Fusion Finance Limited

March 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,500.00	CARE A (RWN)	Continues to be on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The long-term rating of Fusion Finance Limited (Fusion) factors in the company's established track record and backing from its investors. As on December 31, 2024, Warburg Pincus, through Honey Rose Investment Limited, held a stake of 32.83% in Fusion. The company is in process of raising capital of ₹800 crore (in two tranches) through rights issue with the support from its promoters, to strengthen its balance sheet and provide loss funding. The promoter group remains committed to backstopping the entire rights issue up to ₹800 crore planned in two tranches of ₹400 crore each, with the first tranche to be completed in the near future. While Fusion's tangible net worth (TNW) has declined in 9MFY25 till December 31, 2024, the proposed capital raise of ₹800 crore is expected to restore its TNW close to March 2024 level. Material delay in and/or lower than planned raise of the capital will impact its credit profile and would remain a key rating sensitivity.

CARE Ratings notes that during Q3 FY2025, Fusion reported an increased loss of ₹719 crore. The increase can be attributed to three main factors – 1) increase in provision cover across all asset stages, 2) reversal of deferred tax assets and 3) reversal of interest income. Adjusting from these three factors, Fusion loss in Q3 FY2025 would have been around ₹60 crore. Nonetheless, its profitability has moderated during 9M FY2025, on account of decline in pre-provision profit as the loan book growth witnessed moderation and increase in credit cost (due to deterioration in asset quality) during 9M FY2025. A materially higher loss in Q4FY25 and/or Q1FY26 than CARE's estimates and inability to turn profitable in H1 FY2026, would remain credit negatives.

The rating also factors in deterioration in Fusion's asset quality metrics as it reported gross non-performing assets (NPA) of 12.6% (net NNPA of 1.7%) as on December 31, 2024, and hence, elevating its credit cost during 9M FY2025. CARE Ratings observes that the overall microfinance industry has experienced a significant rise in delinquencies during 9M FY2025, due to increased borrower indebtedness and several other contributing factors. Additional challenges such as the weakening of Joint Liability Group (JLG) model, decreased centre attendance, impacted credit discipline amongst borrowers and high staff turnover has severely affected collection efficiency. While the reported deterioration in Fusion's asset quality currently is relatively high in comparison to its peers, CARE Ratings notes that the entity is carrying a healthy provision on its stage 2 and stage 3 assets of ~73% and ~88%, respectively as on December 31, 2024.

The long-term rating of Fusion continues to remain on watch with negative implications, as Fusion was in breach of financial covenants in respect of its borrowings cumulating to ₹5,288 crore as on December 31, 2024, resulting in these borrowings becoming repayable on demand. While the company has received waivers from lenders with borrowings outstanding totalling to ₹4,145 crore (as on December 31, 2024), it is yet to obtain waivers from remaining lenders for borrowings cumulating to ₹1,143 crore. CARE Ratings notes that none of the lenders have demanded immediate repayment or charged penal interest from the company so far and the entity is carrying comfortable liquidity of ₹1,151 crore, with unavailed sanctioned lines of ~₹1,223 crore, as on December 31, 2024. Going forward, its ability to get continued support from the shareholders, lenders and raise funds at competitive rates remain key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustained improvement in its profitability with return on total assets (RoTA) above 2% while maintaining an adequate capitalisation profile.
- Significant scale-up of operations with sustained improvement in asset quality with GNPA/GS3 remaining less than 2.5% on a sustained basis.

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

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

- Delay in and/or lower than expected raise in capital.
- Inability to turn profitable by H1 FY2026.
- Weakness in capitalisation profile with gearing rising above 5x.
- Inability to raise funding at competitive rates and/or weakening of its liquidity profile.

Analytical approach:

Standalone

Outlook: Not applicable

Detailed description of key rating drivers:

Key Strengths

Adequate capitalisation profile, with expected capital raise backed by existing investors

Fusion is majorly held by two marquee private equity investors (PE), Warburg Pincus, through Honey Rose Investment Limited, holding 32.83%, and Creation Investments Capital Management, holding 19.78% as on December 31, 2024. The promoters have consistently supported the company through capital infusions and committed to injecting an additional amount in the planned rights issue of ₹800 crore, to strengthen the company's balance sheet and provide cushion for unexpected future losses. CARE Ratings notes the company has received all regulatory approvals for the planned rights and the promoter group remains committed to backstop the entire issue of ₹800 crore planned in two tranches of ₹400 crore each, with the first tranche expected to be completed in near future. Any delay in raising the adequate amount of capital would impact its credit profile.

While fusion's net worth has depleted by around one-third in 9M FY2025, its capitalisation profile remained adequate considering muted growth in its scale. While Fusion's tangible net worth (TNW) has decline to ₹1,802 crore as on December 31, 2024, from ₹2,754 crore as on March 31, 2024, due to net loss of ₹1,060 crore (post factoring in deferred tax asset of ₹280 crore outstanding as on September 30, 2024, and reversed in Q3 FY2025) reported in 9M FY2025, the proposed capital raise of ₹800 crore and benefit of DTA is expected increase its TNW close to its March 2024 level. Fusion reported a total capital adequacy ratio (CAR) of 22.2% and gearing of 4.0x as on December 31, 2024, against 27.5% and 3.1x as on March 31, 2024. Material delay and/or lower than planned raise of capital will impact its credit profile.

Established track record with geographically diversified operations

Fusion began operations as a microfinance institution in 2010 and has now spent over 15 years in the industry with a well-seasoned product profile, including an average loan tenure of two years. However, CARE Ratings highlights the company has expanded in the Micro, Small & Medium Enterprises (MSME) sector with its share rising from 0.03% in March 2020 to 6% in December 2024. The company's ability to effectively grow its MSME portfolio while preserving asset quality will be an important factor to monitor.

