

April 29, 2022

## Southern Railway Employees' Co-operative Credit Society Limited: Rating upgraded to [ICRA]BBB (Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based – Term Loan	75.00	50.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long-term Fund Based – Overdraft	0.00	25.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
<b>Total</b>	<b>75.00</b>	<b>75.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action factors in the improvement in Southern Railway Employees' Co-operative Credit Society Limited's (SRECCS) scale and funding diversity. The loan book increased to Rs. 794 crore (provisional) in March 2022 from ~Rs. 705 crore in March 2021 and Rs. 669 crore in March 2020. ICRA, nevertheless, notes the decline in the member base over the years, mainly on account of the large number of retirements and transfers, while fresh recruitments were modest. Thus, the portfolio growth observed over the past was due to the increase in the per member exposure. SRECCS has been in existence for over 100 years and it currently extends loans to its members who are permanent employees of the Southern Railways division of the Indian Railways. Monthly loan instalments along with contributions towards thrift deposits from members are directly deducted by the Southern Railways from the members' salaries and are remitted to the society. The credit risk is, therefore, expected to remain low on the exposures.

The society has secured funding lines from two banks in the recent past, which would support its liquidity profile. However, deposits would continue to be the key source of funding for the society. SRECCS only accepts thrift deposits from its members, which are redeemable post retirement or when the member exits the society, which also provides comfort from a liquidity perspective. The rating continues to factor in the society's adequate capitalisation profile with a gearing of 3.2x as on March 31, 2021 and stable profitability indicators (profit after tax (PAT)/average managed assets (AMA) of 2.7% in FY2021 compared to 2.5% in FY2020 and 2.7% in FY2019 and FY2018).

The rating considers the limited regulatory supervision for cooperative societies. Going forward, the society's ability to further improve its funding diversity, scale up its operations and keep the capitalisation profile under control would be a key rating sensitivity.

### Key rating drivers and their description

#### Credit strengths

**Adequate capitalisation profile** – SRECCS' gearing stood at 3.2x as on March 31, 2021 (3.4x as on March 31, 2020 and 3.6x as on March 31, 2019). The gearing improved on account of healthy internal generation coupled with the relatively moderate asset growth. The society's net worth increased to Rs. 164.2 crore as on March 31, 2021 from Rs. 149.5 crore as on March 31, 2020 and Rs. 137.4 crore as on March 31, 2019. Considering the borrowing member contribution of 10% of the loans availed towards the equity capital and SRECCS' good internal generation, ICRA expects the capitalisation profile to remain adequate over the near to medium term.

**Loans to railway employees and established collection mechanism support risk profile** – The society’s asset quality is supported by its established collection mechanism, which is characterised by the deduction of monthly instalments from the borrowers at the source of their income. The asset quality is expected to remain healthy as the borrowers are employees of the Southern Railways and the loan instalments, along with monthly contributions of thrift deposits, etc, are directly deducted by the Southern Railways from the members’ salaries and remitted to the society. Additionally, personal guarantees by two other members for the key loan product offered by the society (~92% of the book as on March 31, 2022; provisional), availability of the borrowers’ deposits, and their investment in SRECCS’ share capital provide comfort from an asset quality perspective.

**Stable profitability indicators** – SRECCS’ profitability has remained stable and range-bound with PAT/AMA of 2.7% in FY2021 (2.5% in FY2020, 2.7% in FY2019 and FY2018). The net interest margin reduced marginally to 6.0% in FY2021 from 6.2% in FY2018 and 6.1% in FY2019 and FY2020 while the operating expense (opex) ratio improved moderately (opex/AMA) to 3.8% in FY2021 from 3.9% in FY2020 and 4.1% in FY2019. With the share of bank borrowings, which would be at a higher interest rate vis-à-vis member deposits, expected to increase with the growth in the portfolio, it would be crucial for SRECCS to keep its operating costs under control while expanding its portfolio.

## Credit challenges

**Augmentation of member base going forward is key-** SRECCS had a member base of 27,498 as on March 31, 2021 compared to 29,448 as on March 31, 2020, 30,814 as on March 31, 2019 and 32,051 as on March 31, 2018. The member base (provisional) reduced further to 25,900 as on March 31, 2022. The decline was due to sizeable retirements and transfers. Total disbursements in FY2022 (provisional) stood at Rs. 673.4 crore compared to Rs. 549.1 crore in FY2021 and Rs. 592.8 crore in FY2020. The portfolio grew by ~13% in FY2022 and stood at Rs. 794.0 crore (provisional) vis-à-vis the growth of 5.4% witnessed in FY2021. However, the portfolio growth was mainly supported by the increase in the exposure per member to Rs. 2.5 lakh in FY2021 and Rs. 3.1 lakh in FY2022 from Rs. 1.5 lakh in FY2018. The ability to add new members, going forward, would be key for portfolio growth.

