

Fincare Business Services Limited (Erstwhile Future Financial Services Private Limited)

October 30, 2018

Summary of rated instruments

| Trust Name | Instrument* | Initial Amount (Rs. Crore) | Previous Surveillance Amount (Rs. Crore.) | Amount after Sep-18 payout (Rs. crore) | Rating Action |
|------------------------------|---------------|----------------------------|-------------------------------------------|----------------------------------------|----------------------------------------------------|
| Golani SBL IFMR Capital 2015 | PTC Series A1 | 8.40 | 0.95 | 0.23 | Rating upgraded from [ICRA]A-(SO) to [ICRA]AA(SO) |
| | PTC Series A2 | 0.47 | 0.47 | 0.47 | Rating upgraded from [ICRA]BBB-(SO) to [ICRA]A(SO) |

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded ratings to PTCs issued under 1 securitisation transaction originated by Fincare Business Services Limited (Erstwhile Future Financial Services Private Limited), as tabulated above. The PTCs are backed by small business loan receivables originated by Fincare Business Services Limited.

Rationale

The rating upgrade is driven by the moderate credit enhancement built-up, moderate collection efficiencies and moderate delinquency levels witnessed in this pool. A summary of the performance of the pool till September 2018 payout month (August 2018 collection month) has been tabulated below.

Pool Performance Summary

| Parameter | Golani SBL IFMR Capital 2015 |
|--------------------------------------------------------------------|---------------------------------|
| Months post securitization | 41 |
| Pool Amortization | 85.20% |
| PTC Amortization: | |
| PTC Series A1 | 97.23% |
| PTC Series A2 | 0.00% |
| Collection efficiency for June 2018 ¹ | 79.80% |
| Collection efficiency for July 2018 | 80.82% |
| Collection efficiency for August 2018 | 115.20% |
| Cumulative Collection Efficiency ² | 93.26% |
| Loss cum 0+ dpd ³ (% of initial Pool) | 9.79% |
| Loss cum 30+ dpd ⁴ (% of initial Pool) | 9.42% |
| Loss cum 0+ dpd ⁵ (% of balance Pool) | 33.55% |
| Cumulative Cash Collateral Utilization | 0.00% |
| Breakeven Collection Efficiency ⁶ for PTC Series A1 | 0.00% |
| Breakeven Collection Efficiency ⁷ for PTC Series A2 | 6.65% |
| Cash Collateral (% of Balance Pool) | 47.31% |
| Subordination for PTC Series A1 (% of Balance Pool) | 83.18% |
| Excess Interest Spread (EIS) for PTC Series A1 (% of Balance Pool) | 13.66% |
| Subordination for PTC Series A2 (% of Balance Pool) | 49.39% |
| Excess Interest Spread (EIS) for PTC Series A2 (% of Balance Pool) | 9.57% |

Key rating drivers

Credit Strengths

- High amortization of pool resulting in buildup of Cash Collateral (CC), Principal subordination and Excess Interest Spread (EIS) cover available for the balance PTC payouts;

Credit Challenges

- Moderate collection performance leading to higher delinquency levels

Description of key rating drivers highlighted above:

The receivables have been assigned to trust at par and the trust has issued two series of PTCs backed by the same. PTCs carry an eventual promise of principal payouts and monthly promise of interest payouts. The collection performance of the pool has been moderate till August 2018 collection month with cumulative collection efficiency of 93.3%. There has been no cash collateral utilisation in the transaction with subordination and EIS making good any shortfall in collections.

¹ Including overdue collections

² (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

³ Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

⁵ Unbilled Principal portion of delinquent contracts, as a % of balance Pool Principal

⁶ (Balance Cashflows payable to investor – Cash collateral available)/ Balance unbilled Pool Cashflows

⁷ (Balance Cashflows payable to investor – Cash collateral available)/ Balance Pool Cashflows

Monthly promise of interest imparts significant liquidity to the transaction in the interim period. The loss cum 30+ dpd (as a % of initial pool principal) is high at 9.4% (as on August 2018 collection month) for the pool. The senior PTCs have amortised significantly resulting in adequate build-up of credit enhancement for the balance tenure of the PTC payouts.

Overall, the credit enhancement available for meeting balance payouts to the investors is sufficient to upgrade the ratings in the transaction. ICRA will continue to monitor closely the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modeling for surveillance of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

For the rated transaction, ICRA expects pool loss (uncollected pool principal amount as on the pool maturity date) to be in the range of 6% - 8% of the initial pool principal amount. While the estimated loss is high, some proportion of the loss is likely to be absorbed by the credit enhancement available in the transaction.

Analytical approach: The rating actions are based on the performance of the pools till September 2018 (payout month), the present delinquency profile of the pool contracts, performance expected over the balance pool tenure, and the credit enhancement available in these transactions.

Links to applicable criteria:

[Rating Methodology for Securitisation Transactions](#)

About the company:

Future Financial Services Private Ltd (FFSPL) was an NBFC - MFI involved in microfinance activities, with presence primarily in the states of Karnataka, Tamil Nadu (TN) and Andhra Pradesh (AP). The Company was promoted by Mr. Dasaratha Reddy.

FFSPL transferred its portfolio via slump sale to Disha Microfin Limited (Disha) in October 2016 subsequent to which there were no operations in FFSPL's books. In September 2016, FFSPL and Disha (along with the Trustee) entered into Novation Agreements for the securitisation transactions originated by FFSPL. As per the Novation Agreements, Disha has taken over entire FFSPL's obligations as the collection agent.

