

November 28, 2023

## Fincare Small Finance Bank Limited: Rating confirmed as final for 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	[ICRA]AA-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In August 2023, ICRA had 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 (Placed on rating watch with positive implication)}. The PTCs are backed by a pool of Rs. 178.92-crore microfinance loan receivables (underlying pool principal of Rs. 150.59 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

A summary of the performance of the pool after the November 2023 payout month has been provided below.

Parameter	Madurai Aug 2023
Months post securitisation	3
Pool amortisation	16.5%
Series A PTC amortisation	18.3%
Cumulative collection efficiency	98.8%
Loss-cum-0+ dpd	2.2%
Loss cum 30+ dpd	1.4%
Loss cum 90+ dpd	0.1%
Cumulative Prepayment rate	0.2%
Cumulative cash collateral utilisation	0.0%

### 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
- The pool had pre-assignment amortisation at ~25% and weighted average seasoning of ~34 weeks as on cut off date

#### Credit challenges

- Geographically concentrated with ~68% of the initial 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, if any.

## 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) 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 had 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, if any.

**Past rated pools:** Previously, 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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

## 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 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

Trust Name	Current Rating (FY2024)	Chronology of Rating History
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	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	for the Past 3 Years				
				Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Nov 28, 2023	Sep 04, 2023	-	-	-
1	Madurai Aug 2023 Series A1 PTCs	135.53	135.53	[ICRA]AA-(SO)	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	[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:

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