



# Fusion Microfinance Limited

(Formerly known as Fusion Micro Finance Private Limited)

Date: 15.11.2022

Letter No. FMPL/SEC/2022-23/BSE-60

The Manager Listing Department National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 Scrip Code: FUSION	The Manager Listing Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai - 400 001 Scrip Code: 543652
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**SUB: UPGRADE IN CREDIT RATING – ANNOUNCEMENT UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015**

Dear Sir/Ma'am,

In accordance with Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that CRISIL Ratings Limited, the Credit Rating Agency, has upgraded its long-term rating on the bank facilities and non-convertible debentures of Fusion Micro Finance Limited to '**CRISIL A / Stable**' from '**CRISIL A - / Stable**'.

<b>Total Bank Loan Facilities Rated</b>	Rs. 4000 Crore (Enhanced from Rs. 2500 Crore)
<b>Long Term Rating</b>	CRISIL A / Stable (Upgraded from ' <b>CRISIL A- / Stable</b> ')
<b>Rs 50 Crore Non Convertible Debentures</b>	CRISIL A / Stable (Upgraded from ' <b>CRISIL A- / Stable</b> ')

A copy of the Credit Rating Rationale, as received from CRISIL Ratings Limited, is enclosed herewith.

Request you to take the same on records.

Thanking you,

Sincerely,

**For Fusion Micro Finance Limited**  
**(Formerly Fusion Micro Finance Private Limited)**

**Deepak Madaan**  
**Company Secretary & Compliance Officer**

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

November 14, 2022 | Mumbai

### Fusion Micro Finance Limited

*Rating upgraded to 'CRISIL A/Stable'; Rated amount enhanced for Bank Debt*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.4000 Crore (Enhanced from Rs.2500 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')</b>

<b>Rs.50 Crore Non Convertible Debentures</b>	<b>CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')</b>
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*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL's Ratings has upgraded its long-term rating on the bank facilities and non convertible debentures of Fusion Micro Finance Limited (Fusion) to '**CRISIL A/Stable**' from '**CRISIL A-/Stable**'

The revision in the rating is driven by substantial increase in capital position of the company and expected improvement in profitability. Fusion has completed raising fresh equity of Rs 600 crore recently which is ~43% of existing network. Post this capital raise, Fusion's overall network will rise over Rs 2,000 crore from Rs 1,416 crore as of June 30, 2022.

The rating action, further, takes into account expected improvement in the profitability of the company. In Q1 fiscal 2023, with the restoration in the macro factors, improved collections and pick up in credit growth, Fusion's RoMA improved to 3.7% (annualized basis). Further, in-line with revised regulatory framework, the company can now implement risk-based pricing. This in-turn is expected to improve average yields on incremental originated portfolio which will then flow into overall profitability.

The rating also factors in experienced leadership and senior management team along-with sound risk management/audit processes that are set-up by Fusion. These strengths are partially offset by moderate though improving asset quality, inherently modest credit risk profile of borrowers, and potential risk from local socio-political issues inherent to the microfinance sector.

In terms of portfolio growth, Fusion has scaled up its AUM to Rs 6,786 crore as of March 2022 as against Rs 4,637 crore (with Y-o-Y growth of 46%). The growth momentum has picked up from July 2021 onwards with average disbursement of Rs 600 crore per month. During fiscal 2023, AUM further grew to Rs 7,389 crore as of June 30, 2022, with YTD growth of 8.9%. In terms of asset quality, Fusion's 90+ days past due (dpd) improved to 3.7% as of June 30, 2022, as compared to 5.7% as of March 2022 and 5.5% in March 2021. It is noted that the company has written off Rs 497 crore (6.7% of their AUM as of June 2022) between March 2020 and June 2022. As of June 2022, company has outstanding restructured portfolio of Rs 42.9 crore (0.6% of the AUM).

#### Analytical Approach

CRISIL Ratings has evaluated the standalone business and financial risk profiles of Fusion.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### Healthy capitalisation, supported by regular equity infusion and rich pedigree of investors

On November 2, 2022, Fusion opened its Initial Public Offering with fresh issuance of Rs 600 crore and offer for sale of around Rs 500 crore. The fresh issuance accounts for around 43% of the current network of the company which significantly further strengthens the capitalisation profile of the company. As of June 2022, Fusion network stood at Rs 1416 crore with adjusted gearing at 4.8 times as compared to Rs 1,338 crore network and 5.1 times adjusted gearing in March 2022. With the recent capital raise and expected internal accruals, Fusion's network will cross Rs 2000 crore and overall capitalisation profile is expected to remain healthy.

### **Improving profitability**

Operating profitability of the company has shown improvement over the last 2 years. The company reported pre provisioning profitability of 5.3% in fiscal 2021 and 5.7% in fiscal 2022. Resultantly, despite the credit costs elevating to 4.2% for fiscal 2021 and 5.3% for fiscal 2022, the company maintained its positive bottom line with a RoMA of 0.8% for fiscal 2021 and 0.3% for fiscal 2022. In Q1 2023, pre provisioning profitability further improves to 6.0% (annualized). With the improved collection and reduction in credit cost, net profit stood at Rs 75 crore and RoMA at 3.7% (annualized). With stabilizing collections and asset quality performance and, ability to implement risk-based pricing under the revised guidelines for MFIs, the company's operating profitability is expected to be strengthened further. Over the medium term, the company's ability to maintain the quality of book created post pandemic will remain a crucial factor from an earnings perspective.

