

Press Release
SVC Co-operative Bank Limited
April 30, 2024



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.50	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	99.50	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	150.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the proposed bank facility of Rs. 50.50 crore of SVC Co-operative Bank Limited (SVC). The outlook is '**Stable**'.

Acuite has reaffirmed the short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the short-term bank facility of Rs. 99.50 crore of SVC Co-operative Bank Limited (SVC).

Rationale for the rating

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 comfortable capital adequacy. The bank is adequately capitalized above the regulatory threshold of 12 percent i.e. at 14.69 percent as on March 31, 2023. As per the bank, the capitalization levels increased to 14.58 percent as on December 31, 2023. The rating further factors in moderate resources profile and consistent shift in the bank's portfolio from corporate to the more granular MSME and retail portfolio. These strengths are partly offset by moderation in asset quality metrics, modest profitability parameters and the structural constraints which restrict the co-operative banks ability to raise funds thereby impacting scalability.

Going forward, the company's ability to profitably scale up its operations, bolster its capitalization levels and maintain healthy asset quality shall be key monitorables.

About the company

SVC Co-operative Bank Limited (Earlier known as The Shamrao Vithal Co-operative Bank Ltd.) is a multistate 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.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strength

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 214 ATMs spread across 10 states and 1 UTs. It also obtained an Authorized Dealer Category 1 license in 2008. The bank has built a member base of 1,95,514 members as on December 31, 2023.

The bank has a healthy deposit base of Rs. 19,608 Cr. spread across more than 5 lakh borrowers and has total advances outstanding of Rs. 14,187 Cr. as on December 31, 2023. 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 recognized as one of the leading banks in the Indian cooperative 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. Arun Mavinkurve, Vice-Chairman, has vast experience across various industries; Managing Director Mr. Ravinder Singh. has more than two and half decades of experience largely in the financial sector across NBFC, Private & MNC Banks. The board also comprises of other members such as Mr. Raghunandan U Bangalorekar and Mr. Sunil Gokarn 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.

Moderate resources profile

Strong retail franchise provides stable resource base. Over the years, the bank has expanded its operations from 140 branches as on March 31, 2013 to 198 branches as on March 31, 2023 attracting a healthy retail deposit base. The bank's deposits grew from Rs. 9021.37 Cr. as on March 31, 2013 to Rs. 19,608 Cr. as on December 31, 2023. The bank has a moderate CASA ratio of 26.04 percent as on December 31, 2023. The term deposits stood at Rs. 14,501.45 Cr. as on Dec 31, 2023 with a depositor base of over 5 lakhs accounts. Besides the benefits on the liability side, SVC leverages its presence in retail segment by cross-selling product like insurance to augment its income.

Shift towards granular retail and MSME portfolio

The Bank has reported 6.4 percent YoY growth in advances during FY2023 driven by healthy growth in both Retail and MSME books, offsetting decline was seen in corporate loans since FY2020. In FY2023, the proportion of wholesale advances came down to 75.77 percent from 83.15 percent as on March 31, 2021 and retail advances increased to 24.23 percent from 16.85 percent in the same period. Retail advances stood at Rs. 3,445.55 crore (P.Y: Rs. 2948.64 crore) and MSME advances stood at Rs. 5379.48 crore (P.Y: Rs. 4789.87 crore) as on March 31, 2023.

Going forward, the bank's target to increase the retail loan base will provide stability to the overall advances segment of the bank.

Weakness

Moderate profitability parameters

While the bank's business has grown significantly since 2013, however, its PAT has shown a moderate growth in since FY2021, with PAT growing from Rs. 150.21 crore in FY2021 to Rs. 176.31 crore in FY2023. The bank saw a marginal improvement in its Net Interest Margin which stood at 4.07 percent in FY2023 as compared to 3.69 percent in FY2022. In comparison to its peers, ROAA was moderately high at 0.77 percent as on March 31, 2023. The bank's Operating expense to Earning Assets stood at 2.98 percent as on March 31, 2023 as against 2.60 percent as on March 31, 2022.

Deterioration in asset quality

Though, the business has picked up substantially in the last year. The loan book is susceptible to asset quality pressures emerging from the pre-existing challenging environment. In FY2023, Gross NPA stood at 2.91 percent (P.Y: 3.70 percent) and Net NPA stood at 0.79 percent (P.Y: 1.83 percent). According to the bank, Gross NPA stood at 3.35 percent and Net NPA stood at 1.11 percent as on December 31, 2023, the bank has witnessed slippages in SMA-2 category increasing from Rs 211.75 Cr. as on Sept 2022 to Rs 639.51 Cr. in Dec 2023. Acuite believes that maintaining a comfortable asset quality while gradually increasing the loan book with major focus towards retail will be a key monitorable.

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 and scalability of UCBs such as SVC.

Further, the regulatory framework for UCBs in India have become increasingly stringent. While Acuite believes that RBI guidelines wrt reduction in group exposure caps, higher priority sector lending and host of other amendments under the Banking Regulation Act, 1949 are steps in right direction, the capital raising ability and scalability of co-operative banks needs to be eased. As the regulatory arbitrage between commercial and co-operative banks narrows the ability of UCBs such as SVC to compete with larger and well-established banks needs to be seen.

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

Rating Sensitivity

- Any significant deterioration in asset quality and profitability parameters
- Changes in capitalisation and liquidity buffers
- Changes in the regulatory framework governing Urban Co-operative banks.

Liquidity Position

Adequate

The adequate liquidity is driven by the comfortable asset liability management profile of SVC. Further, excess SLR stood at Rs. 1,269 Cr. as on December 31, 2023.

Outlook: Stable

Acuite believes that SVC will maintain a 'Stable' credit profile backed by its established position in the cooperative 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.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23(Actual)	FY22(Actual)
Total Assets	Rs. Cr.	23586.85	22560.33
Total Income*	Rs. Cr.	888.71	753.11
PAT	Rs. Cr.	176.31	146.86
Networth	Rs. Cr.	2311.97	1967.80

Return on Average Assets (RoAA)	(%)	0.77	0.66
Return on Net Worth (RoNW)	(%)	9.86	9.57
Total Debt/Tangible Net Worth (Gearing)	Times	0.09	0.01
Gross NPA's	(%)	2.91	3.70
Net NPA's	(%)	0.79	1.83

**Total income equals to Total Income net off interest expense*

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

Not Applicable

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Jan 2023	Bank Guarantee/Letter of Guarantee	Short Term	49.50	ACUITE A1 (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	50.00	ACUITE A1 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	50.50	ACUITE A- Stable (Reaffirmed)
02 Nov 2021	Proposed Short Term Bank Facility	Short Term	50.00	ACUITE A1 (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	49.50	ACUITE A1 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	50.50	ACUITE A- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	49.50	ACUITE A1 Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.50	ACUITE A- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A1 Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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