations and its comfortable capitalisation profile (gearing of 0.6 times as on December 31, 2020 in the microfinance business and consolidated gearing of 0.7 times as on March 31, 2020).

The rating is, however, constrained by the increase in the overdues on account of the Covid-19-induced lockdown, RASS' moderate scale (microfinance assets under management (AUM) of Rs. 132.6 crore as on December 31, 2020), and the geographically concentrated microfinance operations, exposing it to regional risks. RASS did not provide a moratorium to its borrowers, which resulted in the 60+ days past due (dpd) increasing to 8.0% by December 2020 (17.40% in September 2020) from 0.0% in March 2020. While the improvement in collections since June 2020 provides comfort, the asset quality performance would remain a near-term monitorable. ICRA also notes that there is scope for improvement in RASS' internal control, monitoring and risk management systems, which would be crucial as the microfinance portfolio grows. As RASS is a society, it 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 earnings 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. Going forward, it would be crucial for RASS to improve its funding diversity, as the microfinance portfolio expands, and to maintain an adequate liquidity profile.

Key rating drivers and their description

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 build a member base of ~69,000 with ~58,700 active borrowers as on December 31, 2020 under the microfinance programme. RASS' presence is, however, concentrated in two districts, i.e. Chittoor (Andhra Pradesh; AP) and Thiruvallur (Tamil Nadu; TN).

RASS' 11-member board comprises personnel who are experienced in rural development and microfinance. The board is involved in the strategic decision-making process and meets every quarter and whenever required. RASS' General Secretary, Dr. G Muniratnam, 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.

Comfortable capitalisation profile – RASS' microfinance business, which accounted for 88% of the total assets in March 2020, has a comfortable capitalisation profile with a gearing of 0.6 times as on December 31, 2020 (0.8 times as on March 31, 2020). The net worth of the microfinance segment was Rs. 100.5 crore in December 2020 (Rs. 87.8 crore in March 2020). Its total corpus (including unspent programme balances) was Rs. 106.6 crore as on March 31, 2020 (Rs. 95.1 crore as on March 31, 2019). RASS expects to grow its microfinance portfolio to about Rs. 160 crore in FY2022 while witnessing a decline of about 10% in FY2021. The current capitalisation profile would be comfortable for achieving the envisaged growth.

Credit challenges

Increase in overdues on account of lockdown; sustained improvement in collections remains crucial – RASS did not extend a moratorium to its borrowers post the imposition of the Covid-19-related lockdown in March 2020. This led to an increase in the reported overdues as collections were impacted in April and May 2020. However, ICRA notes that the 60+dpd reduced to 8.0% in December 2020 from 17.4% in September 2020 with the resumption of collections from June 2020. Collections (including overdue collections and excluding prepayments) have improved and stood at Rs. 10-11 crore vis-à-vis the monthly demand of Rs. 9-10 crore post June 2020. While collections have improved, the movement of the portfolio into harder buckets would remain a monitorable. Thus, it would be crucial for RASS to maintain a healthy collection trend going forward.

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. While the loan appraisal system is adequate with the 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.

Modest scale and geographically concentrated operations – RASS' operations are currently modest with a microfinance portfolio of Rs. 132.6 crore as on December 31, 2020. The portfolio declined by 9% in 9M FY2021 while it grew by 19% YoY in FY2020. The society is expected to achieve a loan portfolio of about Rs. 160 crore by March 2022. RASS' AUM is regionally concentrated in AP and TN, which accounted for 90% and 10%, respectively, as on December 31, 2020. It has a presence via seven branches across the districts of Chittoor and Thiruvallur. The Tirupati (Chittoor district) branch accounted for about 56% of the portfolio as on December 31, 2020. RASS' geographical concentration exposes it to regional risks and limits the scope for portfolio expansion.

Limited funding diversity – RASS' funding profile is limited to borrowings from a few banks and financial institutions (FIs). As of December 31, 2020, it had borrowings from four lenders. It receives grants for other welfare activities. Going forward, the society's ability to secure funds from diverse sources and at competitive rates would be critical for the growth of its microfinance operations.

