

March 04, 2024

Fincare Small Finance Bank Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 SN and Provisional [ICRA]A(SO) assigned to Series A2 SN backed by loan against property receivables issued by Hampi Feb 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Hampi Feb 2024	Series A1 SN	103.41	Provisional [ICRA]AA-(SO); Assigned
	Series A2 SN	6.02	Provisional [ICRA]A(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 provisional ratings to the securitisation notes (SNs) issued under a securitisation transaction originated by Fincare Small Finance Bank Limited (Fincare; rated [ICRA]A; Placed on Rating Watch with Positive Implications). The SNs are backed by a pool of Rs. 182.21-crore loan against property receivables (underlying pool principal of Rs. 109.43 crore).

The provisional ratings are 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 4.50% of the initial pool principal to be provided by Fincare (originator), (ii) over-collateralisation(OC)/subordination of 5.50% of the pool principal for Series A1 SN, (iii) the entire excess interest spread (EIS) in the structure (37.78% of pool principal), as well as the integrity of the legal structure. The ratings are 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, subordination and CC
- No overdue contracts in the pool as on the cut-off date
- Average seasoning of ~15 months and average pre-securitisation amortisation of ~9% as on the cut-off date

Credit challenges

- The pool is geographically concentrated with ~87% of the pool principal originated from top three states.
- PTC yield is linked to an external benchmark while interest rate on the underlying loans is linked to originator's internal benchmark which leads to basis risk in the structure
- Performance of the pool will remain exposed to macro-economic shocks/business disruptions, if any.

Description of key rating drivers highlighted above

The first line of support for Series A1 SN in the transaction is in the form of subordination of 5.50% of the pool principal (i.e. the principal amount payable to Series A2 SN) and the EIS (37.78% of pool principal initially, based on indicated SN yield for Series A1 SN).

Additional support is provided in the form of a CC to be provided by Fincare, equivalent to 4.50% of the initial pool principal (Rs. 4.92 crore). The CC will be in the form of a fixed deposit maintained with a bank acceptable to ICRA. The CC will be used for meeting the shortfall in making the promised payouts to Series A1 SN.

As per the transaction structure, the promised cash flow schedule for Series A1 SN on a monthly basis will comprise the interest (at the predetermined yield) on the outstanding principal on each payout date and the entire principal on the final maturity date. Series A2 SN is subordinate to Series A1 SN. On each payout date, all excess cash flow, after meeting the promised Series A1 SN interest payouts, will be paid out to meet the expected principal payout of Series A1 SN by way of accelerated principal amortisation (to the extent of pool principal billing). After the maturity of Series A1 SN, all excess cash flows will be passed on to Series A2 SN for its principal. The actual tenure of the SNs is expected to be shorter owing to such acceleration. All prepayment amounts would be passed on to Series A1 SN (till the Series A1 SN principal is not fully amortised) every month and its future payouts schedule will be revised accordingly. After the maturity of Series A1 SN, the same would be passed on to Series A2 SN.

The pool had weighted average seasoning of ~15 months and pre-securitisation amortisation of ~9% 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 3 states (Andhra Pradesh, Tamil Nadu, and Telangana) contributing ~87% to the initial pool principal amount. The SN yield in the transaction is linked to an external benchmark while the interest rate on the underlying loans of the pool is linked to the originator's internal benchmark, leading to basis risk in the structure. Further, the pool's performance will remain exposed to macro-economic shocks/business disruptions.

Past rated pools: ICRA has rated four pass-through certificate (PTC; securitisation) transactions originated by Fincare in the past. Currently, three pools have matured and one pool is live. The performance of the pool has been healthy with 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 mortgage-backed securitisation (MBS) 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 6.0-20.0% per annum.

Liquidity position

Series A1 SN: Superior

The liquidity for Series A1 SN is superior after factoring in the CE available to meet the promised payouts to the investor. The total CE would be 6.5 times the estimated loss in the pool.

Series A2 SN: Strong

The liquidity for Series A2 SN is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE would be 5.25 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 ratings.

Analytical approach

The rating action is based on the analysis of the performance of Fincare’s 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 ratings are provisional and would be converted into final ratings 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	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 Hampi Feb 2024				Mar 04, 2024	-	-	-
	Series A1 SN	103.41	103.41	Provisional [ICRA]AA-(SO)	-	-	-
	Series A2 SN	6.02	6.02	Provisional [ICRA]A(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SN	Moderately Complex
Series A2 SN	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
Hampi Feb 2024	Series A1 SN	February 2024	8.60%	February 2033	103.41	Provisional [ICRA]AA-(SO)
	Series A2 SN		Not promised		6.02	Provisional [ICRA]A(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 3470

sachin.joglekar@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Shruti Jain

+91 22 6114 3472

shruti.jain@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@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

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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



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