The company's geographical presence is well-diversified with the company having presence in 22 states with top three states being Uttar Pradesh (24%), Bihar (19%) and Odisha (11%). Considering ongoing stress in the MFI sector and a slowdown in disbursements, FUSION has experienced a reduction in its AUM, which dropped to ₹10,599 crore as of December 2024, down from ₹11,476 crore in March 2023. The AUM is expected to decline further in Q4FY25, on account of slower disbursements and expected write-offs. The performance of the portfolio will be a critical aspect to monitor.

Diversified resource base

Fusion 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, non-banking finance companies (NBFCs), and financial institutions (FIs) from whom it has raised funds in the form of loans, subordinate debt, direct assignment and non-convertible debentures (NCDs). Term loans from banks and NBFCs/FIs, constitute ~94% of its on-book borrowings (excluding direct assignment) as on December 30, 2024, while the rest is funded by NCDs (2%), subordinate debt (1%) and external commercial borrowings (2%). CARE Ratings notes the company has been able to raise funding of ₹395.18 crore in Q3 FY2025 including DA of ₹95.18 crore, with ~11% marginal cost of fund.

The company is in breach of some financial covenants considering its borrowings amounting to ₹5,288 crore as on December 31, 2024, have become repayable on demand. While the company has received waivers for borrowings amounting to ₹4,145 crore as on December 31, 2024, and is in discussion with other lenders to obtain waiver. CARE Ratings notes continued support from these lenders is crucial and remains a key factor for monitoring.

Key weaknesses

Deteriorating asset quality

The company's asset quality was significantly affected in 9M FY2025 as its gross NPA increasing to 12.6% as on December 31, 2024, from 2.9% on March 31, 2024. The company's overall collection efficiency remained moderate at 89% in Q3FY25 compared to 92% in Q1FY25. CARE Ratings anticipates credit cost to remain elevated for a couple of more quarters. CARE Ratings note Fusion + 3 lenders has improved with ratio reducing from 14.6% as on March 2024 to 11.8% as on December 2024, which indicates some improvement, nonetheless, the performance shall remain monitorable. 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.

Weak earnings profile

The company's operating profitability has shown significant weakening in 9MFY25 as the company reported a net loss of ₹1,060 crore, translating to return on average total assets (RoTA) of -13.4% and return on average tangible net worth (RoNW) of -60.7% compared to a net profit of ₹505 crore, RoTA of 4.8% and RoNW of 19.6% in FY24. CARE Ratings notes in Q3 FY2025, Fusion reported an increased loss of ₹719 crore, and the increase can be attributed to three main factors –1) increase in provision cover across all asset stages, 2) reversal of deferred tax assets and 3) reversal of interest income. Adjusting from these three factors, Fusion loss in Q3 FY2025 would have been around ₹60 crore.

Its profitability has moderated in 9M FY2025, considering decline in pre-provision profit as the loan book growth moderated and credit cost increased (due to deterioration in asset quality) in 9M FY2025. Fusion's net interest margins (NIMs) considering average total assets (ATA) stood at 12.9% (annualised) in 9M FY2025 against 12.4% in FY24. Due to reducing book size, NIMs appear optically elevated in 9MFY25. Credit cost has increased significantly to 20.5% (annualised) with respect to ATA in 9M FY2025, against 3.5% in FY2024. Materially higher loss in Q4FY25 and/or Q1FY26 than CARE Rating's estimates and unable to turn profitable in H1 FY2026, would be detrimental to its credit profile.

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

Fusion had an on-book liquid balance of ₹1,151 crore and unavailed sanction lines of ₹1,223 crore as on December 31, 2024, and scheduled collections of ₹3,298 crore are adequate to cover for debt obligations due of ₹2,925 crore in next six months, per its provisional asset liability management (ALM) statement for December 2024.

Fusion was in breach of financial covenants considering its borrowings cumulating to ₹5,288 crore as on December 31, 2024, resulting in these borrowings becoming repayable on demand. While the company has received waivers from lenders with borrowings outstanding totalling to ₹4,145 crore (as on December 31, 2024), it is yet to obtain waivers from remaining lenders for borrowings cumulating to ₹1,143 crore. However, no lenders have triggered accelerated repayment nor charged penal interest from the company, so far. The company has been able to raise funding of ₹395.18 crore in Q3 FY2025 including DA of ₹95.18 crore, with ~11% marginal cost of fund.

Environment, social, and governance (ESG) risks

Fusion operates in MFI sector whereby financing is made available through JLG structure to women of the weaker section of the society, thereby fulfilling credit demand at the "Bottom of the Pyramid' mainly for income generating/augmenting activities. In addition, the company has implemented Corporate Social Responsibility (CSR) programs that are designed to create a positive impact on the communities where company operates.

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

Fusion 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 Fusion as it converted to public company from private company. Fusion 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 December 31, 2024, the company operates in 22 states with AUM of ₹ 10,599 crore. The company has also started providing MSME loans. Currently, MSME book stands at ₹635 crore (6% of total AUM) as on December 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	December 31, 2024 (UA)
Total operating income	1,800.0	2,412.4	1,892.9
PAT	387.2	505.3	-1,059.9
Interest coverage (times)	1.8	1.8	-0.5
Total Assets*	9,286.4	11,680.4	9,381.9
Net NPA (%)	0.8	0.6	1.7
ROTA (%)	4.7	4.8	-13.4

A: Audited UA: Unaudited; Note: these are latest available financial results
*Total assets excludes deferred tax assets and intangible assets

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 (RWN) (26-Nov-24) 2)CARE A; Negative (04-Oct-24) 3)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 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:
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