Fusion Finance Limited

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,500.00	CARE A (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating to the long-term bank facilities of Fusion Finance Limited's (FFL) has been reaffirmed at CARE A and placed on rating watch with negative implications consequent to the deteriorating asset quality and profitability profile of the company. CARE Ratings Limited (CARE Ratings) observes that the overall microfinance industry is experiencing a significant rise in delinquencies, largely due to increasing borrower indebtedness and different contributing factors, including heatwaves, general elections, and political initiatives like the "Karja Mukti Abhiyan." Additionally, challenges such as the weakening of Joint Liability Group model, decreased centre attendance, and high staff turnover have severely affected collection efficiency. However, deterioration in FFL's asset quality is relatively higher than the other MFI players.

FFL reported a decline in asset quality, with gross non-performing assets (GNPA) ratio rising from 2.89% as on March 2024 to 5.46% as on June 2024 and 9.41% as on September 24. Further, for H1FY25, company has reported net losses after tax of ₹341 crore, resulting into negative RoTA of 6%. CARE Ratings notes that company is expected to continue reporting losses for the next half of FY2025. By the end of H1FY25, company has incurred credit cost of around ₹1,043 crore and expects Q2 credit cost to be the peak credit cost. CARE Ratings anticipates additional credit cost impact of ₹500-700 crore for the second half of the year.

CARE Ratings also note that the company has breached various financial covenants in respect of borrowings amounting to ₹5,618 crore, resulting in these borrowings becoming repayable on demand. Till date, company has done regular repayments of borrowings of ₹449 crore and received waivers from 3 lenders for FY25 and are in process of obtaining waivers from remaining lenders. Going forward, Company's ability to continue to get support from lenders and raise funds at competitive rates remain key monitorable.

Rating is supported by established track record of operations and strong support from investor base. Warburg Pincus, through Honey Rose Investment Ltd, holds 32.83% as of September 30, 2024. Warburg Pincus is a global private equity firm, headquartered at New York city. The firm has more than $86 billion in assets under management, and more than 230 companies in their active portfolio, diversified across stages, sectors, and geographies.

Also, company is planning to raise an additional equity through Right issues of upto ₹550 crore to enhance its balance sheet, with support from its promoters, for this proposal. Further, promoters has committed to backstop the planned right issue upto ₹550 crore, which is expected to be completed by the end of FY25. Timely execution of the expected infusion will remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

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

- Improving profitability with return on total assets (RoTA) above 2% on a sustained basis.
- Continuous support from investors in form of capital infusion.
- Significant scale-up of operations while maintaining asset quality

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

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

- Weakness in capitalisation profile with gearing rising above 6x
- Lack of capital infusion as envisaged in timely manner.
- Inability to secure funding at competitive rates

Analytical approach:

Standalone

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Strong Investor base with track record of support in form of capital infusion

Fusion Finance Limited (FFL) is majorly held by two marquee private equity investors (PE), Warburg Pincus, through Honey Rose Investment Ltd, holding 32.83%, and Creation Investments Capital Management, holding 19.78% as of September 30, 2024. Promoters have consistently supported the company through capital infusions and committed to injecting an additional amount upto ₹550 crore to strengthen the company's balance sheet. Additionally, promoters has committed to backstop the planned rights issue of ₹550 crore, which is anticipated to be completed by the end of fiscal 2025.

As a result, the company's capitalization remains strong, with a capital adequacy ratio (CAR) of 27.53% as of March 31, 2024, and 24.39% as of September 30, 2024. The company's tangible net worth stood at ₹2,754 crore as of March 31, 2024, up from ₹2,244 crore on March 31, 2023, driven by robust internal accruals. However, this figure declined to ₹2,238 crore as of September 30, 2024, due to losses reported in H1 FY25.

The timely infusion of the planned equity remains a critical factor for monitoring the company's financial health. CARE Ratings observes that, in the absence of the anticipated capital infusion, continued losses could adversely impact the company's capitalization profile.

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

Having started operations as micro finance institution in 2010, FFL has completed over a decade and a half in the microfinance industry. With average tenure of microfinance loans of two years, product profile is well seasoned. However, CARE Ratings notes the company has recently ventured in Micro, Small & Medium Enterprises (MSME) segment, whose share increased from 0.03% in FY20 to 5.36% as on September 30, 2024, 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 a key rating monitorable.

FFL's asset under management (AUM) stood at ₹11,476 crore as on March 31, 2024 with 23% Y-o-Y growth, and 35% three years compounded annual growth rate (CAGR). However, with slowed disbursement due to rising delinquencies, AUM remains at similar levels of ₹11,571 crore as on September 30, 2024. Further, AUM growth is expected to remain muted for fiscal 2025 due to ongoing stress in MFI industry. Going forward, the portfolio's performance remains a key monitorable.

