March 04, 2024

Fincare Small Finance Bank Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 PTCs backed by microfinance loan receivables issued by Mysuru Feb 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Mysuru Feb 2024	Series A1 PTCs	157.67	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

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; Placed on Rating Watch with Positive Implications). The PTCs are backed by a pool of Rs. 210.68-crore microfinance loan receivables (underlying pool principal of Rs. 175.19 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 (14.80% 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
- The pool has weighted average pre-assignment amortisation at ~22% and weighted average seasoning of ~31 weeks

Credit challenges

- The pool is geographically concentrated with ~66% of the pool principal originated from top three 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 performance would also 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. 13.14 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 to the extent of the pool principal billing. 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 only in case of a shortfall in the promised payment. 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 ~31 weeks as on the pool cut-off date (January 31, 2024) with the pre-securitisation amortisation at ~22%. There were no overdue contracts in the pool as on the cut-off date. The pool has high geographical concentration with the top 3 states (Tamil Nadu, Telangana, Uttar Pradesh) contributing ~66% to the initial pool principal amount. Further, the pool's 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 four PTC (securitisation) transactions originated by Fincare in the past. Currently, three pools have matured and one pool is live. The live pool has reported a cumulative collection efficiency of ~99% and nil CC utilisation as of the January 2024 payout.

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 6.0-9.0% per annum.

Liquidity position: Strong

The liquidity for Series A1 PTCs is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE is ~6 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Fincare's microfinance portfolio till September 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	Rating Methodology for Securitisation Transactions

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.

Originator profile

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 came under the brand name, Fincare, along with Disha. 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, Fincare reported a net profit of Rs. 104 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	FY2021	FY2022	FY2023	H1 FY2024
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%
CRAR	29.56%	22.32%	20.04%	22.32%
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: 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	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Mar 04, 2024	-	-	-
1	Mysuru Feb 2024	Series A1 PTCs	157.67	157.67	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
Mysuru Feb 2024	Series A1 PTCs	February 2024	8.85%	September 2025	157.67	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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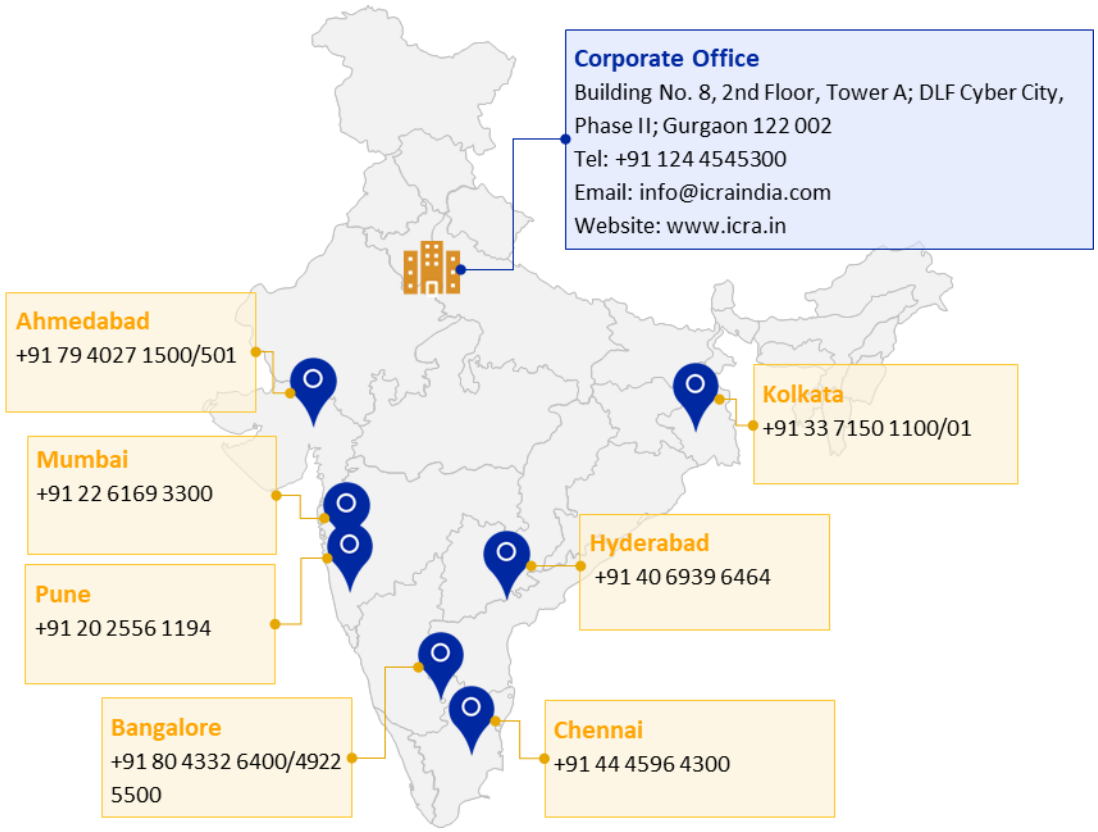

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