

November 7, 2023 <sup>(Revised)</sup>

## Fincare Small Finance Bank Limited – Placed on rating watch with positive implication

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Tier II Bonds	100	100	[ICRA]A; Placed on rating watch with positive implication
Lower Tier II Bonds	260	260	[ICRA]A; Placed on rating watch with positive implication
Fixed deposits	50	50	[ICRA]A; Placed on rating watch with positive implication
<b>Total</b>	<b>410</b>	<b>410</b>	

\*Instrument details are provided in Annexure-1

### Rationale

Fincare Small Finance Bank Limited (Fincare SFB) announced on October 29, 2023, that its board has approved its merger into AU Small Finance Bank Limited (AU SFB), subject to approval from shareholders, the Reserve Bank of India (RBI) and the Competition Commission of India (CCI). The existing shareholders of Fincare SFB will receive 579 shares in AU SFB for every 2,000 shares held by them in Fincare SFB. Moreover, the existing shareholders of Fincare SFB shall hold a ~9.9% stake in AU SFB after the completion of the transaction.

Following the announcement, ICRA has placed Fincare SFB's rating on Watch with Positive Implications. The rating watch factors in the expected positive implication of improved scale, operational and financial synergy, better geographical and product diversification, and the potential to offer cross products and expand its deposit base. Upon completion of the merger, Fincare SFB will be merged into AU SFB and cease to exist as a legal entity. The resolution of the rating watch would depend on more clarity on this transaction and its timelines.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, liquidity position, rating sensitivities: [Click here](#)

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's credit rating methodology for Banks and Financial Institutions</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

### 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 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 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)

Fincare SFB	FY2021	FY2022	FY2023	H1 FY2024 <sup>^</sup>
Accounting as per	IGAAP	IGAAP	IGAAP	IGAAP
Net interest income	701	879	1,090	751
Profit after tax (PAT)	113	9	104	219
Gross advances	5,506	7,360	8,878	10,557
Total assets	7,967	10,901	12,468	14,778
Tier I	24.91%	19.48%	18.64%	18.32% <sup>^</sup>
CRAR	29.56%	22.32%	20.04%	22.32% <sup>^</sup>
NIM / ATA	9.3%	9.3%	9.3%	11.0%
PAT / ATA	1.5%	0.1%	0.9%	3.2%
RoNW	13.2%	16.2%	17.7%	30.7%
GNPA	6.4%	7.8%	3.3%	1.6%
NNPA	2.8%	3.6%	1.3%	0.8%

Source: Bank, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; <sup>^</sup>As per limited review financials and ratios annualised

<sup>^</sup>As per audited numbers

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

**Any other information: None**

## Rating history for past three years

	Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
			Amount Rated (Rs. crore)	Amount Outstanding as of July 31, 2023 (Rs. crore)	Date & Rating				Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Nov 7, 2023	Aug 11, 2023	Jun 26, 2023	Jun 13, 2023				Jun 14, 2022
1	Bank lines (Long term – Term loan)	Long term	-	0	-	[ICRA]A (Positive); withdrawal	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Bank lines (Long term – Fund based/non-fund based)	Long term	-	0	-	[ICRA]A (Positive); withdrawal	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
3	Tier II bonds	Long term	100	100	[ICRA]A Rating watch with positive implications	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
4	Fixed deposit	Long term	50	NA	[ICRA]A Rating watch with positive implications	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Stable)	MA+ (Stable)	MA+ (Stable)	
5	Lower Tier II Bonds	Long term	180	174	[ICRA]A Rating watch with positive implications	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	-	-	
6	Lower Tier II Bonds	Long term	20	0	[ICRA]A Rating watch with positive implications	[ICRA]A (Positive)	[ICRA]A (Positive)	-	-	-	-	
7	Lower Tier II Bonds	Long Term	60	60	[ICRA]A Rating watch with positive implications	[ICRA]A (Positive)	-	-	-	-	-	

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Lower Tier II bonds	Highly complex
Tier II bonds	Highly complex
Fixed deposit	Very simple

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, is available on ICRA's website: [Click Here](#)

