



Press Release
THE ANDHRA BANK FARMERS SERVICE CO OP SOCIETY LIMITED
October 16, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	50.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	55.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE BB (read as ACUITE double B)** on Rs.5.00 Cr long term bank facilities and short term rating of **ACUITE A4+ (read as ACUITE A four plus)** on Rs.50.00 Cr short term bank facilities of The Andhra Bank Farmers Service Co operative society. The outlook is 'Stable'.

Rationale for rating assigned

The rating assigned factors in the established track record of society in providing banking services, steady growth in loan portfolio and membership base. Society's loan book stood at Rs.45.54 Cr as on March 2023(Prov) as against Rs.39.51 Cr as on March 31st 2022 and Rs.36.17 Cr as on March 31st 2021 registering the growth rate of 15.26 percent in FY23 and 9.23 percent in FY22. However, rating is constrained by small scale of operations and regional concentration, limited financial flexibility and moderate profitability of the society.

About the company

The Andhra Bank Farmers Service Co-op Society Limited based in Tekulapally, Khammam established in 1982 with 19 villages. The new ruling body (administrative body / board) was formed on the 16.02.2020. Shri Bereddi Nagachandra Reddi as been elected as Chairmen of the Society and Sri N Saketh Kumar deputed from Union Bank of India as Managing Director. The society offers services to members such as Accepting deposits, banking services, crop loan to farmers, Agriculture Gold Loan to farmers, Sales of fertilizers to the farmers, Paddy, Maize procurement centre, Locker facility to farmers & others and Group Insurance Scheme through LIC. The directors are Mr. B Naga Chandra Reddy, Mr. T Vijayalakshmi, Mr. V Rama Narayana, Mr. K Bhaskar Rao, Mr. R Kishan, Mr. M Ravi, Mr. Ch vani Sri, Mr. Ram babu, Mr. K Nagamani, Mr. L Nagarjuna, Mr. B Upender, Mr. P Venkatramana, Mr. B Naga Chandra Reddy, Mr. T Vijayalakshmi.

Standalone (Unsupported) Rating

None

Analytical Approach

Acuite has considered standalone business and financial risk profile of The Andhra Bank Farmers Service Co Operative Society Ltd.

Key Rating Drivers

Strength

Established track record of operations

The Andhra Bank farmers' service co-operative society (ABFSCS) is a co-operative society incorporated in 1982 with amalgamation of eight PACS (Primary agricultural co operative societies) at Tekulapally, Khammam district, Telangana with aim to provide banking services to 19 villages across 4 mandalas in Khammam district, Telangana. ABFSCS is a fourth largest society in Telangana and largest in Khammam district. The society consists of 13 board of directors including chairmen, vice chairmen and other directors who are elected by members through cooperative society elections. Managing director of the society is deputed from Union bank of India (UBI). Society is confined to 19 villages; all the members of the society are people living in villages and society offers services exclusively to people of 19 villages. The society is engaged in credit, trading of fertilizers activities and undertakes paddy and maize procurements on behalf of Telangana state civil supplies department. The society primarily provides agricultural loans for cultivation of cotton, maize, paddy, chillies etc, gold loans by pledge of ornaments and agricultural term loans to its members. Other services offered by society includes Accepting deposits, locker facility to its members, providing group insurance scheme to members and other banking services.

Acuite believes that society will continue to reap benefits from its established presence in the region.

Growing loan portfolio and membership base

Society's loan portfolio consist of crop loans, gold loans and term loans, all the three segments have shown consistent growth over the period. Overall loan portfolio increased to Rs.45.54 Cr as on March 31st 2023(Prov) as against Rs.39.51 Cr as on March 31st 2022 and Rs. 34.82 Cr as on March 31st 2021. Gold loans portfolio stood at Rs.9.92 Cr as on March 31st 2023(Prov) witnessing healthy CAGR of 31 percent in period between FY20 to FY23 which has increased its share in overall portfolio to 21.78 percent in FY23 from 10.82 percent in FY20. Short term crop loans portfolio stood at Rs.33.53 Cr as on March 31st 2023(Prov) witnessing the steady CAGR of 5.5 percent in period between FY20 to FY23, however its share in overall portfolio declined to 73.63 percent in FY23(Prov) as against 87.24 percent in FY20. Long term crop loan portfolio stood at Rs.2.09 Cr as on March 31st 2023(Prov) also witnessed healthy CAGR of 36 percent in period between FY20 to FY23 which has increased its share to 4.59 percent in FY23(Prov) from 1.94 percent in FY20. Society membership base has also increased to 7002 members in FY23 from 6804 members in FY22 and 6712 members in FY21.

Weakness

Moderate financial performance

ABFSCS's financial performance in stable marked by consistent growth in AUM to Rs.45.54 Cr as on March 31st 2023(Prov) as against Rs.39.51 Cr as on March 31st FY22 and Rs.36.17 Cr as on March 31st 2021. Society's PAT has declined to Rs.0.99 Cr in FY23(Prov) from Rs.1.27 Cr in FY22 and Rs.1.35 Cr in FY21, decline in profitability is attributable to fluctuation in fertilizer prices during the period. Society's Net interest margins declined to 2.48 percent in FY23(Prov) from 5.60 percent in FY22. ROAA of the society also declined to 1.95 percent in FY23(Prov) as against 2.95 percent in FY22 and 3.47 percent in FY21. Society's asset quality has improved as evident by decline in GNPA and NNPA to 4.34 percent and 1.74 percent as on March 31st 2023(Prov) as against 7.52 percent and 2.76 percent in FY2022.

Acuite believes that healthy growth in AUM and ability to deploy funds profitably to improve overall financial performance will remain key rating monitorable.

Small scale of operations and regional concentration

The society's scale of operations has remained low as it is confined to 19 villages in Khammam district, Telangana, This exposes the society to high geographical concentration risk. Thus, the society's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the society will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit

profile of ABFSCS.

Rating Sensitivity

- Any deterioration of overall financial risk profile of the society
- Movement in collection efficiency and asset quality
- Profitable growth maintaining overall financial risk profile
- Changes in regulatory environment.

All Covenants

None

Liquidity Position: Adequate

ABFSCS's liquidity profile is expected to remain adequate in near to medium term. Society's borrowings stood at Rs.36.34 Cr with a gearing ratio of 2.42 times as on March 31st 2023(Prov). It has a cash and bank balance of Rs.1.52 Cr as on March 31st 2023(Prov).

Outlook: Stable

Acuité believes that the ABFSCS will maintain a 'Stable' outlook over the medium term supported by its established presence in area of operation. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its on-book portfolio with improvement in profitability metrics and asset quality metrics while maintaining healthy capitalization levels. Conversely, the outlook may be revised to 'Negative' in case of challenges in attaining optimal collection efficiency or significantly higher than expected pressure on asset quality or profitability margins.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Prov)	FY22 (Actual)
Total Assets	Rs. Cr.	52.94	48.66
Total Income*	Rs. Cr.	2.59	2.62
PAT	Rs. Cr.	0.99	1.31
Net Worth	Rs. Cr.	15.48	14.26
Return on Average Assets (RoAA)	(%)	1.95	2.95
Return on Average Net Worth (RoNW)	(%)	6.67	9.71
Debt/Equity	Times	2.42	2.41
Gross NPA	(%)	4.34	7.52
Net NPA	(%)	1.74	2.76

*Total income equals to Net Interest Income plus other income.

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

None

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BB Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Assigned
Union Bank of India	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE A4+ Assigned
Union Bank of India	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A4+ Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.00	ACUITE BB Stable Assigned

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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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