Fusion Microfinance Private Limited (Revised)

January 25, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	1,500.00	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	**1,500 (Rs. One Thousand Five Hundred Crore Only)**		
Non-Convertible Debentures	25.00 (Rs. Twenty Five crore only)	CARE PP-MLD A-; Stable (Principal Protected Market Linked Debenture A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures (sub-debt)	30.00 (Rs. Thirty crore only)	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	-	-	Withdrawn
Non-Convertible Debentures	-	-	Withdrawn
Total Long Term Instruments	**55.00 (Rs. Fifty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings on the debt instruments/bank facilities of Fusion Microfinance Private Limited (FMPL) continues to derive strength from company's experienced promoters and management team, established track record of operations of over a decade, diversified resource base with availability of funds at competitive rates and adequate liquidity position. The ratings also factor in the satisfactory risk management, internal control systems and Management Information Systems (MIS) in place for FMPL. Additionally CARE takes into account strong shareholder support and robust capital position backed by regular infusions including last round of equity infusion concluded in Dec-19 wherein FMPL raised capital of Rs.500 crores from its existing investors led by Honey Rose Investment Limited, a Mauritius based subsidiary of a private equity fund managed by Warburg Pincus. However the ratings are constrained by moderate albeit improving profitability metrics underpinned by relatively lower margins and high operating costs. 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 unforeseen impact of natural disasters in certain geographies that could adversely impact credit profile of micro finance companies including that of FMPL.

Rating Sensitivities: Going forward, the ability of FMPL to maintain healthy asset quality profile with increasing loan book, maintain geographically diversification, improve profitability on sustainable basis and contain gearing levels would be the key rating sensitivities.

Positive Factors

- Ability to report improved profitability on sustainable basis
- Scaling up while maintaining asset quality and improving gearing at around 2x on a steady state basis

Negative Factors

- Decline in asset quality metrics and /or profitability metrics
- Significant stake dilution by major shareholders

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

FMPL is promoted by Mr. Devesh Sachdev, a first generation entrepreneur who is the current CEO & Managing Director of the company and has over 25 years of industry experience (with companies like Citi Bank, BSA, etc.) with exposure to various sectors, viz., private banking, telecom, etc. The FMPL board as on September 30, 2020 comprises six board members having strong academic and managerial expertise in banking, finance, law, administration and social developmental services. The board has one promoter director, three independent directors and two nominee directors. The company's largest shareholder Honey Rose Investments is also represented by Mr. Narendra Ostawal who was appointed as the Nominee Director in December 2018. The second line of management has experienced professionals across financial services, microfinance sector, retail and IT sector, forming a strong and cognitive management team.

Regular equity infusion to support growth in near term

The capital position of FMPL has witnessed substantial improvement owing to regular rounds of capital infusion from its set of diversified investor base. In previous four fiscal years till fiscal 2020, the company raised equity capital to the tune of Rs. 1,044 crore from various marquee institutional investors. Further, in its last concluded round of equity infusion in December-2019, FMPL raised capital of Rs.508 crores from its existing investors led by Honey Rose Investment Limited, a Mauritius based subsidiary of a private equity fund managed by Warburg Pincus. While Honey Rose Investments infused Rs.360 crore, other existing investor 'Creations Investments' infused Rs.140 crore and Rs. 8 crore infused by promoter and employees benefit trust. With this, the tangible net- worth of the company increased to Rs.1,199 crore as on March 31, 2020 and it further increased to Rs. 1,228 crore as on September 30, 2020 while the gearing levels (adjusted) came down to around 2.38 times as on March 31, 2020 down from 4.99 times as on Mar-19. End Sept 2020, the company's gearing (adjusted) stood at 2.59 times. Furthermore, the capital position is supported by healthy internal accruals with company reporting net profit of Rs 69.6 crore (+37.4% Y-o-Y) on total income of 730.3 crore (+46.9% Y-o-Y) as on March 31, 2020. For the half year ending September 30, 2020, the company reported net profit of Rs 27.4 crore on total income of Rs 390.5 crore. Capitalization of the company remains comfortable with Tier 1 and CAR of 33.08% and 35.82% respectively in FY20 and 30.81% and 33.38% respectively as on September 30, 2020

Geographically diversified operations

FMPL's operations are geographically well diversified and spread across 18 states/UTs and have been managing operations of assets under management (AUM) of Rs.3,626 crores as on September 30, 2020 through a network of 600+ branches. FMPL has reduced its exposure in Uttar Pradesh (17% of Rs.3626 crore as on Sep-20) which used to constitute the highest share (around 25%) in the portfolio mix of the company uptill FY17 while it has been expanding its presence in other states. Presently Bihar is the largest state for FMPL forming 19% of AUM as on Sept 30, 2020 followed by Uttar Pradesh (17%) and Odisha (14%). The top state concentration as a percentage of Tangible Net worth stood at 55% as on September 30, 2020 down from 88% as on September 30, 2019.

