Fusion Microfinance Private Limited

May 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,500	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed and outlook revised from 'Positive' to 'Stable'
Total Facilities	**1,500 (Rs. One thousand five hundred crore only)**		
Non-Convertible Debentures	10 (Rs. Ten crore only)	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed and outlook revised from 'Positive' to 'Stable'
Non-Convertible Debentures	20 (Rs. Twenty crore only)	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed and outlook revised from 'Positive' to 'Stable'
Non-Convertible Debentures (sub-debt)	30 (Rs. Thirty crore only)	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed and outlook revised from 'Positive' to 'Stable'
Non-Convertible Debentures	25 (Rs. Twenty Five crore only)	CARE PP-MLD A-; Stable (Principal Protected Market Linked Debenture A Minus; Outlook: Stable)	Reaffirmed and outlook revised from 'Positive' to 'Stable'

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings of the debt instruments/bank facilities of 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 manageable 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 in account strong shareholder support and robust capital position backed by regular infusions including recent equity infusion. The ratings are however constrained by moderate albeit improving profitability metrics driven by relatively lower margins and high operating costs. Also, CARE takes note of the inherent risk 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.

Outlook: Stable

The revision in outlook on the rating of various instrument of Fusion Microfinance Pvt Ltd (FMPL) to 'Stable' from Positive is on account of unprecedented impact of COVID-19 outbreak that has led to elevated risk aversion in general and particularly with respect to microfinance sector owing to uncertainty arising from unsecured lending to customers with weaker credit profiles. FMPL has, as per regulatory guidelines, provided moratorium to all its borrowers for the period starting from March 25, 2020 (initiation of lockdown period) till end May-2020. Subsequently the company has also availed moratorium from its lenders for the principal payments due in April and May 2020. While the company's liquidity profile remains adequate in the near term, the challenges with respect to lower than expected scheduled inflows coupled with scheduled liability related outflows, if prevailed over longer term due to prolonged challenging conditions, could lead to moderation in liquidity profile of the company.

However CARE also takes note of the fact that FMPL's portfolio is geographically well diversified with majority of its borrowers situated in rural areas that is currently less susceptible to the COVID-19 crisis. At a macro level, there have been a host of measures recently announced by RBI to provide durable liquidity and protect asset quality. Announcements with respect to Targeted Long Term Repo Operation 2.0 (TLTRO 2.0) for NBFCs and MFIs, special refinance windows by NABARD and SIDBI to address sectoral credit needs and asset classification standstill for all accounts where moratorium is granted are expected to provide some relief to the liquidity profile and asset quality ratios of FMPL

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

Rating Sensitivities: Going forward, the ability of FMPL to maintain healthy asset quality profile after resuming of microfinance operations, maintain credit behavior of the borrowers, maintain geographically diversification and improve profitability along with sustainable loan-book growth would be the key rating sensitivities.

Positive Factors

- Ability to report improved profitability on sustainable basis
- Attaining and maintaining sustainable collection efficiency in medium term

Negative Factors

- Weakness in profitability with ROTA falling below 1.5%
- Deterioration in asset quality with GNPA% above 5%
- Significant dilution by major shareholders

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 CitiBank, BSA, etc.) with exposure to various sectors, viz., private banking, telecom, etc. The FMPL board as on December 31, 2019 comprises five board members having strong academic and managerial expertise in banking, finance, law, administration and social developmental services. The board has one promoter director, two 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 from PE investors

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 2019, the company raised equity capital to the tune of Rs 527 crore from various marquee institutional investors. Further, in its recently concluded round of equity infusion in December-2019, 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. While Honey Rose Investments infused Rs.360 crore, other existing investor 'Creations Investments' infused Rs.140 crore. Post the equity infusion, the tangible net-worth of the company increased to Rs.1178 crore as on December 31, 2019 while the gearing levels (adjusted) came down to around 2.5 times, from 4.95 times as on Mar-19 from 8.08 times as on Mar-18. Furthermore, the capital position is supported by healthy internal accruals with company reporting net profit of Rs 65 crore on net interest income of Rs 185 crore as on March 31, 2019 and net profit of Rs 47 crore on net interest income of Rs 148 crore end H1 FY20. Capitalization of the company remains comfortable with Tier 1 and CAR of 21.13% and 24.04% respectively end H1 FY 2020.

