

Press Release

Fedbank Financial Services Limited – Levine Feb 2021

May 28, 2021



Rating Assigned

Pass Through Certificates (PTCs)	Rs. 20.40 Cr
Long Term Rating	ACUITE AA-(SO) (Assigned; Converted to Final from Provisional rating)

Rating Rationale

Acuite has converted the provisional rating to final rating of '**ACUITE AA-(SO)**' (read as **ACUITE double A minus (Structured Obligation)**) to the Pass Through Certificates (PTCs) of Rs. 20.40 Cr issued by Levine Feb 2021 under a securitisation transaction originated by Fedbank Financial Services Limited (FFSL) (The Originator). The PTCs are backed by a pool of loans provided to microfinance borrowers with principal outstanding of Rs. 21.47 Cr (including Rs. 1.07 Cr of over collateralisation).

The rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of June 17, 2022, in accordance with transaction documentation.

The rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement is available in the form of

- (i) Over collateralisation of 5.0% of the pool principal;
- (ii) Cash collateral of 7.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 2.07 Cr.

The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, accounts agreement, assignment agreement and other documents relevant to the transaction.

About the Originator

Fedbank Financial Services Limited (FFSL), a non-deposit taking systemically important non-banking financial company (NBFC-ND-SI), is a subsidiary of Federal Bank Limited (FBL). As on Dec 31, 2020 Federal Bank Limited holds 74% of shareholding and True North Enterprise Private Limited holds 26% in FFSL. FFSL started its operations in August 2010 from an initial gold loan portfolio and has expanded its range of offerings to loan against property (LAP) (small and large ticket), Small and Medium Enterprises (SME) loans, loans to NBFC's and Micro Financial Institutions (MFI) amongst others. As on Dec 30, 2020, the operations of FFSL are spread across 359 branches in 10 states and 2 Union Territories namely Gujarat, Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, Rajasthan, Punjab, Uttar Pradesh, Madhya Pradesh, Haryana, Goa and Delhi.

About Federal Bank Limited (FBL)

FBL is a Kerala based private sector bank founded in 1931. The bank has a network of 1272 branches in India and abroad and 1948 ATMs and cash recyclers as on December 31, 2020. It has a net worth of Rs. 15,645 Cr. as on December 31, 2020. The bank has aggregate deposits of Rs. 1.62 trillion and advances of Rs. 1.26 trillion as on December 31, 2020. It has a healthy level of CASA at ~34.48 % as on December 31, 2020. FBL registered a net profit of Rs. 404 Cr. on a net interest income of Rs. 1,437 Cr for 9MFY2021.

Assessment of the pool:

FFSL is engaged in originating MFI loans through Sourcing & Servicing Agents. The selected pool belongs to the portfolio of MFI loans which FFSL originated through its Sourcing & Servicing Agent, New Opportunity Consultancy Private Limited (NOCPL). NOCPL is a company registered under the Indian Companies Act, 2013. The company was incorporated on January 15, 2014 and is an authorised Business Correspondent to multiple banks and NBFCs in India. NOCPL is engaged in sourcing micro loans under the JLG model, credit linked insurance, individual and group based savings account on behalf of its banking partners.

FFSL's NOCPL portfolio has Asset Under Management of Rs. 33.01 Cr as on December 31, 2020. The current pool being securitised comprises 65.04% of FFSL's total loan exposures through NOCPL. The current pool comprises of MFI loans extended to 12,814 individual borrowers.

The pool of Rs. 21.47 Cr (original amount) are repayable monthly. The pool has an average ticket size of Rs. 28,384, minimum ticket size of Rs. 18,000 and maximum of Rs. 30,000. The current average outstanding per

borrower stands at Rs. 16,754. The weighted average original tenure for the pool is 17.93 months (minimum 12 months and maximum 18 months). The pool has weighted average seasoning of 12.60 months, with minimum 10 months seasoning and maximum 16 months seasoning. Hence, the pool is significantly seasoned. All the loans in the pool are current as on the pool cut-off date, Jan 31, 2021, which is also a healthy indicator. The pool's customers consist of farmers (85.2%), homemakers (5.7%), self-employed (3.3%) and others. Therefore, a substantial portion of the pool comprises of borrowers belonging to agriculture and agriculture-allied sectors. The pool is spread across 23 branches in Maharashtra (61.17%) and Madhya Pradesh (38.83%).

