

Press Release

Fino Finance Private Limited

July 06, 2020



Rating Assigned

Total Facilities Rated	Rs.450.00 crore
Total Bank Facilities Rated	Rs.350.00 crore
Long Term Rating	ACUITE BBB-/ Negative (Assigned)
Proposed Secured Redeemable Non-convertible debentures	Rs.45.00 crore
Long Term Rating	ACUITE BBB-/ Negative (Assigned)
Secured Redeemable Non-convertible debentures	Rs.30.00 crore
Long Term Rating	ACUITE BBB-/ Negative (Assigned)
Unsecured Redeemable Non-convertible debentures	Rs.25.00 crore
Long Term Rating	ACUITE BBB-/ Negative (Assigned)

*Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.350.00 Cr. bank facilities of Fino Finance Private Limited (FFPL). The outlook is '**Negative**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.45.00 Cr. Proposed Secured Redeemable Non-convertible debentures of Fino Finance Private Limited (FFPL). The outlook is '**Negative**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.30.00 Cr. Secured Redeemable Non-convertible debentures of Fino Finance Private Limited (FFPL). The outlook is '**Negative**'.

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.25.00 Cr. Unsecured Redeemable Non-convertible debentures of Fino Finance Private Limited (FFPL). The outlook is '**Negative**'.

About Fino Finance Private Limited (FFPL):

FFPL, started in 2010, is a RBI registered non-deposit taking NBFC engaged in extending microfinance loans to women borrowers through the joint liability groups (JLG) in rural areas. The company has its registered office in Navi Mumbai, Maharashtra. Besides MFI loans, FFPL is also engaged in extending MSME loans.

FFPL is a part of the FINO group that includes FINO Paytech Limited and FINO Payments Bank Limited (FPBL). FINO Paytech Limited, the holding company of FINO group, holds 100 % stake in FFPL and FPBL. FINO Paytech Limited, the flagship company was incorporated in 2006 to develop banking technology solutions to assist financial institutions to serve the under banked population. In December 2010, Intrepid Finance and Leasing Private Limited was acquired by FINO Paytech Limited and renamed as FFPL. Since then FFPL operates as a wholly owned subsidiary of FINO Paytech Limited.

Presently the day to day operations of FFPL are managed by Mr. Sudeep Gupta (COO) who has over a decade of experience in financial services. FFPL operates through a network of 224 branches as on March 31, 2020 spread across Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, Jharkhand and Chhattisgarh.

Analytical Approach:

Acuite has considered a standalone view on FFPL's business and financial risk profile to arrive at the rating.

Acuite has been guided by recent SEBI circular dated 30th March, 2020 (Circular No: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/53) while arriving at the rating. Acuite has also relied on the recent RBI circular dated 27th March, 2020 (Circular No: RBI/2019-20/186 in this regard. Acuite observes that, the company did not receive moratorium from one of its lenders for April and May 2020. The company has skipped payments to this lender for April and May 2020. Acuite believes that, this slippage is attributable to the ongoing crisis and hence has not construed these slippages as a credit event while arriving at the rating decision. Acuite policy regarding this "Transitory relaxation from compliance with certain provisions under SEBI (Credit Rating Agencies) Regulations, 1999" is as follows: <https://www.acuite.in/transitory-relaxation-from-compliance-with-certain-provisions-under-SEBI.htm>

Key Rating Drivers

Strengths

- **Strong parentage coupled with experienced management**

FINO group's origin can be traced to financial inclusion initiatives of ICICI Bank Limited. ICICI Bank Limited had decided to spin off its financial inclusion division to a separate company called FINO Paytech Limited in 2006. FINO Paytech Limited was established to provide banking technology solutions to help financial institutions in providing services to the under banked population. Gradually, FINO Paytech Limited attracted equity from several other players like Blackstone GPV Capital Partners, International Finance Corporation, Bharat Petroleum Corporation Limited (BPCL) among others. BPCL is the recent investor acquiring 23.17% stake in FFPL.

In December 2010, FINO Paytech Limited, the holding company, acquired a dormant NBFC (Intrepid Finance and Leasing Private Limited) and changed the name to Fino Finance Private Limited (FFPL). FFPL is operating as a wholly owned subsidiary of FINO Paytech Limited, engaged in providing microfinance loans to women borrowers through the joint liability groups (JLG) in rural areas and extending MSME loans. FINO group launched FINO Payments Bank Limited in June 2017.

FINO group has plans to become a Small Finance bank over a period of time through a possible merger of FINO Payments Bank Limited and FFPL. Hence, the operations of FFPL are strategically important to FINO group. Currently, there are no direct financial linkages between FFPL and FPBL. However, there are certain operational synergies which are available in view of the large merchant establishment network of FPBL.