Healthy asset quality backed by strong loan origination and credit supervision

FMPL has been able to maintain asset quality at a comfortable level over the years owing to rigorous supervision by operations team and follow up audits by Internal Audit Department. Asset quality of FMPL has further improved over the years and the impact of demonetization has been neutralized through write-offs and recoveries. As on March 31, 2020, the company has reported GNPA% of 1.12% (Rs.38.45 crores) improved from GNPA% of 1.55% as on March 31, 2019 (Rs.40.42 crore). During FY20, FMPL has maintained CARE adjusted provision coverage ratio of 66.06% on its GNPA accounts thereby reporting NNPA% at 0.38% end FY20 (PY: 0.56%).

The company has also been able to contain its softer delinquencies (on AUM) with PAR>30 days at 1.45% as on March 31, 2020 vs 1.75% as on March 31, 2019. End Sept 2020, the PAR>30 remained controlled at 1.41%. With the share of AUM under first cycle gradually coming down while that of second cycle is on a rise signifying more mature customers who are graduating to higher ticket loans the seasoning of portfolio is expected to improve further going forward. Nevertheless, asset quality of FMPL 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, if any.

FMPL's asset quality is supported by high geographic diversification with portfolio quality remaining strong in FMPL's core states of Bihar (19% of AUM end Sept 2020) with 30+ at a low of 0.23%. With respect to Assam, while the Assam Micro Finance Institutions (Regulation of Money Lending) Bill 2020, which was recently passed by the Assam Assembly, is likely to affect collections in the region in short term, CARE draws comfort from the fact that FMPL has just 1% or Rs 41 crore of its portfolio in Assam. Per management, there are some repayment issues in the Assam due to political influence and hence the company has decided to slow down its expansion plans in Assam.

Robust growth in loan book

FMPL has registered strong loan growth clocking four years compounded annual growth rate (CAGR) of 54% till March 31, 2020, albeit from a lower base. FMPL's assets under management (AUM) grew by 37% Y-o-Y in FY20 reaching Rs.3,607 crores from Rs.2,642 crores in FY19. The growth in loan book was supported by regular rounds of capital infusion coupled with rising share of borrowings at competitive costs. Further in August 2020, the AUM of the company increased to Rs.3,481 crores. The disbursements in FY20 stood at Rs 3,573 crore, growing by 28% Y-o-Y from Rs. 2,783 crore in FY19. For the quarter ending September 2020, the disbursements stood at Rs. 833 crore.

Diversified resource base

FMPL has a diversified resource profile with a good mix of banks (private and public sector) and financial institutions/NBFCs to meet its funding requirements (41 lender relationships in total end August 2020). Major source of external funding for FMPL has been term loans from banks and financial institutions (FIs) with average cost of borrowings of 9.6% and constituting nearly 78% of its borrowings as on August 2020. The company has also accessed the capital markets raising funds through issue of NCDs and Tier-II Bonds which constituted the balance (18%) of the borrowings as on August 2020. Also, FMPL had an off-balance sheet portfolio of Rs.145 crore (4.1% out of its total AUM of Rs.3,482 crore as on August 2020)., comprising securitized portfolio and business correspondent activity

Key Rating Weaknesses

Moderate profitability metrics underpinned by relatively lower margins and higher operating costs

Owing to controlled level of asset quality metrics, lower gearing levels post the latest round of capital infusion and availability of funding at competitive rates, the company's profitability has been on an improving trend. In view of strong loan growth coupled with margin expansion, the company reported net interest income of Rs 383 crore in FY20, up 59.58% Y-o-Y. Also as the company expands and cost efficiencies kick in, the company's operating expenses as a percentage of average total assets have been steadily coming down and stood at 5.04% as on March 31, 2020. As a result, FMPL reported more than doubling of pre-provision operating profit (PPoP) to Rs 193 crore. However, the strong results were partially impacted by higher provisioning costs (including covid related provisions) that lead to credit costs (as % of average assets) rising to 2.34% end FY 20, up from 0.74% previous fiscal. With this, the company reported overall net profit of Rs 69.6 crore as on March 31, 2020 translating into return on average tangible assets (annualized RoTA) at 1.77%.

