May 19, 2025

AU Small Finance Bank Limited: Rating upgraded for PTCs issued under micro finance loan securitisation transaction

Summary of rating actions

Trust Name	Instrument*	Initial Amount (Rs. crore)	Previous rated amount (Rs. Crore)	Current Outstanding Amount after April 2025 Payout (Rs. crore)	Rating Action
Mysuru Feb 2024	Series A1 PTCs	157.67	154.61	19.34	[ICRA]AA(SO); upgraded from [ICRA]AA-(SO)

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) are backed by micro finance loan receivables originated by **Fincare Small Finance Bank Limited (FSFB/Originator) and serviced by AU Small Finance Bank Limited (AUSFB). Pursuant to the amalgamation of FSFB and AUSFB effective from April 01, 2024, AUSFB has assumed all the outstanding duties, undertakings and obligations, with respect to the transaction.** Accordingly, the rated PTC transaction is being serviced by AUSFB. The rating for the transaction has been upgraded on account of significant build-up of the credit enhancement cover over the future PTC payouts due to high pool amortisation and the sustained healthy collections. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the April 2025 payout month.

Pool performance summary

Parameter	Mysuru Feb 2024
Payout Month	April 2025
Months post securitisation	14
Pool amortisation	84.3%
PTC Amortisation	87.5%
Cumulative collection efficiency[1]	104.8%
Loss-cum-0+ (% of initial pool principal)[2]	7.7%
Loss-cum-90+ (% of initial pool principal)[3]	6.3%
Break-even collection efficiency (%) [4]	23.5%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	47.8%
Excess interest spread (EIS) (as % of balance pool principal) for PTC	4.4%
Average Monthly prepayment rate[5]	0.5%

[1] *Cumulative current and overdue collections till date / Cumulative billings till date*

[2] *(Principal outstanding (POS) + Overdues on contracts aged 0+ dpd) / Initial POS on the pool*

[3] *(POS + Overdues on contracts aged 90+ dpd) / Initial POS on the pool*

[4] *(Balance cash flows payable to investor – CC available)/ Balance pool cash flows*

[5] *(Cumulative prepaid principal till date/ Initial pool principal)/number of months post securitisation*

Transaction Structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus EIS, after meeting the promised and expected payouts, will flow back to the AUSFB on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Key rating drivers

Credit strengths

Substantial credit enhancement available in the structure –The rating factors in the build-up in the credit enhancement with cash collateral increasing to ~48% of the balance pool principal as compared to 7.5% at time of securitisation, respectively. Further internal credit support is also available through scheduled EIS and subordination.

Healthy pool performance – Performance of the pool has been strong with cumulative collection efficiency of above 99% for the pool till April 2025 payout month. Although the monthly collection efficiency and delinquency proportion have seen deterioration in recent months, the breakeven collection efficiency is comfortably lower as compared to the monthly collection efficiency observed for pool. Further, there have been no instances of CC utilisation for the pool owing to substantial collection and presence of EIS in the transaction.

Adequate servicing capability of AUSFB – The originating entity FSFB merged with AUSFB with effect from 1st April, 2024. AUSFB has adequate processes for servicing of the loan accounts in the securitised pool and proven track record of consistent collections over many years, across various geographies, and through multiple economic cycles.

Credit challenges

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Increasing delinquencies in microfinance sector – The microfinance sector has seen a decline in collections and consequently rise in delinquencies on account of multiple factors like heat wave, general elections, borrower overleveraging and attrition in the collection teams. Any sustained impact of these factors on the collections from the pool would be a key monitorable.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pools, ICRA has estimated following shortfall in the pool principal collection during their tenure at 2.75% of initial POS. The average prepayment rate for the underlying pool is modelled in the range of 3% to 9% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the

investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of Key counterparties

Transaction Name	Mysuru Feb 2024
Originator	Fincare Small Finance Bank Limited
Servicer	AU Small Finance Bank Limited
Trustee	Catalyst Trusteeship Limited
CC Bank	Federal Bank Limited
Collection and payout account Bank	Federal Bank Limited

Liquidity position: Strong

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~4.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors

Sustained strong collection performance of the underlying pool leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors

Sustained weak collection performance of the underlying pool leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till April 2025 (payout month), the present delinquency profile of the pool, the CE available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

AU Small Finance Bank (AUSFB) is a scheduled commercial bank, which transitioned to a small finance bank (SFB) from an asset financing non-banking financial company (NBFC). While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017, after receiving the final licence on December 20, 2016. The Reserve Bank of India (RBI) had granted in-principle approval in September 2015. AU was listed on the stock exchanges in July 2017 and was granted scheduled commercial bank status in November 2017.

During its early years of operations, AU?? (formerly AU Financiers (India) Limited) was primarily engaged in vehicle financing through funds raised from high-net-worth individuals in Jaipur. Over the years, it raised equity from private investors at regular intervals and expanded its product portfolio. AU has an established market position in Rajasthan and has expanded its operations to Maharashtra, Gujarat, and other states over the years. As of December 31, 2024, it had 2,400 touchpoints across 24 states and 4 Union Territories.

