

Press Release

Fino Finance Private Limited

June 28, 2021



Rating Downgraded; Assigned; Withdrawn & Outlook Revised

Total Facilities Rated*	Rs.450.00 Cr.
Total Bank Facilities Rated	Rs.147.50 crore
Long Term Rating	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/ Negative; Outlook revised to Stable from Negative)
Total Bank Facilities Rated	Rs.202.50 crore
Long Term Rating	ACUITE BB+ (Downgraded from ACUITE BBB-/ Negative & Withdrawn)
Secured Redeemable Non-convertible debentures	Rs.30.00 crore
Long Term Rating	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/ Negative; Outlook revised to Stable from Negative)
Unsecured Redeemable Non-convertible debentures	Rs.25.00 crore
Long Term Rating	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/ Negative; Outlook revised to Stable from Negative)
Proposed Secured Redeemable Non-convertible debentures	Rs.45.00 crore
Long Term Rating	ACUITE BB+ (Downgraded from ACUITE BBB-/ Negative & Withdrawn)

*Refer annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.147.50 Cr. bank facilities of Fino Finance Private Limited (FFPL). The outlook is revised to '**Stable**' from '**Negative**'.

Acuite has downgraded & withdrawn the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.202.50 Cr. bank facilities of Fino Finance Private Limited (FFPL). This rating is being withdrawn on account of the request received by the client along with No Objection Certificate received from the bank as per Acuite's policy.

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**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 revised to '**Stable**' from '**Negative**'.

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.25.00 Cr. secured redeemable Non-convertible debentures of Fino Finance Private Limited (FFPL). The outlook is revised to '**Stable**' from '**Negative**'.

Acuite has downgraded & withdrawn the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.45.00 Cr.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). This rating is being withdrawn on account of the request received by the client as per Acuite's policy.

The rating downgrade is primarily driven by significant deterioration in the asset quality decline in operating performance during 9MFY21 marked by losses and nil disbursement on the owned portfolio. The company reported significant rise in delinquencies; GNPA and NNPA increased to 10.93% and 2.66% as on December 31, 2020 from 1.66% and 0.66% as on March 31, 2020, respectively. Although, Acuite takes cognizance of the fact that asset quality stress in the sector has been on account of Covid-19 induced slowdown, clearly some MFIs have been more affected on account of their geographic distribution. The on-time portfolio of the company declined to 51% as on December 31, 2020 from 96% as on March 31, 2020. The inherent risks of microfinance industry including exposure to marginalised borrowers have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. Going forward, capital support by the parent, movement of delinquencies across different time buckets and its resultant impact on profitability metrics due to higher provisioning requirements would remain key monitorables.

The rating continues to factor in FFLs parentage (FINO Paytech Limited holds 100% shares) and its track record of operations in the microfinance lending along with the support of the experienced management team. The rating also takes into account its adequate capitalisation levels and moderate gearing levels. The Capital Adequacy Ratio (CAR) and gearing stood at 30.45 percent and 2.38 times as on December 31, 2020.

About the company (FFPL)

FFPL, a part of FINO Group, is a RBI registered non-deposit taking NBFC and is 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 also extends MSME loans to the tune of 5% of the total loan book as on December 31, 2020.

About the FINO Paytech Limited

FINO Paytech Limited is the flagship company of FINO Group. The group was incorporated in 2006 and engaged in developing banking technology solutions to assist financial institutions to serve the under banked population. In December 2010, Intrepid Finance and Leasing Private Limited (incorporated in 1994) was acquired by FINO Paytech Limited and renamed as FFPL. Since then FFPL operates as a wholly owned subsidiary of FINO Paytech Limited.

Now, FINO group 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of FFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters along with operational and managerial support emanating from parent of FINO Paytech Limited**

FFPL is wholly owned subsidiary of FINO Paytech Limited (FINO group). The group consists of FINO Paytech Limited, FINO Finance Private Limited and FINO Payments Bank Limited (FPBL). FINO Paytech Limited is the holding and Flagship Company and holds 100 % stake in FFPL and FPBL.

The origin of the group can be traced to financial inclusion initiatives of ICICI Bank Limited, which had decided to spin off its financial inclusion division to a separate company called FINO Paytech Limited in 2006. FINO Paytech Limited was established with intent 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 and major investor acquiring 23.17% stake in FPL.