Subsequently, as per the order of National Company Law Tribunal (NCLT), Future Financial Services Private Ltd has been merged with Fincare Business Services Limited. Fincare Business Services Limited is the holding company for Fincare Small Finance Bank.

About Fincare Small Finance Bank:

Disha Microfin Private Limited (formerly known as Banas Finlease Private Limited) was formed in 1996. In June 2009, the management decided to venture into microfinance activities in Gujarat based on the Grameen Bank Joint Liability Group (JLG) model. The company was renamed as Disha Microfin Private Limited (Disha) in 2010.

Pursuant to RBI notification in October 2015 granting in principle approval for Disha Microfin Pvt Limited to commence small finance bank (SFB), group entities within Fincare group including Disha and Future Financial Services Private Limited (FFSPL) merged through a slump sale by FFSPL to Disha. Fincare Small Finance Bank ('Fincare SFB') was incorporated in June 2017 and subsequently received the RBI licence to initiate banking operations in May 2017. Fincare Small Finance Bank commenced banking operations on the 21st of July, 2017. Fincare Small Finance Bank Limited ('Fincare SFB') (formerly known as Disha Microfin Pvt Limited) converted into small finance bank from being a microfinance institution registered as non-deposit accepting, non-banking finance company (NBFC) with the Reserve Bank of India.

Both Fincare SFB and FFSPL belong to the same group entity and are managed by Fincare (the management company set by IVFA, the key stakeholder). The branches set up in the case of the two entities are similar and the back-office operations are managed by a common team that caters to both FFSPL and Disha.

As on September 2018, Fincare SFB was operational in 457 branches spread over 122 districts in the state of Gujarat, Madhya Pradesh, Rajasthan, Karnataka, Tamil Nadu, Andhra Pradesh, Puducherry, Maharashtra, NCR region and Haryana with a portfolio size of Rs. 2,899 crore. Karnataka and Tamil Nadu have highest share in portfolio with combined share being ~53%.

ICRA has ratings outstanding of [ICRA]A-(Stable) and MA(Stable) for the bank facilities and fixed deposits of Fincare respectively.

Key financial indicators (Fincare SFB)

| | Mar-15 | Mar-16 | Mar-17 | Mar-18 |
|------------------------------------------------------|--------|--------|----------|---------|
| Net Worth (Reported) | 40.96 | 43.98 | 435.1 | 337.6 |
| Managed Assets (incl. off balance sheet receivables) | 261.09 | 394.3 | 1,735.98 | 2,150.3 |
| Profit After Tax (PAT) | 6.91 | 3.02 | 8.68 | (97.6) |
| Yield on Average Earning Assets (%) | 25.69% | 19.25% | 21.09% | 21.3% |
| Cost of average interest bearing funds (%) | 17.40% | 11.78% | 16.46% | 9.8% |
| Net Interest Margin (%) | 12.37% | 9.38% | 10.45% | 13.3% |
| Operating Expenses /Average Managed Assets | 7.66% | 7.79% | 11.28% | 7.9% |
| Cost to Income Ratio (%) | 61.98% | 81.30% | 82.34% | 76.9% |
| PAT / Average Total Assets (%) | 3.67% | 1.16% | 1.15% | -5.6% |
| Gearing - Managed | 4.9 | 7.4 | 1.4 | 5.3 |
| Tier I Capital | 25.82% | 17.58% | 48.44% | 18.0% |
| Tier II Capital | -2.59% | -0.06% | 0.00% | 4.9% |
| CRAR | 23.23% | 17.52% | 48.44% | 22.9% |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Instrument | Type | Current Rating (FY2019) | | Chronology of Rating History for the past 3 years | | | | | |
|--------------------------------|---------------|--------------------------|--------------------------------|---------------------------------------------------|----------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | | Rated Amount (Rs. crore) | Amount Outstanding (Rs. Crore) | Date & Rating Oct-18 | Date & Rating May-18 | Date & Rating in FY2018 Jul-17 | Date & Rating in FY2017 Aug-16 | Date & Rating in FY2016 May-15 | Date & Rating in FY2016 Mar-15* |
| 1 Golani SBL IFMR Capital 2015 | PTC Series A1 | 0.95 | 0.23 | [ICRA] AA(SO) | [ICRA] A-(SO) | [ICRA]A-(SO) | [ICRA]A-(SO) | [ICRA]BBB(SO) | Provisional [ICRA]BBB(SO) |
| | PTC Series A2 | 0.47 | 0.47 | [ICRA] A(SO) | [ICRA] BBB-(SO) | [ICRA] BBB-(SO) | [ICRA] BBB-(SO) | [ICRA]BB+(SO) | Provisional [ICRA]BB+(SO) |

**Initial Ratings assigned*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

| Sl. | Trust Name | Instrument | Date of Issuance | Coupon Rate | Scheduled Maturity Date [#] | Rated Amount (Rs. crore) | Current Rating |
|-----|-------------------|---------------|------------------|-------------|--------------------------------------|--------------------------|----------------|
| 1 | Golani SBL | PTC Series A1 | | 13.75% | Oct-19 | 0.23 | [ICRA]AA(SO) |
| | IFMR Capital 2015 | PTC Series A2 | Mar-15 | 17.25% | | 0.47 | [ICRA]A(SO) |

[#] the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

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