

Press Release

SVC Co-operative Bank Limited

November 23, 2020



Rating Assigned

Total facilities Rated	Rs. 100.00 Cr
Long Term Rating	ACUITE A-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A1 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the proposed bank facility of Rs. 50.50 crore and the short term rating of '**ACUITE A1 (read as ACUITE A one)**' on the short term bank facility of Rs. 49.50 crore of SVC Co-operative Bank Limited (SVC). The outlook is '**Stable**'.

The rating takes into account SVC's strong franchise in the co-operative banking space in Western India built through a long track record of operations and its favourable retail deposit franchise. These strengths are partly offset by the asset quality risks that have got accentuated in an economic environment severely impacted by the Covid pandemic and the structural constraints inherent in the regulatory framework which impedes the growth potential of co-operative banks.

SVC Co-operative Bank Limited (Earlier known as The Shamrao Vithal Co-operative Bank Ltd.) is a multi-state urban co-operative bank (UCB). It was originally registered as a Co-operative Credit Society on 27th December 1906 by Late Mr. Rao Bahadur Shripad Subbarao Talmaki. Being an UCB, SVC is registered under the Multi-state Co-operative Societies Act, 2002 and also regulated by Reserve Bank of India. The bank is head quartered in Mumbai with a presence across 10 states and 1 Union Territories (UT) with a network of 198 branches across 10 states namely Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, Gujarat, Rajasthan, Madhya Pradesh, Haryana and Goa apart from New Delhi.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SVC to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record in the co-operative banking sector:**

SVC commenced its operations in December 1906. The bank was first established as a credit co-operative society and subsequently, a 'Scheduled Urban Co-operative Bank' status was obtained in 1988. Over its long track record of operations extending beyond 100 years, the bank has established a network of 198 branches and 211 ATMs spread across 10 states and 1 UTs. It also obtained an Authorised Dealer Category 1 license in 2008. The bank has built a member base of 186,783 members as on March 31, 2020.

The bank has a healthy deposit base of Rs. 16,501 Cr spread across 563,783 borrowers and has total advances outstanding of Rs. 11,608 Cr as on March 31, 2020. In order to maintain its position in the current competitive environment, the bank has been undertaking several digital initiatives to strengthen its position amongst other players in the banking sector. SVC is recognised as one of the leading banks in the Indian co-operative banking sector.

The board of the bank comprises of seasoned professionals from the financial sector. The current Chairman of the board is Mr. Durgesh S Chandavarkar, with over 35 years of experience in various fields; Mr. Udaykumar Gurkar, Vice-Chairman, has vast experience across various industries; Managing Director Mr. Ajit E. Venugopalan. Mr. Venugopalan is a Chartered Accountant and with over three decades of experience in

banking and financial services sector, he has been associated with SVC for 28 years in various roles. The board also comprises of other members such as Mr. Raghunandan U Bangalorekar Mr. Sunil Gokarn and Mr. Uday Kopikar who are seasoned bankers and industry professionals.

Acuité believes that SVC will continue to maintain its strong position in the co-operative banking segment and benefit from its established track record as well as from the expertise and experience of the board and bank management.

- **Strong retail franchise providing stable resource base**

Over its years of operations, the bank has expanded its operations from 140 branches as on March 31, 2013 to 198 branches as on March 31, 2020 attracting a healthy retail deposit base. The bank's deposits grew from Rs. 9021 Cr as on March 2013 to Rs. 16,501 Cr. as on March 31, 2020. The bank has a moderate CASA ratio of 26%. The term deposits stood at Rs. 12,512 Cr as on March 31, 2020 with a depositor base of over 5 lakhs accounts. Most of its deposits were granular in nature with Top 10 depositors contributing to only 5.26% of term deposits. 76% of its term deposits are of small ticket size below Rs. 1 Cr. and only 17% of the deposits were between 1 to 5 Cr. Besides the benefits on the liability side, SVC leverages its presence in retail segment by cross-selling products like insurance to augment its income.

Acuité believes that the retail deposit franchise will provide stability to the overall resource base of the bank.

Weaknesses

- **Susceptibility of asset quality to the challenging economic environment**

SVC's borrower profile comprises of borrowers from various small and medium sized business. Over the years, the bank built a loan book from Rs. 6045 Cr as on March 31, 2013 to Rs. 11,272 Cr as on September 30, 2020. While the bank's advances have grown significantly since 2013, however, in FY2020 the bank saw a muted growth in advances, with advances growing from Rs. 11,500 Cr as on March 31, 2019 to Rs. 11,608 Cr as on March 31, 2020.

SVC loan book has been shifting towards a more granular portfolio as reflected in its composition; retail advances as a percent to overall exposure grew from 12% of total advances as on March 31, 2018 to 22.5% as on September 30, 2020. Top 10 group exposures accounted for 17% of overall advances as on March 31, 2020. The bank also increased its exposures to the real estate segment, which stood at Rs. 1082 Cr as on March 31, 2020, i.e. 9.5% of its overall exposures as against 8.5% for the previous year.