Subsequently in December 2010, FINO Paytech Limited, acquired a dormant NBFC (Intrepid Finance and Leasing Private Limited) and changed the name to Fino Finance Private Limited. FFPL provides microfinance loans to women borrowers through the joint liability groups (JLG) in rural areas and also extends MSME loans. FINO group has a plan 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. Acuite has taken cognizance of track record of equity infusion by the parent, FPL with the last infusion in FY2018 of Rs.25 Cr. Going forward, given the asset quality pressures and the resultant impact on the credit profile, the company will have to raise equity in order to bolster its capitalization levels.

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.

Presently, FFPL operates through a network of 199 branches as on December 31, 2021 spread across Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, Jharkhand and Chhattisgarh. The loans extended are for income generating purpose under JLG model (~95% of AUM as on Dec 31, 2020) and remaining to MSME borrowers (~5% of AUM as on Dec 31, 2020). Further, 41% of AUM is managed portfolio via Direct Assignment and Business Correspondence with Indusind Bank, Suryoday Small Finance Bank and Fincare Small Finance Bank. Capital Adequacy Ratio stood at 30.45% as on December 31, 2020 as against 37.20% as on March 31, 2020. Acuite believes that FFPL shall continue to derive benefits from parent, FPL.

Weaknesses

• Elevated asset quality stress

FFPL's assets under management (AUM) shrunk by 35% to ~Rs.287 Cr. as on December 31, 2020 (provisional) as against ~Rs.445.67 Cr. as on March 31, 2020. MFI loans comprised around 95 % of FFPL's AUM as on December 31, 2020. Of the overall AUM, Bihar and Uttar Pradesh accounted for ~34 percent and ~29 percent, respectively. Besides these two states, FFPL also has presence in Madhya Pradesh, Maharashtra, Jharkhand and Chhattisgarh. FFPL has not made any disbursements and made higher collections of Rs.97.48 Cr. in 9MFY2021, hence resulted in decline of the AUM as on December 31, 2020.

FFPL's asset quality has witnessed stress on the account of pandemic Covid-19, marked by decline in on-time portfolio to 51% as on December 31, 2020 from 96% as on March 31, 2020. The inherent risks of microfinance industry including exposure to marginalised borrowers have been exacerbated by localised lockdowns and economic disruptions in the wake of second wave of Covid-19. Consequently, FFPL's GNPA rose to 10.93% as on December 31, 2020 from 1.66% March 31, 2020.

• Weakening of financial risk profile

Considering the delinquencies in asset quality, FFPL made provisions of Rs.10.93 Cr. in 9MFY2021 (Provisional). Higher credit and operational costs coupled with decline in fresh business resulted in losses of Rs.23.96 Cr. for the 9MFY2021 (Provisional). FFPL has considerable operating expenses with opex to AUM at ~ 20.62 percent for 9MFY2021 as against ~20.75 percent for FY2020. Any significant credit costs in near term could further impact the company's profitability. Acuite believes that FINO's ability to contain asset quality pressures besides raising capital (in the form of debt and equity) will be crucial to maintaining a stable profile.

Rating Sensitivity

- Ability to raise capital (debt/equity)
- Movement in asset quality
- Profitability and capital adequacy buffers

Liquidity Position – Adequate

FFPL's borrowings stood at ~Rs.129.50 Cr. as on Mar 31, 2021 (Provisional). Out of which around 52% are maturing up to 1 year bucket vis-à-vis 84% of the advances maturing over the same time period. ALM statement as on Mar 31, 2021 shows positive cumulative mismatch in all the buckets. FFPL has Rs.25 Cr. of working capital lines which remain unutilized around 80-90% on average. The average collection rate for 9 months ended in March 2021 stood at 96%. FFPL has also started receiving sanctions from the lenders in June, 2021 onwards. Further, FFPL is expected to be adequately supported by FPL for its working capital requirements as and when necessary.

