

September 04, 2023

## Fincare Small Finance Bank Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 PTCs backed by microfinance loan receivables issued by Madurai Aug 2023

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Madurai Aug 2023	Series A1 PTCs	135.53	Provisional [ICRA]AA-(SO); Assigned

\*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Fincare Small Finance Bank Limited {Fincare; rated [ICRA]A (Positive)}. The PTCs are backed by a pool of Rs. 178.92-crore microfinance loan receivables (underlying pool principal of Rs. 150.59 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 7.50% of the initial pool principal to be provided by Fincare (originator), (ii) over-collateralisation of 10.00% of the pool principal for Series A1 PTCs, (iii) the entire excess interest spread (EIS) in the structure (13.57% of pool principal), as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of EIS, over-collateralisation and CC
- No overdue contracts in the pool as on the cut-off date
- Pre-assignment amortisation of ~25% and weighted average seasoning of ~34 weeks

#### Credit challenges

- Geographically concentrated with ~68% of the pool principal originated from top 4 states
- Performance of pool would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool's performance would be exposed to political and communal risks

### Description of key rating drivers highlighted above

The first line of support for Series A1 PTCs in the transaction is in the form of over-collateralisation of 10.00% of the pool principal. A CC of 7.50% of the initial pool principal (Rs. 11.29 crore), to be provided by Fincare, would act as further CE in the transaction.

As per the transaction structure, the monthly promised cash flows for Series A1 PTCs will comprise the scheduled interest payment at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTCs is promised on the final maturity date. During the tenure of Series A1 PTCs, the collections from the pool, after making the promised interest payouts will be used to make the expected principal payouts to Series A1 PTCs. This principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTCs would be carried forward to the

subsequent payout. The CC will be used in case of a shortfall in the promised payment only. The EIS available after meeting the promised and scheduled payments, as given above, will flow back to the originator on a monthly basis.

The weighted average seasoning of the pool was ~34 weeks as on the pool cut-off date (July 31, 2023) with pre-securitisation amortisation of 25% as on the cut-off date. There were no overdue contracts in the pool as on the cut-off date. The pool has high geographical concentration with the top 4 states (Gujarat, Madhya Pradesh, Tamil Nadu and Karnataka) contributing ~68% to the initial pool principal amount. Furthermore, its performance would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile. The pool's performance would also be exposed to political and communal risks.

**Past rated pools:** ICRA has rated three PTC (securitisation) transactions originated by Fincare in the past. Currently, all three pools have matured. The pools reported cumulative collection efficiency of 99% and nil CC utilisation as of the last payout date.

### Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.00-5.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 3.0-9.0% (with a mean of 6.0%) per annum.

### Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. Overall, the cash flows from the pool and the available CE are expected to be comfortable to meet the payouts to the Series A1 PTC investors.

### Rating sensitivities

**Positive factors** – The sustained strong collection performance of the underlying pool (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and lower CE utilisation levels, would result in a rating upgrade.

**Negative factors** – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade.

### Analytical approach

The rating action is based on the analysis of the performance of Fincare's microfinance portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the originator

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 had commenced the microfinance operations of Future Financial Services Private Limited (FFSPL) in South India. In 2009, Mr. Nanavati and three others had 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 FFSPL 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 with a customer base of 29.4 lakh. In FY2023, Fincare reported a net profit of Rs. 103.6 crore on assets under management (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)

Fincare SFB	FY2021	FY2022	FY2023
Accounting as per	IGAAP	IGAAP	IGAAP
Net interest income	701	879	1,090
Profit after tax (PAT)	113	9	104
Gross advances	5,506	7,360	8,878
Total assets	7,967	10,901	12,468
Tier I	24.91%	19.48%	18.64%
CRAR	29.56%	22.32%	20.04%
NIM/ ATA	9.3%	9.3%	9.3%
PAT/ ATA	1.5%	0.1%	0.9%
RoNW	13.2%	16.2%	17.7%
GNPA	6.4%	7.8%	3.3%
NNPA	2.8%	3.6%	1.3%

Source: Company, ICRA Research; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
1	Madurai Aug 2023 Series A1 PTCs	135.53	135.53	Sep 04, 2023 Provisional [ICRA]AA-(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Madurai Aug 2023</b>	Series A1 PTCs	August 2023	8.85% p.a.p.m	January 2025	135.53	Provisional [ICRA]AA-(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

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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.

For more information, visit [www.icra.in](http://www.icra.in)

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