Fusion Micro Finance Limited

December 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,500.00	CARE A+; Stable	Revised from CARE A; Stable
Long-term – Long-term instruments	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to long-term bank facilities of Fusion Micro Finance Limited (FMFL) is driven by substantial improvement in the company's profitability metrices primarily due to higher net interest margins (NIMs) and controlled credit cost while maintaining a healthy capitalisation profile. The revision also reflects a steady growth in its portfolio with the company reporting an asset under management (AUM) of ₹10,026 crore as on September 30, 2023. The rating continues to factor in the company's established track record of operations of over a decade, its strong market presence in northern and eastern regions of India, diversified resource base with availability of funds at competitive rates and adequate liquidity position.

However, these rating strengths are partially offset by moderate though improving asset quality, inherent risks involved in the microfinance industry including unsecured lending, and marginal profile of the borrowers. The rating strengths are also constrained by socio-political intervention risk, regulatory uncertainty and its unforeseen impact in certain geographies that could adversely impact credit profile of micro finance companies including that of FMFL.

Rating sensitivities

Positive factors – Factors that could individually or collectively lead to positive rating action/upgrade:

- Significant scale-up of operations while maintaining credit cost below 2%.
- Significant improvement in geographical diversification

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Weakness in capitalisation profile with AUM to net worth rising 5x.
- Weakness in profitability with return on total assets (RoTA) below 2.5%.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that FMFL will continue to grow the loan book while maintaining the asset quality under control.

Detailed description of the key rating drivers

Key strengths

Established track record of operations of over a decade with experienced management team

Having started operations as micro finance institution in 2010, FMFL has completed over a decade in the microfinance industry. With average tenure of microfinance loans of two years, the product profile is well seasoned. However, CARE Ratings notes that the company has recently ventured into Micro, Small & Medium Enterprises (MSME) segment, whose share has increased from 0.03% in FY20 to 4% as on September 30, 2023, and is expected to further rise in the medium term. The company's ability to successfully grow its MSME book while maintaining asset quality remain key rating monitorable.

The asset under management (AUM) of FMFL stood at ₹9,296 crore as on March 31, 2023 with 37% YOY growth, and 37% three years compounded annual growth rate (CAGR). The AUM has further scaled up to ₹10,026 crore as on September 30, 2023. FMFL's majority portfolio is owned (90% of AUM as on September 30, 2023), remaining being in the form of direct assignments. FMFL has presence in 22 states in India. Credit concentration remains high with majority proportion in Bihar, Uttar Pradesh (UP) and Odisha aggregating 54.4% of AUM as on September 30, 2023 (219% of tangible net worth [TNW]), though improved from 55.7% of AUM (327.5% of net worth) as on March 31, 2018.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy capitalisation supported by equity infusion and strong investor base

In Q3FY23, FMFL has completed raising capital through its initial public offer (IPO) with fresh issuance of ₹600 crore and ₹504 crore from offer for sale from the existing shareholders. With this capital infusion and healthy internal accruals, the net worth of the company rose to ₹2,244 crore as on March 31, 2023. As on September 30, 2023, the TNW stands at ₹2,493 crore with gearing of 3.02x as compared with the gearing of 4.6x as on March 31, 2022.

The capitalisation profile has also improved with capital adequacy ratio (CAR) of 27.94% as on March 31, 2023 as compared with 21.94% as on March 31, 2022. This has further improved to 28.78% as on September 30, 2023. CARE Ratings expects the company to maintain healthy gearing levels below 4x in medium term.

Improving profitability

The operating profitability of the company has shown significant improvement in last two years. CARE Ratings calculated net interest margins (NIMs) stood at 11.61% in fiscal 2023 as compared with 8.77% in fiscal 2022. The improved NIMs are backed by increase in yields by 250 bps during fiscal 2023, as the company implemented risk-based pricing model. Further, return on total assets (RoTA) has improved to 4.7% in fiscal 2023 (PY-0.34%) backed by controlled credit cost of 2.4% (PY-5.6%). However, the operating ratio stands high as the company is in expansion phase for their MSME segment.

During H1 FY2024, the NIMs of the company improved to 12.2%, combined with controlled credit cost of 3.0%, the RoTA has increased to 5.0% (annualised). Going forward, CARE Ratings expects the company will maintain healthy profitability metrics while growing scale of operations.

Experienced promoters and management team

FMFL is promoted by Devesh Sachdev, a first-generation entrepreneur who is currently Managing Director and Chief Executive Officer (MD & CEO) of the company and has over two decades of experience in the service industry. The company is backed by marquee private equity investors, namely, Warburg Pincus (WP) through Honey Rose Investments Limited and Creation Investments Capital Management (Creation Investments). WP, through Honey Rose Investments Limited has been majority stakeholder in FMFL over the years with 39.2% stake followed by Creation Investments with 23.6% stake as on September 30, 2023. However, on December 14, 2023, Warburg and Creation Investments has sold 6.4% and 3.8% stake, respectively, resulting into decline in their shareholding to 32.8% and 19.8%, respectively, as on December 14, 2023.