Diversified resource base

FFL 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 ~94.9% of its borrowings as on September 30, 2024, remaining being NCD (2.1%), subordinate debt (0.6%), external commercial borrowings (2.4%). Additionally, the company has raised incremental funding ₹1,514 crore (including DA) during Q2FY25, with marginal cost of fund of 10% in H1FY25.

However, as per the auditor's report, due to the breach of various financial covenants, borrowings amounting to ₹5,618 crore have become repayable on demand as on September 30, 2024. Till date, company has done regular repayment of borrowings of ₹449 crore and received waivers from 3 of the lenders. CARE Ratings notes that continued support from these lenders is crucial and remains a key factor for monitoring.

Key weaknesses

Deteriorating asset quality

The company's asset quality worsened with GNPA ratio increasing from 2.89% on March 31, 2024, to 5.46% on June 30, 2024 and 9.41% as on September 30, 2024. Additionally, the company's collection efficiency declined from 97.3% in Q4 FY24 to 96.3% in Q1 FY25 and to 91% in Q2FY25.

CARE Ratings anticipates additional credit cost impact of ₹500-700 crore for the second half of 2025. Further, Fusion + 4 lenders has improved with ratio reducing from 10.5% as on Mar-24 to 5.7% as on Sep-24. Moving forward, the performance of their portfolio will be a critical area to monitor, especially as it serves a customer base with a weaker credit profile that is more vulnerable to economic and socio-political risks.

Decline in profitability

The company's operating profitability has shown significant decline in H1FY25 as the company reported negative profit after tax (PAT) of ₹341 crore as compared to positive PAT of ₹505 crore in FY24. This loss is primarily due to high provisioning, with an additional provision of ₹694.04 crore (total provision is ₹1042.51 crore as on Sep-24) created in H1FY25.

CARE Ratings calculated net interest margins (NIMs) stood at 12.41% in FY24 and 13.90% in H1FY25 as compared to 11.61% in FY23. Improved NIMs are backed by increase in yields by 250 bps in fiscal 2023, as the company implemented risk-based pricing model. However, credit cost increased significantly to 18.2% (annualised) in H1FY25, resulting in negative RoTA of 6.0%.

CARE Ratings note that the company's profitability is expected to remain negative for fiscal 2025 considering ongoing stress in MFI industry.

Inherent industry risks

Microfinance sector continues to be impacted by the inherent risk involved, such as 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 borrowings are for longer tenure repayable over 2-8 years as against shorter tenure of its advances, including microfinance loans of 17-25 months. As per asset liability mismatch statement as on September 30, 2024, FFL has no negative cumulative mismatches in time bucket. However, as per auditor's report, borrowings amounting to ₹5,618 crore as on September 30, 2024 have become repayable on demand due to breach of various covenants which could lead to liquidity crisis for the company, if it is unable to secure support from lenders. However, company has done regular repayments of borrowings of ₹449 crore till date and has received waivers from 3 of its lenders.

Environment, social, and governance (ESG) risks

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

Applicable criteria

[Definition of Default]
[Rating Outlook and Rating Watch]
[Financial Ratios - Financial Sector]
[Non Banking Financial Companies]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Finance	Microfinance Institutions

FFL was originally incorporated as Ambience Fincap Private Limited (AFPL) on 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 FFL as it converted itself to public company from private company. FFL provides loans to female individual members in a group (joint liability group [JLG]), with each group consisting of five to seven members. Loans provided to individuals are based on mutual guarantee from members. It lends to JLG borrowers at 19%-23.80% interest rate (on a reducing balance) for 17 to 25 months with a repayment frequency of 14/28 days. As on September 30, 2024, the company operates in 22 states with AUM of ₹ 11,571 crore. The company has also started providing MSME loans. Currently, MSME book stands at ₹620 crore (5.4% of total AUM) as on September 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1,799.97	2,412.42	1,410.39
PAT	387.15	505.29	-340.66
Interest coverage (times)	1.80	1.84	NM
Total Assets	9,286.43	11,680.43	11,196.00
Net NPA (%)	0.87	0.60	2.41
ROTA (%)	4.70	4.82	-6.00

A: Audited UA: Unaudited; Note: these are latest available financial results; NM: not measurable

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	27-09-2025	1500.00	CARE A; (RWN)

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	1500.00	CARE A; (RWN)	1)CARE A; Negative (04-Oct-24) 2)CARE A+; Stable (17-Apr-24)	1)CARE A+; Stable (27-Dec-23)	1)CARE A; Stable (28-Dec-22)	1)CARE A-; Stable (21-Jan-22) 2)CARE A-; Stable (03-Sep-21)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (03-Sep-21)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (21-Jan-22)
4	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (27-Dec-23)	1)CARE A; Stable (28-Dec-22)	1)CARE A-; Stable (21-Jan-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

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