Outlook: Stable

Acuite believes that the company will benefit from its experienced promoters, management team and adequate capitalisation buffers. The outlook may be revised to 'Positive' in case of equity infusion by parent, higher than expected growth in loan book while improvement in key operating metrics and asset quality. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital structure.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	327.96	512.35
Total Income*	Rs. Cr.	64.34	80.35
PAT	Rs. Cr.	4.64	2.34
Networth	Rs. Cr.	78.85	88.09
Return on Average Assets (RoAA)	(%)	1.10	0.43
Return on Average Net Worth (RoNW)	(%)	5.56	2.69
Total Debt/Tangible Net Worth (Gearing)	Times	3.00	4.57
Gross NPA	(%)	1.66%	2.10%
Net NPA	(%)	0.66%	1.15%

* Total income equals to Net interest income plus other income

Material Covenants

None

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-50.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)

Date	Name of Instrument/ Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
06 July, 2020	Term Loan	Long term	3.33	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	4.17	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	1.67	ACUITE BBB-/Negative (assigned)

	Term Loan	Long term	4.17	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	11.51	ACUITE BBB-/Negative (Assigned)
	Term loan	Long term	3.71	ACUITE BBB-/Negative (Assigned)
	Term loan - Sub debt	Long term	20.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	8.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	42.86	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	4.17	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	2.50	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	2.26	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	1.67	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	12.50	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	10.61	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	3.19	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	4.08	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	2.22	ACUITE BBB-/Negative (Assigned)
	Cash Credit	Long term	25.00	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	5.42	ACUITE BBB-/Negative (Assigned)
	Term Loan	Long term	6.61	ACUITE BBB-/Negative (Assigned)
	Proposed bank facility	Long term	170.36	ACUITE BBB-/Negative (Assigned)
	Proposed Secured Redeemable Non-convertible debentures	Long term	45.00	ACUITE BBB-/ Negative (Assigned)
	Secured Redeemable Non-convertible debentures	Long term	30.00	ACUITE BBB-/ Negative (Assigned)
	Unsecured Redeemable Non-convertible debentures	Long term	25.00	ACUITE BBB-/ Negative (Assigned)

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 BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)

-	Term Loan	26-09-2019	-	26-09-2022	4.17	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term loan	20-03-2018	-	31-03-2021	3.71	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term loan - Sub debt	05-10-2018	-	01-10-2025	20.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan	17-01-2018	-	16-01-2021	8.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan	20-03-2019	-	20-03-2021	32.86	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan	29-09-2017	-	30-09-2020	2.50	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan	02-08-2019	-	01-08-2022	11.82	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan	15-12-2017	-	15-12-2020	4.08	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Cash Credit	-	-	-	25.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan		-		20.00	ACUITE BB+/Stable (Assigned)
-	Term Loan	30-12-2017	-	31-03-2021	5.42	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
-	Term Loan	31-12-2019	-	31-12-2022	6.61	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)

Total Facilities					147.50	
-	Term Loan	02-06-2017	-	02-09-2020	1.67	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	25-01-2018	-	25-04-2021	4.17	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	16-05-2018	-	03-06-2021	11.51	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	18-01-2019	-	18-07-2022	4.17	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	08-03-2018	-	01-09-2020	2.26	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	29-06-2018	-	29-06-2020	1.67	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	30-06-2017	-	30-06-2020	10.61	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	10-01-2018	-	10-01-2021	3.19	ACUITE BB+ (Downgraded & Withdrawn)
-	Term Loan	27-06-2018	-	05-07-2020	2.22	ACUITE BB+ (Downgraded & Withdrawn)
-	Proposed bank facility	-	-	-	161.03	ACUITE BB+ (Downgraded & Withdrawn)
Total Facilities					202.5	
-	Proposed Secured Redeemable Non-convertible debentures	-	-	-	45.00	ACUITE BB+ (Downgraded & Withdrawn)
INE517Q 07091	Secured Redeemable Non-convertible debentures	-	14.3%	-	30.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)
INE517Q 08016	Unsecured Redeemable Non-convertible debentures	-	16.1%	-	25.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Negative; Outlook revised to Stable from Negative)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President - Rating Operations Tel: 022-49294071 mohit.jain@acuite.in Simranjeet Kaur Senior Analyst - Rating Operations Tel: 022-49294062 simranjeet.kaur@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research 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 8,000 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.

Disclaimer: *An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.*