For half year ended September 30, 2020, the company reported net profit of Rs. 27.42 crore, down 42.2% Y-o-Y from Rs.47.43 crore in half year ended September 30, 2019. While the company's PPoP increased by 49.0% Y-o-Y, the PBT results were affected by rise provisioning costs that were up more than five folds to Rs. 81.3 crore as on September 30, 2020 as against Rs. 15.0 crore as on September 30, 2019.

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 position: 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. MFI loans of 17-25 months. The company has no negative mismatches as per Asset

Liability Maturity statement dated Sept 30, 2020. As on December 2020, FMPL reported healthy cash and bank balance of around Rs.1,000 crores.

Impact of covid-19

As on September 30, 2020, FMPL had 74% of loan book under moratorium that includes 59% of on time loan book under moratorium. Owing to nationwide lockdown, the company was unable to do much of disbursements in quarter ended June 30, 2020 with the level at just Rs 18 crore. However, strong recovery was registered in quarter ended September 30, 2020 with quarterly disbursements at Rs 833 crore. The collection efficiency of FMPL in the months of March, April and May were affected due to national lockdown imposed and also due to moratoriums availed by its customer. However, with increase in demand and disbursements, the company has achieved collection efficiency of 97% in October 2020. Company also created additional provisioning of Rs. 51 crore in FY20

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

FMPL is a leading microfinance company based out of Delhi. The company is registered with Reserve Bank of India (RBI) as a non-deposit accepting, systemically important non-banking financial company (NBFC) and had been granted NBFC-MFI status on January 28, 2014, by RBI. FMPL commenced microfinance operations in January 2010. FMPL provides loans to the female individual members in a group (joint liability group), 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 21.50%-21.75% interest rate (on a reducing balance) for a period of 17 to 25 months with a repayment frequency of 14/28 days. As on March 31, 2020, FMPL was operating through 283 districts spread across 18 states, viz. Assam, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Madhya Pradesh, Maharashtra, Odisha, Puducherry, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttarakhand and West Bengal. As on August 31, 2020, FMPL had 18.96 Lakh active borrowers with a total outstanding portfolio of Rs.3,482 crore.

Brief Financials (Rs. crore)	FY19 (A)**	FY19 (A)#	FY20 (A)#
Total income	512	497	730
PAT	65	51	70
Interest coverage (times)	1.49	1.27	1.58
Total Assets	3,386	3611	4240
Assets Under Management (AUM)	2,641	2,663	3,343@
GNPA(%)	1.41	1.55	1.12
Net NPA (%)	Nil	0.56	0.39
Adj. ROTA (%)*	2.23		1.75

A: Audited
**Adjusted Ratios: Adjusted for off-book portfolio*
***: IGAAP; #: INDAS*
@: As per IGAAP
Note: Ratios are computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Rating History for last three years: Please Refer Annexure-2

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-Cash Credit	-	-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	-	1460.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE139R07068	March 31, 2015	15.00%	18-Dec-2020	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE139R07175	September 04, 2017	12.10%	31-Aug-2020	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE139R08025	March 06, 2018	Variable	02-Sept-21	25.00	CARE PP MLD A-; Stable
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1460.00	CARE A-; Stable	1)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)	1)CARE BBB+; Stable (04-Sep-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)	1)CARE A-; Stable (12-Dec-18) 2)CARE BBB+; Positive	1)CARE BBB+; Stable (04-Sep-17)

							(23-Nov-18)	
3.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	1)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)	1)CARE BBB+; Stable (04-Sep-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	1)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)	1)CARE BBB+; Stable (04-Sep- 17)
5.	Debentures-Non Convertible Debentures	LT	25.00	CARE PP MLD A-; Stable	1)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)	1)CARE PP-MLD BBB+; Stable (27-Feb- 18)
6.	Debt-Subordinate Debt	LT	30.00	CARE A-; Stable	1)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)CARE BBB+; Stable (02-Apr-18)	-

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 the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Debt-Subordinate Debt	Complex
3.	Fund-based - LT-Cash Credit	Simple

4.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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