Credit Enhancements (CE)

The transaction is supported in the form of

- (i) Over collateralisation of 5.0% of the pool principal;
- (ii) Cash collateral of 7.00% of the pool principal; and
- (iii) Excess Interest Spread of Rs. 2.07 Cr.

The rating addresses the timely payment of interest on monthly payment dates and the ultimate payment of principal by the final maturity date of June 17, 2022, in accordance with transaction documentation.

Transaction Structure:

The transaction is structured at par. Collections of a particular month will be utilized to make promised interest and expected principal payouts to Series A PTCs and expected interest payment to Series A PTCs.

Assessment of Adequacy of Credit Enhancement:

Acuite has arrived at a base case delinquency estimate of 1.5 – 2.5 % in respect of the loan assets being securitised. Acuite has further has applied appropriate stress factors to the base loss figures to arrive at the final loss estimates and consequently the extent of credit enhancement required. The final loss estimates also consider the risk profile of the particular asset class, the borrower strata, economic risks and the demonstrated collection efficiency over the past eleven months. Acuite has also considered the limited track record of operations of the originator and certain pool parameters while arriving at the final loss estimate.

Legal Assessment:

The final rating is assigned based on the fulfilment of the structure, terms and covenants detailed in the executed trust deed, servicing agreement, legal opinion, accounts agreement, assignment agreement and other documents relevant to the transaction.

Key Risks

Counterparty Risks:

The pool has an average outstanding ticket size of Rs. 16,754, minimum ticket size of Rs. 18,000 and maximum of Rs. 30,000. Considering their vulnerable credit profile of the borrowers, the risk of delinquencies/defaults are elevated. These risks of delinquencies are partly mitigated, considering the efficacy of the originator's origination and monitoring procedures.

Concentration Risks:

Since the pool is entirely granular, i.e. underlying assets in the pool are in nature of MFI loans to 12,814 individual borrowers, hence the risk is significantly mitigated.

Prepayment Risk:

The pool is subject to prepayment risks since rate of interest is significantly high and borrowers may be inclined to shift to low cost options (based on availability). In case of significant prepayments, the PTC holders will be exposed to interest rate risks, since the cash flows from prepayment will have to be deployed at lower interest rates.

Servicing Risk

There is limited track record of servicing PTCs.

Commingling Risk

The transaction is subject to commingling risk since there is a time gap between last collection date and transfer to payout account.

Regulatory Risk

In the event of a regulatory stipulation impacting the bankruptcy remoteness of the structure, the payouts to the PTC holders may be impacted.

Liquidity Position – Adequate

The liquidity position in the transaction is adequate. The cash collateral available in the transaction amounts to 7.00% of the pool principal.

Key Rating sensitivity

- Collection performance of the underlying pool
- Credit quality of the underlying borrowers
- Decrease in cover available for PTC payouts from the credit enhancement

Material Covenants

The following covenant is included in the transaction structure: The purchase consideration to be paid by the issuer to the originator for purchasing the pool is equal to Series A1 issue price.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	4079.68	2145.32
Total Income (Net of Interest Expense)	Rs. Cr.	264.56	141.85
PAT	Rs. Cr.	39.14	36.13
Net Worth	Rs. Cr.	691.15	458.62
Return on Average Assets (RoAA)	(%)	1.26	1.99
Return on Average Net Worth (RoNW)	(%)	6.81	10.13
Total Debt/Net Worth (Gearing)	Times	4.67	3.53
Gross NPAs	(%)	1.47	2.30
Net NPAs	(%)	1.07	1.93

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Securitised transactions - <https://www.acuite.in/view-rating-criteria-48.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 the Facilities	Size of the Issue (Rs. Cr.)	Ratings
March 10, 2021	Pass Through Certificates	20.40	ACUITE PROVISIONAL AA-(SO) (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings
Pass Through Certificates	March 12, 2021	8.00	June 17, 2022	20.40	ACUITE AA-(SO) (Assigned; Converted to Final from Provisional rating)

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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 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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