**Member deposits account for bulk of the funding** – SRECCS’ funding profile comprised deposits and share capital from the members as of March 31, 2021. The society availed a term loan of Rs. 45 crore and an overdraft facility of Rs. 25 crore in FY2022, though deposits continue to account for the bulk of the overall funding. Total deposits stood at Rs. 525.0 crore in March 2021 compared Rs. 508.3 crore in March 2020 and Rs. 488.8 crore in March 2019. ICRA notes that the society would have to further diversify its funding profile, going forward, and augment its member base as well to provide stability to its deposits profile.

**Limited regulatory oversight** – SRECCS is a multi-state cooperative society. The regulatory framework for cooperative societies is quite limited compared to the requirements of the Reserve Bank of India (RBI)-regulated non-banking financial companies (NBFCs).

## Liquidity position: Adequate

SRECCS has external repayment (borrowing + deposit) obligations of Rs. 28.3 crore and operating expenses of Rs. 12 crore for April 2022 to September 2022. The society had a reserve fund of Rs. 42.5 crore invested as fixed deposits and un-availed bank facilities of Rs. 15 crore as of March 2022. As per the management, average monthly loan recoveries are Rs. 30.0 crore and monthly thrift deposits inflows are Rs. 2.5 crore.

## Rating sensitivities

**Positive factors** – ICRA could revise the outlook or upgrade the rating if SRECCS demonstrates a steady portfolio growth over the medium term while maintaining its earnings and further improving its funding diversity and liquidity profile.

**Negative factors** – ICRA could downgrade the rating if the gearing increases beyond 6.0x or in case of a weakening in the earnings or liquidity profile on a sustained basis or if SRECCS undertakes any sizeable non-core investment.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements

## About the company

Southern Railway Employees' Co-operative Credit Society Limited is currently registered as a multi-state cooperative society and is governed by the Multi-State Co-operative Societies Act, 2002. As on March 31, 2021, it operated through seven branches across Tamil Nadu, Kerala, Karnataka and Puducherry. SRECCS collects subscriptions from its society members in the form of compulsory monthly thrift deposits (CMTDs) and offers loans under various schemes to its members who are the employees and officers working under the southern division of the Indian Railways (Southern Railways). As on March 31, 2021, the society had a deposit base and advances of Rs. 525 crore and Rs. 705 crore, respectively. As on March 31, 2022, SRECCS had a portfolio of Rs. 794 crore (provisional). The society reported a net profit of Rs. 21.9 crore on a total asset base of Rs. 819.8 crore as on March 31, 2021 compared to a net profit of Rs. 19.2 crore on a total asset base of Rs. 780 crore as on March 31, 2020.

## Key financial indicators (audited)

SRECCS	FY2019	FY2020	FY2021
Total income (Rs. crore)	80.7	83.6	86.6
Profit after tax (Rs. crore)	19.0	19.2	21.9
Net worth (Rs. crore)	137.4	149.5	164.2
Loan book (Rs. crore)	618.8	669.2	705.2
Total assets (Rs. crore)	737.4	779.5	819.8
Return on assets (%)	2.7%	2.5%	2.7%
Return on net worth (%)	14.4%	13.4%	14.0%
Gross gearing (times)	3.6	3.4	3.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations

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

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 29, 2022	-	Feb 25, 2021	
1	Long-term Fund Based – Term Loan	Long Term	50.0	50.0	[ICRA]BBB (Stable)	-	[ICRA]BBB- (Stable)	NA
2	Long-term Fund Based – Overdraft	Long Term	25.0	25.0	[ICRA]BBB (Stable)	-	-	NA

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund-based Term Loan	Simple
Long Term – Fund-based Term Loan* (unallocated)	Not Applicable
Long Term – Fund-based Overdraft	Simple

\*Complexity indicator is subject to change once the terms are finalised

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund Based – Term Loan	*NA	8.45%	NA	37.50	[ICRA]BBB (Stable)
NA	Long-term Fund Based – Term Loan(unallocated)	-	-	-	12.50	[ICRA]BBB (Stable)
NA	Long-term Fund Based – Overdraft	NA	7.35%	NA	25.0	[ICRA]BBB (Stable)

Source: SRECCS; NA: information not available

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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