FFPL's board comprises 4 members led by Mr. Kasaragod Ashok Kini (Chairman), retired as Managing Director of State Bank of India. The members of the board have over two decades of experience in banking and financial services. The day to day operations of FFPL are managed by Mr. Sudeep Gupta (COO). Mr. Gupta has over a decade of experience in financial domain. Prior to FFPL, he was associated with Satin CreditCare Network Limited, Fullerton India Credit Company Limited, Ashok Leyland Finance and ICICI group.

Acuité believes that FFPL will continue to benefit from the established parentage, experienced management and operational synergies emanating from its association with FINO group.

Weaknesses

•Expectations of elevated stress in asset quality and profitability parameters

FFPL commenced its lending operations in 2010 upon registration as a Non-Banking Finance Company- Microfinance Institution (NBFC-MFI). FFPL is engaged in providing microfinance loans to women borrowers through the joint liability groups (JLG) in rural areas. FFPL's assets under management (AUM) stood at ~Rs.446 Cr. as on March 31, 2020 (provisional) as against ~Rs.539 Cr. as on March 31, 2019. Of the total AUM, ~40 percent was way of off-book exposure with business correspondence relationship with IndusInd bank, Suryoday Small Finance Bank and Fincare Small Finance Bank. MFI loans comprise around 95 % of FFPL's AUM as on March 31, 2020. Of the overall AUM, Bihar and Uttar Pradesh accounted for ~38 percent and ~26 percent, respectively. Besides these two states, FFPL also has presence in Madhya Pradesh, Maharashtra, Jharkhand and Chhattisgarh

FFPL had suffered setbacks in past as its asset quality suffered in the post demonetisation period. FFPL had to incur huge credit costs on account of major delinquencies during FY 2018 and FY 2019. FFPL's legacy portfolio (originated prior to demonetisation) constituting of Madhya Pradesh and Maharashtra, specially the Vidharbha region, was severely impacted post demonetisation. FFPL revisited its branch strategy and closed down some of these branches in Mahasratra and Madhya Pradesh and opened new branches in other geographies like Chhattisgarh and Jharkhand in FY2020. While FFPL's GNPA reduced to Rs.5.2 Cr. as on March 31, 2020, from Rs.13.6 Cr. as on March 31, 2019, the company had to take significant write offs.

While FFPL has scaled down its disbursements from FY 2019, the company had opened new branches in FY 2020 with expectations of geographical diversification of portfolio and business growth. However, with the outbreak of the COVID-19 virus and the continued lockdowns since Q4 FY2020, operations of FFPL are currently impacted. The lockdowns have impacted the ability of most of the borrowers to carry on their business activities, affecting their cashflows. While nationwide lockdowns have been gradually lifted from end of May onwards, there are still restrictions on movement of men and material in certain geographies, especially in red zone areas.

Acuité believes that while the impact on MFI portfolio will be more pronounced in urban areas rather than rural geographies, which will bounce back quickly, the portfolio of players like FFPL will suffer some stress over the next one or two quarters.

FFPL's return on average assets (on PBT basis) stood at 0.73 percent for FY 2020 vis. a vis. 1.06 percent for FY 2019. FFPL has considerable operating expenses with opex to AUM at ~ 11 percent for FY 2020 as against ~10 percent for FY 2019. In event of challenges in maintaining AUM growth, FFPL's profitability levels could be impacted. Any significant credit costs in the current fiscal could also have an impact on the profitability.

Acuité believes that FINO's ability to maintain a stable growth in AUM, along with maintaining its asset quality will be crucial to maintain a stable profile.

Rating Sensitivities

- Movement in collection efficiency
- Movement in Liquidity buffers
- Movement in asset quality

- Profitability and capital adequacy buffers
- Stance of lenders in respect of moratorium
- Changes in regulatory environment

Material Covenants:

FFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation received from client via mail dated 24 June 2020, 'The company is adhering to all norms by RBI for NBF-MFI'.

Liquidity Position: Stretched

FFPL's borrowings of ~Rs.235 Cr. as on March 31, 2020 comprise of bank borrowings of ~64 percent, subordinated debt of ~19 percent and remaining comprising of NCDs and NBFC/FI borrowings. FFPL's gearing as on March 31, 2020 was around 2.57 times. The borrowings have maturity over 60 months.

Subsequent to COVID outbreak, the liquidity crisis has been triggered. FFPL had extended moratorium to ~90 percent of its borrower base till May 2020 and had received written moratorium till May 31, 2020 from 10 out of 16 lenders, accounting for ~70 percent of bank and NBFCs/FI borrowings as on March 31, 2020. With RBI's announcements of further extension of moratorium till August 31 2020, FFPL had sought moratorium from majority of its lenders. However, as per discussion with FFPL, Acuite understands that majority of the lenders are yet to communicate their stance. Going by the current developments, it appears that the improvement in collections is likely to be a gradual process.