With the completion of latest Series F round of equity infusion, the share of company's largest shareholder Honey Rose Investments has risen to 48.65% end December 2019, up from 43.20% end September 2019. Creations Investments remains the company's second largest shareholder holding 29.97% end December 2019.

Geographically diversified operations

FMPL's operations are geographically well diversified and spread across 18 states/UTs and have been managing operations of AUM of Rs.3343 crores through a network of 570+ branches as on December 31, 2019. FMPL has reduced its exposure in Uttar Pradesh (17% of Rs.3060 crore as on Sep-19) 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. As on September 30, 2019 FMPL had highest exposure in Bihar constituting 19% of the total portfolio. The top 3 states constituted around 50% of AUM (PY: 53%). The top State concentration as a percentage of tangible net worth stood at 89% as on Sep-19 down from 156% as on March 31, 2018.

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 & follow up audits by Internal Audit Department. Asset quality of Fusion has further improved over the years and the impact of demonetization has been neutralized through write-offs and recoveries. As on Mar-19, the company has reported (on-book portfolio) GNPA% of 1.41% (Rs.33.1 crores) improved from GNPA% of 3.98% as on Mar-18 (Rs.52.6 crore). During FY19, FMPL has maintained 100% provisioning coverage on its NPA accounts thereby reporting nil NNPA% (PY: 0.16%). The company has also been able to contain its softer delinquencies (on AUM) with PAR>30 days at 1.77% as on Mar-

19 vs 3.90% as on Mar-18. Though there was some inching up in 30+dpd to 1.84% as on September 30, 2019 and further to 1.9% end Dec-19. As on September GNPA% and NNPA% stood at 1.36% and nil respectively. With the share of AUM under first cycle gradually coming (56% end Sept 2019 as against 79% end March 2017) while that of second cycle is on a rise signifying more mature customers who are graduating to higher ticket loans and hence better seasoning of portfolio. Nevertheless, asset quality remains a key monitorable, given the fact that company caters to inherently economically vulnerable customer segment and collections trend post resumption of ground operations are yet to be seen.

Also, the 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 2019) with 30+ and 90+ dpd of 0.24% and 0.15% respectively. The company has just 2% or Rs 50 crore of its portfolio in Assam. Per management, there are some repayment issues in the districts of Jorhat, Golaghat, Dibrugarh, and Guwahati 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 a three year compounded annual growth rate (CAGR) of 58% till March 31, 2019, albeit from a lower base. FMPL's assets under management (AUM) grew by 70% Y-o-Y during FY19 reaching Rs.2,641 crores as on Mar-19 from Rs.1,556 crores an year ago. The growth in loan book was supported by regular rounds of capital infusion coupled with rising share of borrowings. Further during H1FY20, AUM of the company increased to Rs.3060 crores as on September 30, 2019 of which owned portfolio of the company stood at Rs.2809 crores, AUM further increased to Rs.3343 crore end December 31, 2019. The disbursements during fiscal 2019 stood at Rs 2820 crore, growing at a three year CAGR of 62%. For the quarter ending September 2019, the disbursements touched its highest at Rs 911 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 (54 lender relationships in total end Sept 2019 including 26 banks, 20 NBFCs , 5 small finance banks (SFBs) and 3 domestic financial institutions). Major source of external funding for FMPL has been term loans from banks and financial institutions (FIs) with average cost of borrowings of 12.3% and constituting nearly 79% of its borrowings as on Sept-19. The company has also accessed the capital markets raising funds through issue of NCDs and Tier-II Bonds which constituted the balance (21%) of the borrowings as on Sept-19. Also, FMPL had an off-balance sheet portfolio of Rs.251 crore, comprising managed portfolio and business correspondent activity (8.2% of its AUM of Rs.3060 crore as on Sept-19). With the impact of COVID-19, the company is focusing on collection and expects moderate portfolio growth, hence gearing levels are likely to remains comfortable around 3 times.

