Fusion Micro Finance Limited
(Formerly known as Fusion Microfinance Private Limited)

September 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities-Term Loan	1,500.00 (Enhanced from Rs. 1,460.00)	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed
Long term Bank Facilities- Cash Credit*	-	-	Withdrawn
Total Facilities	**1,500.00 (Rs. One Thousand Five Hundred crore only)**		

Details of instruments/facilities in Annexure-1

**CARE has withdrawn the rating assigned to cash credit facilities with immediate effect, as the company has repaid the cash credit in full and there is no amount outstanding under the facility as on date*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating on the debt instruments/bank facilities of Fusion Micro Finance Limited (Fusion) continues to derive strength from company's experienced promoters and management team, established track record of operations of over a decade, diversified resource base with availability of funds at competitive rates and adequate liquidity position. The rating also factors in the satisfactory risk management, internal control systems and Management Information Systems (MIS) in place for Fusion. Additionally, CARE takes into account strong shareholder support and robust capital position backed by regular infusions. However, the ratings are constrained by moderate profitability metrics underpinned by relatively lower margins and high operating costs. Also, CARE takes note of the inherent risks involved in the microfinance industry including unsecured lending, marginal profile of borrowers, socio-political intervention risk, regulatory uncertainty and unforeseen impact of natural disasters in certain geographies that could adversely impact credit profile of micro finance companies including that of Fusion.

Rating Sensitivities

Going forward, the ability of Fusion to maintain healthy asset quality profile with increasing loan book, maintain geographically diversification, improve profitability on sustainable basis and contain gearing levels would be the key rating sensitivities.

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability to report improved profitability on sustainable basis
- Scaling up while maintaining asset quality and improving gearing at around 2x on a steady basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in asset quality metrics and /or profitability metrics
- Significant stake dilution by major shareholders

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: Fusion is promoted by Mr. Devesh Sachdev, a first generation entrepreneur who is the current CEO & Managing Director of the company and has over 25 years of industry experience (with companies like Citi Bank, BSA, etc.) with exposure to various sectors, viz., private banking, telecom, etc. The Fusion board as on June 30, 2021 comprises six board members having strong academic and managerial expertise in banking, finance, law, administration and social developmental services. The board has one promoter director, three independent directors and two nominee directors. The company's largest shareholder Honey Rose Investments is also represented by Mr. Narendra Ostawal who was appointed as the Nominee Director in December 2018. The second line of management has experienced professionals across financial services, microfinance sector, retail and IT sector, forming a strong and cognitive management team.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Regular equity infusion to support growth in near term: The capital position of Fusion has witnessed substantial improvement owing to regular rounds of capital infusion from its set of diversified investor base. In previous four fiscal years till fiscal 2020, the company raised equity capital to the tune of Rs. 1,044 crore from various marquee institutional investors. Further, in its last concluded round of equity infusion in December-2019, Fusion raised capital of Rs.500 crores from its existing investors led by Honey Rose Investment Limited, a Mauritius based subsidiary of a private equity fund managed by Warburg Pincus. While Honey Rose Investments infused Rs.360 crore, other existing investor 'Creations Investments' infused Rs.140 crore. With this, the tangible net- worth of the company stood at Rs. 1,170 crore as on March 31, 2021 while the gearing levels stood at 3.79 times as on March 31, 2021. Furthermore, the capital position is supported by healthy internal accruals with company reporting net profit of Rs 44 crore over total income of Rs. 873 crore (+20% YoY) in FY21.

Fusion in July 2021 has also filed a DRHP to raise Rs. 600 crore from a fresh issue of equity and Rs. 1,300 crore through Offer For Sale (OFS) by existing shareholders including promoters Mr. Devesh Sachdev, Creation Investments Fusion, and Warburg Pincus backed Honey Rose Investment.

Geographically diversified operations: Fusion's operations are geographically well diversified and spread across 18 states/UTs and have been managing assets under management (AUM) of Rs. 4,637 crore as on March 31, 2021 through a network of 600+ branches. Bihar is the largest state for Fusion forming 18% of AUM followed by Uttar Pradesh (17%) and Odisha (13%) as of March 31, 2021. The top state concentration as a percentage of Tangible Net worth stood at 72% as on March 31, 2021.

Robust growth in loan book: Fusion registered a three years Compounded Annual Growth Rate (CAGR) of 19% in its loan portfolio for the year ended FY21 and reported a loan book of Rs. 4,361 crore as on March 31, 2021 (as per IND-AS, net of provision) The company's AUM reported growth by 29% YOY and stood at Rs. 4,637 crore as on March 31, 2021 as per IGAAP. Although, owing to COVID-19 induced disruptions, the company reported slowed growth in disbursements in FY21 with 3% YOY growth vis a vis 28% YOY growth in FY20.

Diversified resource base: Fusion has a diversified resource profile with a good mix of banks (private and public sector) and financial institutions/NBFCs to meet its funding requirements. Major source of external funding for Fusion has been term loans from banks and financial institutions (FIs) constituting nearly 85% of its borrowings as on March 31, 2021. The company has also accessed the capital markets raising funds through issue of NCDs and Tier-II Bonds which constituted the balance (15%) of the borrowings as on March 31, 2021.

