

May 03, 2024

Fincare Small Finance Bank Limited: Ratings confirmed as final for SNs backed by loan against property receivables issued by Hampi Feb 2024

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Hampi Feb 2024	Series A1 SN	103.41	99.40	[ICRA]AA-(SO); provisional rating confirmed as final
	Series A2 SN	6.02	5.79	[ICRA]A(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional ratings to the Series A1 securitisation notes (SNs) and Series A2 SNs issued by Hampi Feb 2024 under a securitisation transaction originated by Fincare Small Finance Bank Limited¹ {Fincare; rated [ICRA]A (Placed on rating watch with positive implication)}. The SNs are backed by a pool of loan against property receivables originated by Fincare with an aggregate principal outstanding of Rs. 105.19-crore (pool receivables of Rs. 175.13 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 April 2024 payout month has been provided below.

Parameter	Hampi Feb 2024p
Months post securitisation	2
Pool amortisation	4.0%
Series A1 SN amortisation	2.1%
Cumulative collection efficiency	100.1%
Loss-cum 0+ dpd	0.8%
Loss cum 30+ dpd	0.0%
Loss cum 90+ dpd	0.0%
Cumulative Prepayment rate	1.2%
Cumulative cash collateral (CC) utilisation	0.0%

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.
- SN 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.

¹ Merged with AU Small Finance Bank w.e.f. April 17, 2024

- Performance of the pool will remain exposed 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 Excess Interest Spread (EIS, around 39.29% of pool principal initially, based on indicated SN yield for Series A1 SN). Additional support is provided in the form of cash collateral provided by Fincare, equivalent to 4.50% of the initial pool principal (Rs. 4.73 Crore). The cash collateral will be in the form of fixed deposit maintained with a bank acceptable to ICRA. The cash collateral will be used for meeting shortfall in making the promised payouts to Series A1 SN

As per the transaction structure, the promised cashflow schedule for Series A1 SN on a monthly basis will comprise of interest (at the pre-determined 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 cashflow, 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 amortization (to the extent of pool principal billing). After the maturity of Series A1 SN, all excess cashflows will be passed on to Series A2 SN for its principal. Therefore, 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 amortized) every month and its future payouts schedule to 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 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 three states (Andhra Pradesh, Tamil Nadu, and Telangana) contributing ~87% to the initial pool principal amount. PTC yield in the transaction is linked to an external benchmark while interest rate on the underlying loans of the pool is linked to originator's internal benchmark which leads to basis risk in the structure. Furthermore, performance of the pool will remain exposed to macro-economic shocks/business disruptions, if any.

Past rated pools: ICRA has rated four PTC (securitisation) transactions originated by Fincare in the past. Out of which, three pools have matured and one pool is live. The performance of the live pool has been healthy with cumulative collection efficiency of ~99% and nil cash collateral utilisation as on March 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:

For Series A1 SN: Superior

The liquidity for Series A1 SN is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~6.50 times the estimated loss in the pool.

For Series A2 SN: Strong

The liquidity for Series A2 SN is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~5.50 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 credit enhancement 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 credit enhancement 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 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	Rating Methodology for Securitisation Transactions
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^
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
CRAR	29.56%	22.32%	20.04%	22.32%^
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; ^As per limited review financials and ratios annualised
^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	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				May 03, 2024	Mar 04, 2024	-	-
1 Hampi Feb 2024	Series A1 SN	103.41	99.40	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-
	Series A2 SN	6.02	5.79	[ICRA]A(SO)	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% p.a.p.m	February 2033	99.40	[ICRA]AA-(SO)
	Series A2 SN		Not promised		5.79	[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

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About ICRA Limited:

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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.

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Branches



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