Notwithstanding the steps taken by the bank to diversify the risks, its portfolio has been impacted due to the slowdown in the economy even in the pre-Covid environment. The level of stressed assets (Security Receipts and Gross NPA) increased from Rs. 569 Cr. as on March 31, 2019 to Rs. 762.78 Cr. as on March 31, 2020.

The loan book is susceptible to asset quality pressures emanating from the current challenging environment. SVC's borrower profile mainly comprises of small and medium sized business; the nationwide lockdowns declared by the Government of India to contain the Covid-19 pandemic had severely impacted some of these businesses. The bank had granted moratorium to its borrowers under the special dispensation scheme of RBI, as per discussions with the management, at its peak 60% of its portfolio was under moratorium (phase 1 and 2). The bank has commenced normal collections since September 2020; however, given the present restrictions on asset classification by Supreme Court, the actual performance of the credit book will be determined with certainty only after the regulatory stance on this is clear. Presently, the bank has been able to contain its NPA levels below 4%, i.e. at 3.27% as on September 30, 2020 as against 3.74% as on March 2020.

- **Regulatory environment governing Urban co-operative banks:**

SVC is an Urban Co-operative bank under dual governance of Multi State Co-operative societies and Reserve Bank of India. Being a UCB, it faces structural constraints on raising equity capital, which is normally available to other banks (public and private sector), since it can raise capital only from members and there are restrictions on the amount that can be mobilised. While UCBs are allowed to raise funds through long term subordinated debt and compulsorily convertible preference shares, the overall financial flexibility is relatively lower as compared to its peers in the scheduled commercial bank category. Such limitations on

capital mobilisation impact the growth plans of UCBs such as SVC. Recent credit events involving the failure of a certain leading co-operative bank has also impacted the depositors' perception regarding the stability of these banks. While leading UCBs like SVC have shown significant resilience given their established franchise, some impact of such events is inevitable.

Further, the regulatory framework for UCBs in India have become increasingly stringent. The recent circulars governing UCBs revised the lending criteria reducing per party and group exposures to 15% and 25% of Tier 1 capital as against earlier limits, i.e. 15% and 40% of capital funds. The priority sector lending is proposed to increase to 75% in a phased manner for UCBs. A tighter regulatory framework along with capital mobilisation constraints impacts the ability of UCBs such as SVC to compete with well established banks (both private and public sector banks) which are larger both in terms of physical reach and digital lending space.

Acuité believes that the ability of SVC to manage these challenges and sustain growth in an increasingly competitive environment will be a key rating monitorable.

Rating Sensitivity

- Any significant deterioration in asset quality
- Changes in the regulatory framework governing Urban Co-operative banks.

Material Covenants

None

Liquidity Position: Adequate

The adequate liquidity is driven by the comfortable asset liability management profile of SVC. As on October 23, 2020, the bank had no negative cumulative mismatches up to the one-year bucket. The bank has a significant retail deposit base, wherein more than 78% of the deposits were below Rs. 1 Cr as on September 30, 2020. The granularity of the deposit base imparts stability to the liquidity profile. Furthermore, it maintains liquidity in the form of investments in excess statutory liquidity of Rs. 1580 Cr. as on September 30, 2020 which was Rs. 610 Cr. as on March 31, 2020. The bank also maintains investments in liquid mutual funds which was Rs. 517 Cr as on September 30, 2020.

Outlook: Stable

Acuité believes that SVC will maintain a 'Stable' credit profile backed by its established position in the co-operative banking segment and a healthy retail deposit franchise. The outlook may be revised to 'Positive' in case of higher than expected growth in scale of operations while maintaining capital adequacy and asset quality parameters. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its asset quality or elevated exposure to relatively high-risk segments like real estate or occurrence of events which may sharply impact the operating performance of the bank.

About the Rated Entity - Key Financials

	Unit	FY20 (Audited)	FY19 (Audited)
Total Assets	Rs. Cr.	21501.39	19349.00
Total Income (Net of interest income)	Rs. Cr.	624.83	580.38
PAT	Rs. Cr.	142.01	140.01
Net Worth	Rs. Cr.	1685.67	1582.54
Return on Average Assets (RoAA)	(%)	0.70	0.75
Return on Average Net Worth (RoNW)	(%)	11.42	12.27
Total Debt/Tangible Net Worth (Gearing)	Times	0.99	0.18
Gross NPA	(%)	3.74	3.50
Net NPA	(%)	1.85	1.90

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Non-banking Financial Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.50	ACUITE A-/Stable (Assigned)
Bank Guarantee/ Letter of Credit	Not Applicable	Not Applicable	Not Applicable	49.50	ACUITE A1 (Assigned)

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About Acuité Ratings & Research:

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