Fusion Micro Finance Limited

January 21, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1,500.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**1,500.00 (Rs. One thousand five hundred crore only)**		
Long Term Instruments – Subordinate Debt	30.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures - Principal Protected Market Linked Debenture*	-	-	Withdrawn
Total Long Term Instruments	**30.00 (Rs. Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

*****_CARE has withdrawn the rating assigned to Non-Convertible Debentures - Principal Protected Market Linked Debenture with immediate effect, as the instrument has matured and company has repaid the dues against it in full and there is no amount outstanding under the instrument as on date_

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating for bank facilities and subordinate debt of Fusion Micro Finance Limited (FMFL) continues to derive strength from company's 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 experienced management team and strong promoter support in terms of representation in board of FMFL and regular equity infusion which supports the capitalization of the company. The rating also factors in the satisfactory risk management, internal control systems and Management Information Systems place for FMFL. Additionally, CARE takes into account the satisfactory risk management and internal control systems for FMFL.

However, the ratings are constrained by deteriorating asset quality with rise in gross non- performing assets (GNPA) ratio to 4.5% as on September 30, 2021 (vs. 1.0% as on September 30, 2020 (IGAAP)) owing to challenging operating environment. Deterioration in asset quality, has in turn, lead to sharp rise in provisioning expenses resulting in deterioration in the profitability profile with return on total assets (RoTA) of 0.3% in H1FY22 and 0.9% in FY21. 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 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 lead to positive rating action/upgrade:

- Ability to report improved profitability in terms of ROTA with more than 2% on sustainable basis
- Scaling up while improving asset quality and maintaining adequate gearing on a steady basis

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

- Significant deterioration in asset quality metrics for continuous period
- Significant deterioration in profitability in terms of ROTA below 1% on a steady basis

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations of over a decade with experienced management team: Having started operating 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. The asset under management (AUM) of FMFL stood at Rs. 4,638 crore as on March 31, 2021 with 28.6% YOY growth, and 43.9% three years compounded annual growth rate (CAGR) due to COVID-19 induced disruptions. As on September 30, 2021, the AUM stood at Rs. 5,210 crore up by 12.5% QOQ. FMFL's majority portfolio is owned (94.5% of AUM as on September 30, 2021), remaining being in the form of direct assignments.

FMFL has presence in 18 states in India. Credit concentration remain high with majority proportion in Bihar, Uttar Pradesh (UP) and Odisha aggregating 47.9% of AUM as on September 30, 2021 (200.4% of net worth), though improved from 53.7% of AUM (327.5% of net worth) as on March 31, 2018.

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

Experienced promoters and management team:
FMFL is promoted by Mr. 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 in the service industry. The company is backed by marquee of Private Equity investors, namely, Warburg Pincus (WP) through Honey Rose Investments Limited, Creation Investments Capital Management (Creation Investments), Oikocredit International and Global Financial Inclusion Fund. WP, through Honey Rose Investments Limited has been majority stakeholder in FMFL over the years with 48.6% stake followed by Creation Investments with 30.0% stake as on September 30, 2021.

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

Diversified resource base: FMFL has diversified resource profile with availability of funds at competitive rates along with regular equity infusion by the promoters. Its resource profile has good mix of public sector banks, foreign banks, private sector banks, Financial Institutions (FIs), subordinate debt, non- convertible debentures (NCDs). Term loans from banks and FIs, constitute nearly 70.4% of its borrowings as on September 30, 2021 (vs. 74.8% of borrowings as on August 31,2020), remaining being NCD (19.0%), subordinate debt (2.4%), External commercial borrowings (1.9%, raised in FY22). Also, FMFL had an off-balance sheet portfolio of Rs. 286 crore, comprising Direct Assignment.

In fiscal 2019 and 2020, FMFL, primarily, relied on capital infusion from promoters therefore borrowings from external sources remained low. However, as there was no capital infusion during FY21, the company increased its borrowings from external sources. The cost of funds (CARE calculated) for FMFL, has improved in fiscal 2021 to 10.1% from 11.4% in FY20 amidst declining interest rate environment.

Regular equity infusion to support growth in near term: The capital position of FMFL had witnessed substantial improvement over the years owing to regular rounds of capital infusion from its set of diversified investor base. Since inception till FY20, the company has received aggregately Rs. 1,110 crore of equity infusion, of which the company received Rs. 500 crore during FY20 and Rs. 310 crore during FY19. Further, Mr. Devesh Sachdev has infused Rs 64 crore in Q2FY22 thereby converting its partly paid shares into fully paid shares. With this, the tangible net worth of the company stood at Rs. 1,246 crore as on September 30, 2021 (+6.0% YOY).