Key Rating Weaknesses
Moderate profitability metrics underpinned by relatively lower margins and higher operating costs
Owing to improvement in asset quality metrics, lower gearing levels and availability of funding at competitive rates, FMPL reported profits in fiscal 2019. End fiscal 2019, the company reported net profits of Rs.65 crores over total income of Rs.512 crores as against losses of Rs 39 on a total income of Rs.267 crore in FY18. FMPL had reported losses during FY18 on account of higher written-offs & provisioning of Rs.88 crores towards NPA accounts under the backdrop of demonetization. However in fiscal 2019, the write-offs & provisioning (including standard asset provisioning) reduced to Rs.29 crores thereby supporting profitability. The margins, though improving, remain lower than peers with net interest margin (NIM) of 6.9% during FY19 improved from 5.53% in FY18. In fiscal 2019, the company's profitability metrics were also impacted relatively higher operating costs due significant expansion. However, as the company expands its operations and cost efficiencies kick in, the company's operating expenses as a percentage of average total assets is expected to stabilize between 5.5% and 6%. Further in H1FY20, profitability of the company has reported PAT of Rs.47 crores over total income of Rs.344 crore, while reported NIM% (annualized) of 8.56%. Going forward the ability of the company to maintain healthy profitability on sustainable basis with consistent growth in loan portfolio would be key rating sensitive.

Inherent industry risks
In past, the microfinance sector has faced event risks including socio political interference, natural calamities, demonetization etc. which has led to sharp rise in delinquencies and higher level of end losses as compared to other NBFC asset classes. However, Covid-19 could have larger impact as earlier event risks were usually limited to certain geographies but this is going to impact across geographies. The impact might be higher in MFIs focusing on urban areas as the customer profile will involve small businesses or workers engaged on contractual basis losing man-days of work due to prevailing

lockdown. The impact may also be partially mitigated due to the measures taken by RBI and the Government in terms of recognition of NPA and relaxation in capital adequacy norms.. Further, in the recent years, most MFIs have raised significant capital/built liability relationships to protect themselves against event risks.

Liquidity position: Adequate
The company has an adequate 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. As per the latest liquidity information shared by FMPL, the company had cash and cash equivalents of Rs.278 crore as on April 3, 2020, liquid investment in FDs of Rs.310 crores and sanctioned but unutilised lines of another Rs 310 crore against which it has scheduled debt repayments (principal and interest) of Rs 605 crore for three months ending June 30, 2020. The company has also received moratorium on principal repayments from about half of its lenders and expects to receive funding support from NABARD, SIDBI and from various lenders under TLTRO 2.0 funds of RBI relief package.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating Methodology For Non-Banking Financial Companies
Financial Sector –Financial Ratios

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%-22.5% 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, 2019, FMPL was operating through 272 districts spread across 18 states, viz. Uttar Pradesh, Uttarakhand, Madhya Pradesh, Haryana, Bihar, Delhi, Himachal Pradesh, Chattisgarh, Maharashtra, Odisha, Jharkhand, Punjab, Rajasthan, West Bengal, Assam, Tamil Nadu, Pondicherry and Gujarat. As on Sept 30, 2019, FMPL had 17.47 Lac active borrowers (vis-à-vis 15.74 lac active borrowers as in March 31, 2019) with a total outstanding portfolio of Rs.3060 crore (including off-book portfolio of Rs.251 crores).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total income	267	512
PAT	-39	65
Interest coverage (times)	1.27	1.49
Total Assets	1,943	3,386
Assets Under Management (AUM)	1,556	2,641
GNPA(%)	3.98	1.41
Net NPA (%)	0.16	Nil
Adj. ROTA (%)*	-ve	2.23

A: Audited
**Adjusted Ratios: Adjusted for off-book portfolio*
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

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

Annexure-1: Details of Instruments/Facilities

Name of the	Date of	ISIN	Coupon	Maturity	Size of the	Rating assigned

Instrument	Issuance		Rate	Date	Issue (Rs. crore)	along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	Dec-2023	1460.00	CARE A-; Stable
Debentures-Non Convertible Debentures	March 31, 2015	INE139R07068	15.00%	18-Dec-2020	10.00	CARE A-; Stable
Debentures-Non Convertible Debentures	September 04, 2017	INE139R07175	12.10%	31-Aug-2020	20.00	CARE A-; Stable
Debentures-Non Convertible Debentures	March 06, 2018	INE139R08025	Variable	02-Sept-21	25.00	CARE PP MLD A-; Stable
Debt-Subordinate Debt	March 31, 2018	INE139R08033	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-; 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	10.00	CARE A-; Stable	-	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)
3.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	-	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	20.00	CARE A-; Stable	-	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-; Positive (23-Jan-20)	1)CARE PP MLD A-; Stable (12-Dec-18)	1)CARE PP-MLD BBB+; Stable (27-Feb-

							2)CARE PP-MLD BBB+; Positive (23-Nov-18)	18)

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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