AU operates in the retail asset financing segment, with the vehicle financing segment accounting for ~31.5% of its GLP as on December 31, 2024. Its product portfolio also includes micro business loans, home loans, loans to NBFCs, loans to real estate groups, business banking, agri-banking, credit cards, personal loans, etc. AU's liability product offerings include current accounts, savings accounts, recurring & term deposits, transaction banking and insurance covers, among others.

EXHIBIT 1. Key Financial Indicators

AU	FY2023	FY2024	9MFY2025
Total Income	9,240	12,252	13,559
PAT	1,428	1,535	1,602
Total Assets	90,126	1,09,426	1,43,044
CRAR%	23.60%	20.10%	19.90%
Gross NPA s	1.66%	1.67%	2.31%

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2026)			Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Current amount rated (Rs. crore)	Date & Rating in FY2026	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023
				May 19,2025	May 03,2024	Mar 04,2024	-
Mysuru Feb 2024	Series A1 PTCs	157.67	19.34	[ICRA]AA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-

Complexity level of the rated instrument

Instrument	Instrument	Complexity Indicator
Mysuru Feb 2024	PTC Series A1	Moderately complex

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: Click Here

Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. Crore)	Current Rating
Mysuru Feb 2024	Series A1 PTCs	28, February 2024	8.85%	17, September 2025	19.34	[ICRA]AA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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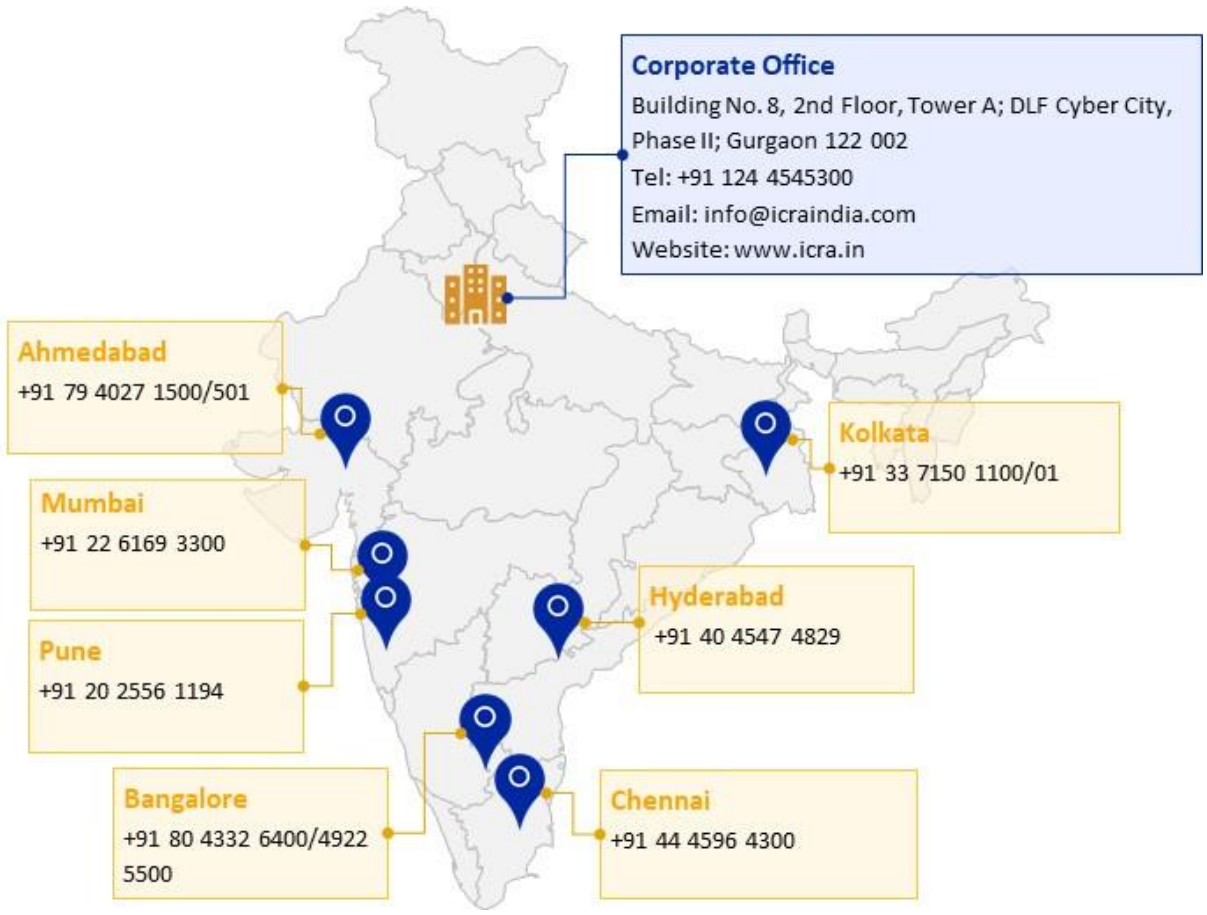

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