FFPL's scheduled collections (as per regular schedule) are around Rs.21 Cr. on a monthly basis against which its scheduled debt servicing obligations (as per regular schedule) are around Rs.11 Cr. to Rs.20 Cr. and operating costs of ~Rs.3.0 Cr. per month. The stance of existing lenders in extending further moratorium and the ability of FFPL to raise long term funding (equity/debt) commensurate with its near term debt obligations/business requirements will be critical to the maintenance of stable liquidity profile.

Outlook: Negative

Acuite believes that FFPL's credit profile will be under pressure on account of significant asset quality and profitability pressures over the near to medium term. The outlook may be revised to stable in case FFPL is able to demonstrate a significant improvement in liquidity buffers while containing asset quality pressures and demonstrating healthy profitability levels. Conversely, significant reduction in FFPL's liquidity buffers post expiry of moratorium period and higher than expected credit costs or deterioration in profitability levels could impart negative bias to the rating.

About the Rated Entity - Key Financials:

Parameters	Unit	FY20 (Prov)	FY19(Actual)
Total Assets	Rs. Cr.	339.12	512.35
Total Income*	Rs. Cr.	61.37	80.35
PBT	Rs. Cr.	3.09	5.74
Net Worth	Rs. Cr.	91.19	88.09
Return on Average Assets (RoAA)*	(%)	0.73	1.06
Return on Average Net Worth(RoNW)*	(%)	3.45	6.60
Total Debt/Tangible Net Worth (Gearing)	Times	2.57	4.57
Gross NPA	(%)	1.17	2.52
Net NPA	(%)	0.54	0.32

* Total income equals to Net interest income plus other income

* calculated on PBT basis

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Not Applicable

Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Term Loan	29-12-2017	-	29-12-2020	3.33	ACUITE BBB-/Negative (assigned)
-	Term Loan	26-09-2019	-	26-09-2022	4.17	ACUITE BBB-/Negative (assigned)
-	Term Loan	02-06-2017	-	02-09-2020	1.67	ACUITE BBB-/Negative (assigned)
-	Term Loan	25-01-2018	-	25-04-2021	4.17	ACUITE BBB-/Negative (assigned)
-	Term Loan	16-05-2018	-	03-06-2021	11.51	ACUITE BBB-/Negative (assigned)
-	Term loan	20-03-2018	-	31-03-2021	3.71	ACUITE BBB-/Negative (assigned)
-	Term loan - Sub debt	05-10-2018	-	01-10-2025	20.00	ACUITE BBB-/Negative (assigned)
-	Term Loan	17-01-2018	-	16-01-2021	8.00	ACUITE BBB-/Negative (assigned)
-	Term Loan	20-03-2019	-	20-03-2021	42.86	ACUITE BBB-/Negative (assigned)
-	Term Loan	18-01-2019	-	18-07-2022	4.17	ACUITE BBB-/Negative (assigned)
-	Term Loan	29-09-2017	-	30-09-2020	2.50	ACUITE BBB-/Negative (assigned)
-	Term Loan	08-03-2018	-	01-09-2020	2.26	ACUITE BBB-/Negative (assigned)

-	Term Loan	29-06-2018	-	29-06-2020	1.67	ACUITE BBB- /Negative (assigned)
-	Term Loan	02-08-2019	-	01-08-2022	12.50	ACUITE BBB- /Negative (assigned)
-	Term Loan	30-06-2017	-	30-06-2020	10.61	ACUITE BBB- /Negative (assigned)
-	Term Loan	10-01-2018	-	10-01-2021	3.19	ACUITE BBB- /Negative (assigned)
-	Term Loan	15-12-2017	-	15-12-2020	4.08	ACUITE BBB- /Negative (assigned)
-	Term Loan	27-06-2018	-	05-07-2020	2.22	ACUITE BBB- /Negative (assigned)
-	Cash Credit	-	-	-	25.00	ACUITE BBB- /Negative (assigned)
-	Term Loan	30-12-2017	-	31-03-2021	5.42	ACUITE BBB- /Negative (assigned)
-	Term Loan	31-12-2019	-	31-12-2022	6.61	ACUITE BBB- /Negative (assigned)
-	Proposed bank facility	-	-	-	170.36	ACUITE BBB- /Negative (assigned)
-	Proposed Secured Redeemable Non-convertible debentures	-	-	-	45.00	ACUITE BBB-/ Negative (Assigned)
INE517Q 07091	Secured Redeemable Non-convertible debentures	-	14.3%	-	30.00	ACUITE BBB-/ Negative (Assigned)
INE517Q 08016	Unsecured Redeemable Non-convertible debentures	-	16.1%	-	25.00	ACUITE BBB-/ Negative (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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