

May 03, 2024

## Fincare Small Finance Bank Limited: Ratings confirmed as final for PTCs backed by microfinance loan receivables issued by Mysuru Feb 2024

### Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Mysuru Feb 2024	Series A1 PTCs	157.67	154.61	[ICRA]AA-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned a provisional rating to the Series A1 Pass-through Certificates (PTCs) issued by Mysuru Feb 2024 under a securitisation transaction originated by Fincare Small Finance Bank Limited<sup>1</sup> {Fincare; rated [ICRA]A (Placed on rating watch with positive implication)}. The PTCs are backed by a pool of microfinance loan receivables originated by Fincare with an aggregate principal outstanding of Rs. 171.79 crore (pool receivables of Rs. 206.80 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 March 2024 payout month has been provided below.

Parameter	Mysuru Feb 2024
Months post securitisation	1
Pool amortisation	6.7%
Series A1 PTCs amortisation	5.4%
Cumulative collection efficiency	99.9%
Loss-cum 0+ dpd	0.4%
Loss cum 30+ dpd	0.0%
Loss cum 90+ dpd	0.0%
Cumulative Prepayment rate	0.1%
Cumulative cash collateral (CC) utilisation	0.0%

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and CC
- Absence of overdue contracts as on the pool cut-off date
- The pool had weighted average pre-assignment amortisation at ~22% and weighted average seasoning of ~31 weeks as on cut off date

#### Credit challenges

- The pool is geographically concentrated with ~66% of the pool principal originated from top three states.

<sup>1</sup> Merged with AU Small Finance Bank w.e.f. April 17, 2024

- 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. 13.88 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. 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 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:

#### For Series A1 PTCs: Strong

The liquidity for Series A1 PTCs is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement 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 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	<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. Navavati 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 Mysuru Feb 2024	Series A1 PTCs	157.67	154.61	[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>Mysuru Feb 2024</b>	Series A1 PTCs	February 2024	8.85%	September 2025	154.61	[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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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