Key Rating Weaknesses

Moderate profitability metrics underpinned by relatively lower margins and higher operating costs: In FY21, Fusion reported a decline in Profit After Tax (PAT) by 37% YoY at Rs. 44 crore over total income of Rs. 873 crore (+20% YoY) due to higher provisioning costs which included COVID related provisions, despite strong loan growth and increase in interest income by 28% YoY. Despite strong loan growth, the margins contracted and stood at 9.75% in FY21 from 10.22% in FY20. The operating expenses increased by 10% YoY in FY21 owing to the increase in employee expenses and depreciation costs.

Deteriorating asset quality despite strong loan origination and credit supervision: Fusion has been able to maintain asset quality at a comfortable level over the years owing to rigorous supervision by operations team and follow up audits by Internal Audit Department. Asset quality of Fusion has further improved over the years and the impact of demonetization has been neutralized through write-offs and recoveries. However, owing to COVID-19 induced disruptions, the company has reported GNPA (absolute) increase by more than 3 folds and it stood at Rs. 129 crore (IGAAP) as on March 31, 2021. Consequently, the GNPA % increased to 2.79% as on March 31, 2021 from 1.12% as on March 31, 2020. However, owing to 100% provisioning, the company reported nil NNPA% as on March 31, 2021 as against 0.38% NNPA% as on March 31, 2020.

The company's softer delinquencies (on AUM) too increased with PAR >30 days at 4.76% in quarter ended March 31, 2021. The asset quality of Fusion remains a key monitorable, given the fact that it caters to a customer segment with an inherently weaker credit profile and those who are more susceptible to economic vulnerabilities and socio-political risks, if any.

Asset quality on a state wise basis shows that some concerns continue to prevail in Assam that constitutes 1% of the portfolio AUM as on March 31, 2021 and had the highest 30+dpd of 37% and 90+ dpd of 33% amongst all states. Bihar having highest exposure with 18% of overall AUM has also registered deterioration in the quarter ended March 2021 with 3% 30+ dpd and 1% 90+ dpd as on March 31, 2021.

Inherent industry risks: The microfinance sector continues to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns besides operational risks related to cash based transaction.

Liquidity : Adequate

The company has a favorable liquidity position given most of the borrowings are for longer tenure repayable over 2-9 years as against shorter tenure of its advances viz. MFI loans of 17-25 months. The company has no negative mismatches as per Asset Liability Maturity statement dated May 31, 2021. As on July 23, 2021, Fusion reported healthy cash and bank balance of around Rs.1,200 crores and around Rs. 700 crore of unavailed sanctioned limits.

Analytical approach: Standalone

Applicable Criteria

Policy on Withdrawal of ratings
CARE's Policy on Default Recognition
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Non Banking Finance Companies (NBFCs)

About the Company

Fusion is a leading microfinance company based out of Gurgaon. The company is registered with Reserve Bank of India (RBI) as a non-deposit accepting, systemically important non-banking financial company (NBFC) and had been granted NBFC-MFI status on January 28, 2014, by RBI. Fusion commenced microfinance operations in January 2010. Fusion provides loans to the female individual members in a group (joint liability group), with each group consisting of 3-5 members. The loans provided to individuals are based on the mutual guarantee from members. It lends to JLG borrowers at 21.50%-21.75% interest rate (on a reducing balance) for a period of 17 to 25 months with a repayment frequency of 14/28 days. As on June 30, 2021, Fusion was operating across 18 states, viz. Assam, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Madhya Pradesh, Maharashtra, Odisha, Puducherry, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttarakhand and West Bengal.

Brief Financials (Rs. crore)#	FY20 (A)	FY21 (A)
Total income	730	873
PAT	70	44
Total Assets	4,240	5,838
Net NPA (%)	0.38	0.00@
ROTA (%)	1.77	0.89

 # as per INDAS
A: Audited
@ as per IGAAP

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	1,500.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	1500.00	CARE A-; Stable	-	1) CARE A-; Stable (25-Jan-21) 2) CARE A-; Stable (07-May-20)	1) CARE A-; Positive (23-Jan-20) 2) CARE A-; Stable (04-Apr-19)	1) CARE A-; Stable (12-Dec-18) 2) CARE BBB+; Positive (23-Nov-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1) Withdrawn (25-Jan-21) 2) CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)	1)CARE A-; Stable (12-Dec-18) 2)CARE BBB+; Positive (23-Nov-18)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	1) CARE A-; Stable (25-Jan-21) 2) CARE A-; Stable (07-May-20)	1) CARE A-; Positive (23-Jan-20) 2) CARE A-; Stable (04-Apr-19)	1) CARE A-; Stable (12-Dec-18) 2) CARE BBB+; Positive (23-Nov-18)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1) Withdrawn (25-Jan-21) 2) CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)	1) CARE A-; Stable (12-Dec-18) 2) CARE BBB+; Positive (23-Nov-18)
5.	Debentures-Non Convertible Debentures	LT	25.00	CARE PP MLD A-; Stable	-	1)CARE PP MLD A-; Stable (25-Jan-21) 2)CARE PP MLD A-; Stable(07-May-20)	1)CARE PP MLD A-; Positive (23-Jan-20)	1)CARE PP MLD A-; Stable (12-Dec-18) 2)CARE PP-MLD BBB+; Positive (23-Nov-18)

6.	Debt-Subordinate Debt	LT	30.00	CARE A-; Stable	-	1) CARE A-; Stable (25-Jan-21) 2) CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)	1)CARE A-; Stable (12-Dec-18) 2) CARE BBB+; Positive (23-Nov-18) CARE BBB+; Stable (02-Apr-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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