Profitability susceptible to adverse movements in grant receipts; however, microfinance segment's performance has remained healthy in the past – RASS receives grants and donations for its welfare programmes and the excess of income over expenditure for its welfare programmes. The excess of income over expenditure for its welfare activities, i.e. other than microfinance activities, in FY2020 and FY2019 (excluding microfinance activities and non-recurring income and expenses) was Rs. 0.5 crore and Rs. 0.7 crore, respectively. The microfinance operations, however, reported a healthy net surplus of Rs. 14.4 crore and Rs. 11.2 crore in FY2020 and 9M FY2021 (Rs. 10.7 crore in FY2019), respectively. RASS' overall profitability is supported by the surplus generated from the microfinance segment on the back of good segmental operating efficiencies (operating expenses/average total assets (ATA) of 3.2% in FY2020 and 2.8% in 9M FY2021) and low credit costs (1.0% in FY2020 and 0.75% in 9M FY2021). The ability to keep the credit costs under control would be crucial going forward, given the increase in the overdues due to the pandemic. Also, any significant shortfall in grants or donations could have an adverse impact on the profitability if higher expenses are incurred towards social/welfare activities.

Lack of regulatory supervision – As it is 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 non-banking financial companies-microfinance institutions (NBFC-MFIs). However, it is a member of Sa-Dhan, one of the self-regulatory bodies for MFIs 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: Adequate

The liquidity position is adequate with a cash and bank balance of Rs. 15.0 crore as of February 28, 2021 against total outflows of Rs. 13.1 crore (including operating expenses) during March 2021-June 2021. The liquidity profile is also supported by the low leverage, sufficient internal generation in the microfinance segment, and regular receipt of donations and grants (Rs. 30-35 crore over the last two years) for 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. Also, it would be crucial for the society to diversify its funding profile to support the growth of its microfinance portfolio.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if RASS is able to steadily improve its scale and geographical presence while keeping the asset quality under control and maintaining a comfortable capital profile.

Negative factors – ICRA could downgrade the rating or revise the outlook to Negative if the asset quality remains weak, leading to pressure on the earnings performance and capital profile.

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	The ratings are based on the standalone financial statements of Rashtriya Seva Samithi

About the society

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 the development of women and children and for the welfare of the aged and physically challenged. RASS receives funding support for its various welfare programmes through grants and donations 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. 132.6 crore as on December 31, 2020 and Rs. 146.2 crore as on March 31, 2020.

In FY2020, the society reported a net profit of Rs. 11.1 crore on an operating income of Rs. 36.9 crore compared to a net profit of Rs. 13.3 crore on an operating income of Rs. 40.2 crore in the previous year. The net profit from the microfinance business stood at Rs. 14.4 crore in FY2020 on a total asset base of Rs. 159.0 crore against a net profit of Rs. 10.7 crore on a total asset base of Rs. 143.9 crore in the previous fiscal.

Key financial indicators (audited; IGAAP)

Rashtriya Seva Samithi	FY2018	FY2019	FY2020
Total Income	33.4	43.4	44.6
PAT	9.9	13.3	11.1
Net Worth / Total Corpus	81.1	95.1	106.6
Assets under Management	99.1	123.1	146.2
Total Managed Assets	148.5	173.1	180.9
Return on Managed Assets	7.2%	8.3%	6.3%
Return on Net Worth	12.9%	15.1%	11.0%
Gearing (times)	0.8	0.8	0.7
Gross NPA%	0.0%	0.0%	0.0%
Net NPA%	0.0%	0.0%	0.0%
CAR%	NA	NA	NA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr No	Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Fund Based – Term Loan	Long Term	4.95	4.95	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
2	Fund Based – Bank Facilities	Long Term	62.50	62.50	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
3	Long Term – Unallocated Limits	Long Term	1.76	1.76	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[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 [click here](#)

Annexure-1: Instrument details

ISIN	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	-	Mar 2021 to Mar 2023	4.95	[ICRA]BB+ (Stable)
NA	Fund Based – Bank Facilities	-	-	-	62.50	[ICRA]BB+ (Stable)
NA	Long Term – Unallocated Limits	-	-	-	1.76	[ICRA]BB+ (Stable)

Source: RASS

Corrigendum

The rating rationale document dated April 07, 2021 corrected with revisions as follows:

- i) Rating approach corrected to ‘Standalone financial statements’ under Analytical approach in page no. 3
- ii) The rating in the rating history table in page no. 4 corrected for Apr-07-2021.

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