

## Fusion Finance Limited

December 16, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debentures	150.00	CARE A (RWN)	Assigned
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 to bank facilities and non-convertible debentures of Fusion Finance Limited (Fusion) factors in the company's established track record and regular support from its investors. As on September 30, 2025, Warburg Pincus, through Honey Rose Investment Limited, held a stake of 35.20% in Fusion. The company has raised ₹400 crore in the first tranche as part of its rights issue of ₹800 crore and second tranche of ₹400 crore is expected to be completed in December 2025. Its tangible net worth (TNW) stood at ₹1,916 crore as on September 30, 2025, against ₹1,638 crore as on March 31, 2025.

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 ₹2,077 crore as on September 30, 2025, resulting in these borrowings becoming repayable on demand. CARE Ratings Limited (CareEdge Ratings) notes that the auditor of Fusion has also stated in its limited review of financials for Q2/H1FY26 on the company's ability to continue as a going concern. While the company has received waivers from lenders with borrowings outstanding totalling to ₹1,331 crore (as on September 30, 2025), it is yet to obtain waivers from remaining lenders for borrowings cumulating to ₹746 crore. CareEdge Ratings notes that no lender has demanded immediate repayment or charged penal interest from the company so far and the entity is carrying comfortable liquidity of ₹892 crore, with unavailed sanctioned lines of ~₹2,730 crore, as on September 30, 2025. Going forward, its ability to get continued support from shareholders and lenders remain a key monitorable.

The rating also considers its diversified resource profile and geographical diversification with presence in 22 states and union territories. While CareEdge Ratings notes the increased incremental cost of funding in H1FY26, its ability to maintain lending relationships while raising funds at competitive rates shall be a key monitorable.

However, the rating is constrained by its moderate asset quality and weakened profitability. CareEdge Ratings notes that while the reported non-performing assets for the company have declined in H1FY26, primarily considering write offs, which remain elevated in absolute terms. Deterioration in its asset quality also impacted its earnings profile due to elevation in credit cost and operating expenses. The rating also factors in inherent industry risks and vulnerability of its borrower segment. Going forward, CareEdge Ratings expects asset quality and profitability to improve gradually, with visible improvement expected in FY27.

### Rating sensitivities: Factors likely to lead to rating actions

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

- Significant scale-up of operations with sustained improvement in asset quality with gross non-performing assets/ gross stage 3 (GNPA/GS3) remaining less than 2.5% on a sustained basis.
- Sustained improvement in its profitability with return on average total assets (RoTA) above 2% while maintaining an adequate capitalisation profile.

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

- Major delay in raising capital and/or lower-than-expected capital raise.
- Weakness in capitalisation profile with gearing remaining above 5x.
- Inability to raise funding at competitive rates and/or its sustained weakening liquidity profile.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE Ratings Limited's publications.

**Analytical approach:** Standalone

**Outlook:** Not applicable

**Detailed description of key rating drivers:**

### **Key strengths**

#### **Comfortable capitalisation profile, augmented by capital infusion in FY25 with further expectation of capital raise and decline in losses**

Fusion is majorly held by two marquee private equity investors (PE), Warburg Pincus, through Honey Rose Investment Limited, holding 35.20%, and Creation Investments Capital Management, holding 16.82% as on September 30, 2025. CareEdge Ratings notes that the company received first tranche of the rights issue amounting to ₹400 crore in Q1FY26 and is expected to receive the second tranche of ₹400 crore in H2FY26.

With the infusion of first tranche of capital, the tangible net worth of Fusion increased to ₹1916 crore as on September 30, 2025, after declining to ₹1640 crore as on March 31, 2025. The capital adequacy ratio (CAR) and Tier 1 CAR stood at 31.31% and 30.43% respectively as on September 30, 2025, against 22.42% and 20.89% respectively as on March 31, 2025. The company's capital adequacy remained adequately above the regulatory requirement due to moderation in assets under management (AUM) in FY25. Gearing improved in H1FY26 and stood at 2.57x as on September 30, 2025, against 3.91x as on March 31, 2025. Capital adequacy is expected to further improve with proposed second tranche of rights issue in H2FY26. However, improvement in the company's overall capital position is contingent on the company ability to improve internal accruals going forward.

#### **Established track record with geographically diversified operations**

Fusion began operations as a microfinance institution in 2010, has spent over 15 years in the industry, with a well-seasoned product profile, including an average loan tenure of two years. However, CareEdge Ratings highlights that the company has expanded into the micro, small & medium enterprises (MSME) sector, with its share rising from 0.03% in March 2020 to 10% in September 2025. 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, having presence in 22 states with top three states being Uttar Pradesh (26%), Bihar (19%) and Madhya Pradesh (9%). Due to stress in the microfinance institution (MFI) sector and a slowdown in disbursements, Fusion has experienced a reduction in its AUM, from ₹11, 476 crore as on March 31, 2024 to ₹8980 as on March 31, 2025, and ₹7038 as on September 30, 2025. AUM is expected to remain stable in Q3FY26, considering increase in disbursements and improve in collection efficiency of the loan book generated since April 2025. The portfolio's performance will be a critical aspect to monitor.