The board of FMFL has two nominee directors, three independent directors along with MD & CEO. Nominee directors include Kenneth Dan Vander Weele from Creation Investments and Narendra Ostawal from WP India Private Limited. Vander Weele is the Chief Investment Officer of Creation Investments. He is a founding board member Creation Investments Social Ventures Fund I. Narendra Ostawal leads investment evaluation in the financial services sector for WP India and was associated with various investments of the WP group.

Diversified resource base

FMFL has diversified resource profile with availability of funds at competitive rates. Its resource profile has good mix of public sector banks, foreign banks, private sector banks, financial institutions (FIs), subordinate debt and non-convertible debentures (NCDs). Term loans from banks and FIs, constitute nearly 90.6% of its borrowings as on September 30, 2023, remaining being NCD (7.14%), subordinate debt (1.1%), external commercial borrowings (1.2%). Also, FMFL had an off-balance sheet portfolio of ₹1,039 crore comprising direct assignment, 12.13% of total borrowings as on September 30, 2023, up from 10.2% as on September 30, 2022. However, cost of funds has increased moderately to 10.2% in FY23 and 10.4% H1FY24 as compared with 9.7% in FY22.

Key weaknesses

Moderate asset quality

The asset quality of FMFL stands moderate although improving with gross non-performing asset (GNPA) ratio of 3.5% as on March 31, 2023 as compared with 5.7% as on March 31, 2022, and further improved to 2.7% as on September 30, 2023, backed by lower slippages and significant write offs. CARE Ratings notes that FMFL has revised their write-off policy from 360 days to 270 days, which will further support the headline asset quality metrics. Furthermore, the 0+ delinquencies of the company have also improved from 8.1% as on March 31, 2022 to 4.4% as on March 31, 2023 and 5.1% as on September 30, 2023.

The asset quality of FMFL 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.

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 an adequate liquidity position given most of the borrowings are for longer tenure repayable over 2-9 years as against shorter tenure of its advances, viz., microfinance loans of 17-25 months. As per asset liability mismatch statement as on September 30, 2023, FMFL has no negative cumulative mismatches in any time bucket. As on September 30, 2023, it has liquidity of ₹1,400 crore in the form of cash in hand, bank balance and unpledged fixed deposits. Over next six months, the company has total debt repayments of ₹2,689 crore (principal portion), while the company expects ₹2,857 crore as repayment from loan book.

Environment, social, and governance (ESG) risks

FMFL has implemented Corporate Social Responsibility (CSR) programs that are designed to create a positive impact on the communities where company operates. For this, company has distributed bicycle to 7,000 people in rural areas which promoted eco-friendly modes of transportation thus, contributing to reduction in carbon emission and has also distributed inverter bulbs to rural households.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Microfinance Institutions

FMFL was originally incorporated as Ambience Fincap Private Limited (AFPL) in September 05, 1994. The company is registered with Reserve Bank of India (RBI) as a non-deposit accepting, systemically important non-banking financial company in 2010. In July 2021, the company registered itself again as FMFL as it converted itself to public company from private company. FMFL provides loans to the female individual members in a group (joint liability group [JLG]), with each group consisting of five to seven members. The loans provided to individuals are based on the mutual guarantee from members. It lends to JLG borrowers at 19.15%-23.40% interest rate (on a reducing balance) for a period of 17 to 25 months with a repayment frequency of 14/28 days. As on September 30, 2023, the company operates in 22 states with AUM of ₹ 10,026 crore. Apart from that, the company has started providing MSME loans as well. Currently, MSME book stands at ₹404 crore as on September 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1 FY 2024 (UA)
Total operating income	1,201	1,800	1,124
PAT	22	387	246
Interest coverage (times)	1.05	1.80	1.87
Total assets*	7,204	9,286	10,348
Net NPA^ (%)	1.71	0.87	0.65
ROTA (%)	0.34	4.70	5.01

A: Audited; UA: unaudited
*excludes deferred tax assets and intangible assets
^CARE Ratings calculated

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Subordinate debt	INE139R08033	31-Mar-2018	13.90%	September 29, 2023	0.00	Withdrawn
Fund-based - LT-Term loan		-	-	27-09-2025	1500.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	1500.00	CARE A+; Stable	-	1)CARE A; Stable (28-Dec-22)	1)CARE A-; Stable (21-Jan-22) 2)CARE A-; Stable (03-Sep-21)	1)CARE A-; Stable (25-Jan-21) 2)CARE A-; Stable (07-May-20)
2	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (25-Jan-21) 2)CARE A-; Stable (07-May-20)
3	Fund-based - LT-Cash credit	LT	-	-	-	-	1)Withdrawn (03-Sep-21)	1)CARE A-; Stable (25-Jan-21) 2)CARE A-; Stable (07-May-20)
4	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (25-Jan-21) 2)CARE A-; Stable

								(07-May-20)
5	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (21-Jan-22)	1)CARE PP MLD A-; Stable (25-Jan-21) 2)CARE PP MLD A-; Stable (07-May-20)
6	Debt-Subordinate debt	LT	-	-	-	1)CARE A; Stable (28-Dec-22)	1)CARE A-; Stable (21-Jan-22)	1)CARE A-; Stable (25-Jan-21) 2)CARE A-; Stable (07-May-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debt-Subordinate debt	Complex
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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