The capitalization profile of FMFL, though comfortable, has moderated to 27.3% capital adequacy ratio % as on March 31, 2021 and further down to 26.8% as on September 30, 2021 from 35.8% as on March 31, 2020, due to substantial loan growth and no capital infusion from the promoters during fiscal 2021. With previous capital infusion received from the promoters, the gearing levels of the company had improved end FY20 to 2.59 times from 4.85 times as on March 31, 2019. However, as there was no capital infusion from the promoters during fiscal 2021 and company relied on borrowings, the gearing levels moderated to 3.79 times as on March 31, 2021. As on September 30, 2021, it marginally improved to 3.40 times. Further, FMFL has filed draft initial public offer papers to raise Rs. 600 crore from a fresh issue of equity and Rs. 1,400 crore through offer for sale by existing shareholders. With this, the gearing levels are expected to improve.

Key Rating Weaknesses
Moderate profitability metrics: In FY21, Fusion reported a decline in Profit After Tax (PAT) by 36.9% YoY at Rs. 44 crore over total income of Rs. 873 crore (+19.6% YoY) due to higher provisioning costs which included COVID related provisions,. RoTA has consequently come down in FY21 to 0.9% from 1.8% in FY20. Net interest margins for FMFL improved from 8.4% to 9.1% in FY21, due to higher decline in cost of funds as compared to yields in the declining interest rate environment. Operating expenses are relatively high for FMFL with it being in retail lending with extensive branch network. However, driven by company's cost optimization efforts, operating expenses over total assets ratio improved to 4.4% in FY21 from 5.1% in FY20.

In H1FY22, further rise in credit costs along with increased operating expenses, lead to further moderation in profitability with the PAT declining to Rs. 8 crore, down by 72.4% YOY, resulting in RoTA of 0.3%.

Deteriorating asset quality despite strong loan origination and credit supervision: FMFL has been able to maintain asset quality at a comfortable level over the years. However, owing to challenging operating environment amidst COVID-19 induced disruption, the company has reported increase in GNPA % to 5.5% as on March 31, 2021 from 1.1% as on March 31, 2020 due to significant increase in slippages. As on September 30, 2021, the asset quality improved to GNPA% 4.5% despite high slippages, due to significant write offs (3.2% of opening gross loans in H1FY22 as compared to 0.9% in FY21 and 1.3% in FY20 respectively). In quarter ending Sept 2021, FMFL restructured portfolio of Rs. 129 crore which forms 2.5%of gross advances as on September 30, 2021. Provision coverage on NPA, though moderated, continued to remain high at 56.4% as on September 30, 2021 (vs. 60.0% as on March 31, 2021). Overall provisions/AUM stood at 5.3%, as on September 30, 2021. As on March 31, 2021, the Net NPA (NNPA)% (CARE calculated) stood at 2.3% as on March 31, 2021 up from 0.4% as on March 31, 2020. The NNPA% improved to 2.01% as on September 30, 2021.

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 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. microfinance loans of 17-25 months. As per asset liability mismatch statement as on September 30, 2021, FMFL has no negative cumulative mismatches in any time bucket. As on November 30, 2021, it has liquidity of Rs. 736 crore in form of cash in hand, bank balance, unpledged fixed deposits and liquid investments. FMFL also has unavailed lines of credit of Rs. 1,125 crore in form of term loan, refinance from NABARD, and credit guarantee schemes as on November 30, 2021 against total debt repayments of Rs. 1,400 crore over the next six months.

Analytical approach: Standalone

Applicable Criteria
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)
Policy on Withdrawal of ratings

About the Company
FMFL was originally incorporated as Ambience Fincap Private Limited (AFPL) in September 05, 1994. In May 2009, AFPL was acquired by Mr. Devesh Sachdev, Mr. Ashish Tewari and Mr. Ankur Singhal and renamed as Fusion Microfinance Private Limited. The company is registered with Reserve Bank of India 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 3-5 members. The loans provided to individuals are based on the mutual guarantee from members. It lends to JLG borrowers at 19.15%-21.50% 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, 2021, company operates in 18 states with AUM of Rs. 5,210 crore.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total income	730	873	535
PAT	70	44	8
Total Assets*	4,209	5,761	5,648
Net NPA (%)^	0.4	2.3	2.0
ROTA (%)	1.8	0.9	0.3#

A: Audited, UA: UnAudited
*excludes Deferred Tax Assets and Intangible assets
^CARE calculated
#Ratio annualised

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	Not Applicable			-	1500.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE139R08025	March 06, 2018	Variable	September 02, 2021	0.00	Withdrawn
Debt-Subordinate Debt	INE139R08033	March 31, 2018	13.90%	September 29, 2023	30.00	CARE A-; Stable

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 (03-Sep-21)	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)Withdrawn (03-Sep-21)	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	-	-	-	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)

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
								2)CARE BBB+; Positive (23-Nov-18) 3)CARE BBB+; Stable (02-Apr-18)

*Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Complex
3	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact
Name – Mr. Mradul Mishra
Contact no. - +91-22-6754 3596
Email ID - mradul.mishra@careedge.in

Analyst Contact
Group Head Name – Ms. Neha Kadiyan
Group Head Contact no.- +91 813034 0369
Group Head Email ID- neha.kadiyan@careedge.in

Relationship Contact
Name – Ms. Swati Agrawal
Contact no. - +91-11-45333200
Email ID – swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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