

November 18, 2024

Fincare Small Finance Bank Limited: Rating upgraded for PTCs issued under microfinance loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Madurai Aug 2023	Series A1 PTCs	135.53	135.53	7.89	[ICRA]AAA(SO); upgraded from [ICRA]AA-(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by microfinance loan receivables originated by Fincare Small Finance Bank Limited¹ (Fincare/originator). The ratings for Series A1(b) PTC have been upgraded on account of the significant amortisation in the pool, which has led to the cash collateral (CC) covering the entire future PTC payouts.

Pool performance summary

Parameter	Madurai Aug 2023
Payout month	September 2024 ²
Months post securitisation	13
Pool amortisation	79.9%
PTC amortisation	89.0%
Cumulative collection efficiency (including advance collection)	111.3%
Average monthly prepayment rate	0.9%
Loss-cum-30+ dpd (% of initial pool principal) ³	5.3%
Loss-cum-90+ dpd (% of initial pool principal) ⁴	4.5%
Cumulative CC utilisation	0.0%
CC available (as % of balance pool principal)	37.4%
Principal subordination (% of balance pool principal)	50.8%
Excess interest spread (EIS) (as % of balance pool principal)	6.5%
Breakeven collection efficiency	Nil

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of PTC principal.

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

² Pool performance summary is as on Sep-24 payout since servicer report for Oct-24 payout was pending to be received

³ Principal outstanding (POS) on contracts aged 30+ days past due + overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ days past due + overdues / Initial POS on the pool

Key rating drivers

Credit strengths

Substantial credit enhancement available in the structure – The rating factors in the build-up in the credit enhancement with cash collateral fully covering the future PTC payouts after PTC payout for October 2024.

Healthy pool performance – Performance of the pool has been strong with monthly collection efficiency above 100% till September 2024 payout month which has resulted in low delinquencies in the pools with the 90+ days past due (dpd) and 180+ dpd at 4.5% and 3.4%, respectively. The break-even collection efficiency is also much lower as compared to the collection efficiency observed in the pool. Further, there have been no instances of cash collateral utilisation for the transaction till date owing to strong collection performance and presence of EIS in the transaction.

Credit challenges

Risks associated with lending business – The pools' performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The performance of microfinance loans would also be exposed to political and communal risks.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Madurai Aug 2023
Originator	Fincare Small Finance Bank Limited
Servicer	AU Small Finance Bank Limited
Trustee	Catalyst Trusteeship Limited
CC holding Bank	Federal Bank
Collection and payout account Bank	Federal Bank

Liquidity position - Superior

The liquidity for Series A1 PTCs is superior since the available cash collateral fully covers the balance PTC payouts.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating is unlikely to change as the CC covers the entire balance PTC payouts.

Analytical approach

The rating action is based on the performance of the pool till September 2024 payout month (August 2024 collection month), the present delinquency profile of the pools, the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

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). With effect from April 1, 2024, Fincare Small Finance Bank Limited (Fincare) has amalgamated with AU Small Finance Bank Limited (AU SFB).

AU SFB is a scheduled commercial bank, which transitioned to a small finance bank from an asset financing NBFC. While it was incorporated in 1996 as an NBFC, it commenced SFB operations on April 19, 2017 after receiving the final licence on December 20, 2016. The RBI had granted in-principle approval in September 2015. AU SFB got listed on the stock exchanges in July 2017 and was granted scheduled commercial bank status in November 2017.

AU SFB reported a profit after tax (PAT) of Rs. 1,535 crore on a total asset base of Rs. 1,09,426 crore in FY2024 compared to a PAT of Rs. 1,428 crore on a total asset base of Rs. 90,216 crore in FY2023. As of March 31, 2024, the net worth stood at Rs. 12,560 crore with a reported capital adequacy of 20.1%.

Key financial indicators

AU SFB	FY2022	FY2023	FY2024*
Accounting as per	IGAAP	IGAAP	IGAAP
Total income	6,915	9,240	12,301
Profit after tax (PAT)	1,130	1,428	1,535
Total assets	69,078	90,216	1,09,426
CRAR	21.0%	23.6%	20.1%
GNPA	1.98%	1.66%	1.67%

Source: Bank, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *Limited review

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Nov 18, 2024	Nov 28, 2023	Sep 04, 2023		
1.	Madurai Aug 2023	Series A1 PTCs	135.53	7.89	[ICRA]AAA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Madurai Aug 2023	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 Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. Crore)	Rating
Madurai Aug 2023	Series A1 PTCs	August 22, 2023	8.85%	January 31, 2025	7.89	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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