#### **Diversified resource base**

Fusion has a 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), 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 ~85% of its on-book borrowings as on September 30, 2025, while the rest is funded by subordinate debt (1%), external commercial borrowings (8%) and pass through certificates (6%). CareEdge Ratings notes that the company has been able to raise funding to the tune of ₹1,554 crore (excluding DA) in H1FY26, with ~13% marginal cost of funds in Q2FY26.

### **Key weaknesses**

#### **Moderate asset quality**

The company's asset quality deteriorated in FY25 with GNPA and net NPA (NNPA) reported at 7.9% and 0.30% as on March 31, 2025, against 2.9% and 0.60% respectively as on March 31, 2024. It further improved in H1FY26 as GNPA and NNPA stood at 4.61% and 0.38% respectively, primarily considering write offs. CareEdge Ratings anticipates credit cost to remain elevated despite improvement in FY26 compared to FY25. CareEdge Ratings notes that Fusion +3 lenders improved from 18.1% as on March 31, 2025, to 13.9% as on September 30, 2025, which indicates improvement in the company's performance, however it shall remain monitorable. 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-yet-improving earnings profile

The company's profitability has shown significant weakening in FY25 as the company reported a net loss of ₹1,225 crore, translating into RoTA of -12.27% and return on average tangible net worth (RoNW) of -55.8% compared to a net profit of ₹505 crore, RoTA of 4.8% and RoNW of 20.2% in FY24. CareEdge Ratings notes that, although Fusion reported loss in H1FY26 as well, the amount of loss reduced to ₹114 crore with RoTA of -2.98% (annualised) and RoNW of -12.87% (annualised). Earnings remain weak considering compressed margins, elevated operating expenses and credit costs. As slippages further reduce and growth normalises, its financial profile is also expected to improve. CareEdge Ratings expects the company to be profitable in H2FY26.

### Inherent industry risks

The microfinance sector continues to be impacted by 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 apart from operational risks related to cash-based transaction.

### Liquidity: Adequate

The company's liquidity remains adequate with positive cumulative mismatches across all time buckets up to one year. The company had free cash and cash equivalents of ₹892 crore as on September 30, 2025, and scheduled collections of ₹3667 crore in the next 12 months against debt obligations of ₹3345 crore falling due over the same period. The company had unavailed lines of credit amounting to ₹2730 crore.

The company is in breach of some financial covenants with respect to its borrowings amounting to ₹2,077 crore as on September 30, 2025, and they have become repayable on demand. While the company has received waivers for borrowings amounting to ₹1,331 crore as on September 30, 2025, it is yet to obtain waivers from remaining lenders for borrowings cumulating to ₹746 crore. However, none of the lenders have triggered accelerated repayment nor charged penal interest from the company, so far. The company has been able to raise funding to the tune of ₹1,554 crore in H1FY26.

### Environment, social, and governance (ESG) risks

Although Fusion's service-oriented business model limits its direct exposure to environmental risks, credit risk may arise if operations of any asset class of the portfolio are adversely impacted by environmental factors. The company has introduced initiatives in its business strategy to promote sustainable practices and reduce carbon footprint including rooftop solar finance, E-waste management and plantation drives. Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect Fusion's regulatory compliance and reputation and hence remain a key monitorable. Fusion's Board comprises seven Directors, with four Independent Directors and also includes two female Director/s.

### 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 itself 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 5-7 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 17-25 months with a repayment frequency of 14/28 days. As on September 30, 2025, the company operates in 22 states with AUM of ₹ 7,038 crore. The company has also started providing MSME loans. Currently, MSME book stands at ₹708 crore (10% of total AUM) as on September 30, 2025.

Brief Financials (₹ crore)	31-03-2024 (A)	31-03-2025 (A)	31-09-2025 (UA)
Total income	2,412	2,369	878
Profit after tax (PAT)	505	-1,225	-114
Assets under management (AUM)	11,476	8,980	7,038
On-book gearing (x)	3.13	3.91	2.57
AUM / tangible net-worth (TNW) (x)	4.17	5.48	3.67
Gross non-performing assets (NPA) / gross stage 3 (%)	2.90	7.92	4.61
Return on managed assets (ROMA) (%)	4.31	-10.55	-2.51
Capital adequacy ratio (CAR) (%)	27.50	22.42	31.31

A: Audited UA: Unaudited; Note: these are latest available financial results

**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	NA	-	-	December 2026	1500.00	CARE A (RWN)
Debentures-Non Convertible Debentures	Proposed	-	-	-	150.00	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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	1500.00	CARE A (RWN)	-	1)CARE A (RWN) (17-Mar-25) 2)CARE A (RWN) (26-Nov-24) 3)CARE A; Negative (04-Oct-24) 4)CARE A+; Stable (17-Apr-24)	1)CARE A+; Stable (27-Dec-23)	1)CARE A; Stable (28-Dec-22)
2	Debt-Subordinate Debt	LT	-	-	-	-	1)Withdrawn (27-Dec-23)	1)CARE A; Stable (28-Dec-22)
3	Debentures-Non Convertible Debentures	LT	150.00	CARE A (RWN)				

LT: Long 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:** CareEdge 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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