

July 25, 2023

Fincare Small Finance Bank Limited: Rating reaffirmed for PTCs issued under two unsecured microloan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Melisandre IFMR Capital 2016	PTC Series A2	6.35	2.26	2.26	[ICRA]D(SO); Reaffirmed
Cartman IFMR Capital 2016	PTC Series A2	3.36	0.29	0.29	[ICRA]D(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) originated by Fincare Small Finance Bank Limited (Fincare) are backed by microloan receivables. The rating reflects the inadequacy of the pools' collections and the credit enhancement available in the transactions to meet the promised payouts to the PTC investors on the scheduled maturity dates, which were in June 2018 and July 2018 for the Melisandre and Cartman transactions, respectively. A summary of the performance of the pools till July 2023 (payout month) has been tabulated below.

Pool performance summary

Parameter	Melisandre	Cartman
Loan type	Microloans	Microloans
Months post securitisation	80	78
Pool amortisation	100.0%	100.0%
PTC amortisation		
PTC A1	100.0%	100.0%
PTC A2	64.41%	91.37%
Cumulative cash collateral (CC) utilisation	100.0%	100.0%

Key rating drivers

Credit strengths

Not applicable

Credit challenges

- Sustained weak collection performance in the pools
- Pool collections together with the available credit enhancement were insufficient to meet the promised payout to the PTC investors on their respective maturity dates
- No collections from the pool since December 2021

Description of key rating drivers highlighted above

The collection performance of the underlying loans was healthy till October 2016 (collection month). However, post demonetisation, the monthly collection level declined significantly. Collections from overdue contracts also remained poor. Due to the sustained weaker-than-expected performance of the pools, there has been a shortfall in meeting the scheduled payouts to the PTC Series A2 investors even after the utilisation of the entire credit enhancement that was available in the transaction.

Past rated pools: ICRA has rated 15 pools originated by Fincare with ratings outstanding only on these two pools as of July 2023. The entire CC has been used in both pools as there was a shortfall in meeting the promised PTC payouts.

Liquidity position: Poor

On the scheduled maturity dates of these transactions, the CC in both transactions had been fully utilised. Further repayments will be met through collections from the overdue loan contracts. Considering the collection trend in recent months, the full repayment of the PTCs is unlikely in the near to medium term.

Key rating assumptions – Not applicable

Rating sensitivities – Not applicable

Analytical approach

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

About the company

Fincare Small Finance Bank Limited (Fincare) converted into a small finance bank (SFB) in July 2017 from a microfinance institution (Disha Microfin Limited) registered as a non-deposit accepting, non-banking financial company (NBFC) with the Reserve Bank of India (RBI). In 2007, Mr. Reddy commenced the microfinance operations of Future Financial Services Private Limited (FFSPL) in South India. In 2009, Mr. Nanavati and three others commenced the microfinance operations of Disha Microfin in Gujarat. In October 2010, True North (erstwhile India Value Fund), a private equity fund, funded FFSPL and Disha.

FFSPL's operations were adversely impacted during the Andhra Pradesh microfinance crisis and it, along with Disha, came under the brand name, Fincare. The bank's transformation process began in 2016 after receiving in-principle approval from the RBI for its SFB licence. In 2017, the restructuring was completed with the merger of FFSPL with Fincare Business Services Limited, which is the holding company, while Disha Microfin converted into Fincare Small Finance Bank Limited. Fincare received scheduled bank status in 2019.

As on March 31, 2023, Fincare had operations in 22 states and Union Territories spanning 338 districts through 1,231 branches serving a customer base of 29.4 lakh. In FY2023, it reported a net profit of Rs. 103.6 crore on AUM of Rs. 9,911 crore as on March 31, 2023 against a net profit of Rs. 9 crore in FY2022 on AUM of Rs. 7,599 crore as on March 31, 2022.

Key financial indicators (audited)

Arohan	FY2021	FY2022	FY2023
Total income	701	879	1090
Profit after tax	113	09	104
Gross loan portfolio	5506	7360	8878
Gross non-performing assets (NPA)%	6.4%	7.8%	3.3%
Net NPA%	2.8%	3.6%	1.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 25, 2023	August 22, 2022	August 27, 2021	August 21, 2020
1	Melisandre IFMR Capital 2016	PTC Series A2	6.35	2.26	[ICRA]D(SO)	[ICRA]D(SO)	[ICRA]D(SO)	[ICRA]D(SO)

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 25, 2023	August 22, 2022	August 27, 2021	August 21, 2020
2	Cartman IFMR Capital 2016	PTC Series A2	3.36	0.29	[ICRA]D(SO)	[ICRA]D(SO)	[ICRA]D(SO)	[ICRA]D(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Melisandre IFMR Capital 2016	PTC Series A2	Moderately Complex
Cartman IFMR Capital 2016	PTC Series A2	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 Type	Date of Issuance	Coupon Rate	Initial Final Maturity Date	Amount Rated (Rs. crore)	Current Rating
Melisandre IFMR Capital 2016	PTC Series A2	August 2016	15.00%	Jun-18	2.26	[ICRA]D(SO)
Cartman IFMR Capital 2016	PTC Series A2	September 2016	15.00%	Jun-18	0.29	[ICRA]D(SO)

** Scheduled maturity date at transaction initiation; may change on account of prepayments*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3411

sachin.joglekar@icraindia.com

Himanshi Doshi

+91 22 6114 3449

himanshi.doshi@icraindia.com

Shruti Jain

+91 22 6114 3470

shruti.jain@icraindia.com

Tina Parekh

+91 22 6114 3455

tina.parekh@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

Shivkumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.