**Annexure-I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE519Q08152	Tier II bonds	Sep 30, 2019	12.87%	Sep 30, 2025	100.00	[ICRA]A, Rating watch with positive implications
NA	Fixed deposits	NA	NA	NA	50.00	[ICRA]A, Rating watch with positive implications
INE519Q08160	Lower Tier II bonds	Jun 15, 2023	10.75%	Dec 15, 2028	49.00	[ICRA]A, Rating watch with positive implications
INE519Q08178	Lower Tier II bonds	Jul 5, 2023	10.75%	Jan 5, 2029	75.00	[ICRA]A, Rating watch with positive implications
INE519Q08186	Lower Tier II bonds	Aug-09-2023	10.75%	Feb-09-2029	50.00	[ICRA]A, Rating watch with positive implications
INE519Q08194	Lower Tier II bonds	Aug-23-2023	10.70%	Feb-23-2029	60.00	[ICRA]A, Rating watch with positive implications
To be issued	Lower Tier II bonds	NA	NA	NA	26.00	[ICRA]A, Rating watch with positive implications

Source: Company

**Annexure-II: List of entities considered for consolidated analysis - Not applicable**
**Corrigendum**

On page 2, in the “Key Financial Indicators” table value of PAT for H1 FY2024 was mentioned incorrectly due to typographical error. The same has been corrected.

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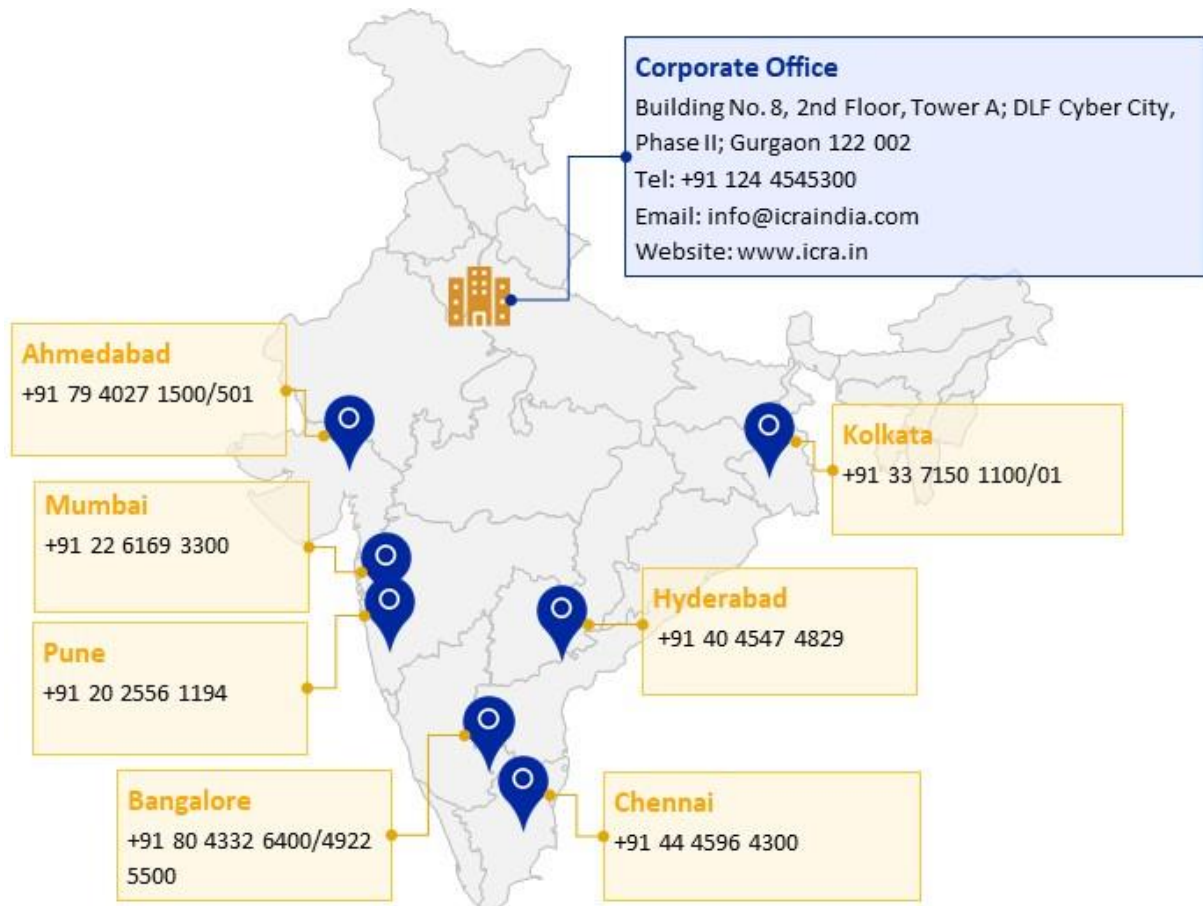
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