### **Sound risk management practices**

Fusion has developed adequate risk management systems and practices over the last few years as it expands operations to new markets. This enabled the company to maintain its asset quality performance in existing regions; it also assists in the identification of newer regions. The company evaluates the potential area of operations on Area Lucrative Index, which involves assessment of parameters denoting the credit potential of the region. The company also has an extensive audit team of 329 members as of June 2022, with the number of branches being capped at two per auditor. The branches are graded twice a month on over 100 parameters, which helps the company detect any ongoing or potential issues.

In fiscal 2022, Fusion reported an AUM of Rs 6,786 crore registered an on-year growth of 46%. The growth momentum has picked up from July 2021 onwards with average disbursement of Rs 600 crore per month. During fiscal 2023, AUM further grew to Rs 7,389 crore as of June 30, 2022, with YTD growth of 8.9%.

In terms of geographic diversity, as of June 2022, the company has expanded its presence to 19 states, with highest exposure to a single state being 19% (33% as on March 31, 2016, prior to demonetisation) and the top five states being 66% (94% as on March 31, 2016). Alongside expansion in geographical presence, the robust growth encountered over the last few years is supported by adequate monitoring of operational parameters, such as calibrated increase in ticket size and AUM exposure per branch, per district and so on.

However, considering the rapid growth in loan portfolio, significant expansion into new geographies and limited loan cycle vintage, Fusion's ability to sustain its risk management processes and demonstrate strong asset quality performance in new markets remains a key monitorable.

### **Experienced senior management team**

Fusion is promoted by Mr Devesh Sachdev, who is an alumnus of Xavier School of Management, with over two decades of experience before he started Fusion in 2010. The second line of management comprises professionals with an average experience of over a decade in the fields of commercial and retail lending, audit, operations, people management and IT. The board has adequate representation from investors and extends strategic support to the company.

### **Weakness:**

#### **Moderate but improving asset quality**

In fiscal 2017, asset quality witnessed a sharp deterioration in the aftermath of demonetisation due to socio-political issues in North Uttar Pradesh and adjoining regions of Madhya Pradesh. Portfolio delinquencies—that is, 90+ dpd and 30+ dpd—were significantly impacted and stood at 12.1% and 23.1%, respectively, as on March 31, 2017. However, the delinquencies considerably improved to 3.6% and 3.9%, respectively, as on March 31, 2018, due to: focused efforts of the management to improve recovery and writing-off bad loans with limited recovery prospects. Fusion wrote off Rs 95.5 crore over the next two years post demonetisation, which was nearly 12.4% of the AUM at the time of demonetisation.

In March 2021, 30+ dpd stood at 4.8% and increase further to 9.0% in H1 2022 (IGAAP). However, with the improvement in the collections and writeoffs done by the company, 30+ dpd improved to 6.6% in March 2022. As of June 30, 2022, 30+ dpd improved to 4.2%. It is noted that the company has written off Rs 497 crore (6.7% of their AUM as of June 2022) between March 2020 and June 2022. As of June 2022, company has outstanding restructured portfolio of just Rs 42 crore (0.6% of the AUM). While the company's asset quality performance continues to restore gradually, its ability to achieve and sustain its pre-pandemic level of asset quality position remains critical and in the course of it, performance of the restructured book and portfolio created post Covid remains a monitorable.

### **Inherently modest credit profile of borrowers**

A significant portion of the portfolio comprises microfinance loans to clients with below-average credit risk profiles and lack of access to formal credit. Typical borrowers are cattle owners, vegetable vendors, tailors, tea shops, provision stores and small fabrication units. The income flow of these households could be volatile and dependent on the local economy. With the slowdown in economic activity due to the ongoing pandemic, there could be potential pressure on such borrowers' cash flows at a household level, thereby restricting their repayment capability. Fusion's collection efficiency revived by the end of the first quarter of fiscal 2021 and has been steadily improving since then. It stood at over 100% in March 2021 owing to higher overdue collection, while the current collection stood at 87%. However, with sharp spike in number of cases due to second wave of the pandemic and various lockdown being imposed by the states to curb the spread of Covid-19, collection efficiency dropped to 84.3% in May 2021. However, collection efficiency has improved from June 2021 onwards and stood

at over 95% in fiscal 2023 (till June 2022). The company's ability to reinstate repayment discipline among its customers such that pre-pandemic levels of periodic collections are achieved, will be a key monitorable

### **Potential risk from local socio-political issues in the microfinance sector**

The microfinance sector has witnessed two major disruptive events in the past decade. The first was the crisis promulgated by the ordinance passed by the Government of Andhra Pradesh in 2010 and the second was demonetisation in 2016. In addition, the sector has faced issues of varying intensity in several geographies. Promulgation of the ordinance on microfinance institutions (MFIs) by the Government of Andhra Pradesh in 2010 demonstrated their vulnerability to regulatory and legislative risks. The ordinance triggered a chain of events that adversely affected the business models of MFIs by impairing their growth, asset quality, profitability, and solvency. Similarly, the sector witnessed high level of delinquencies post-demonetisation and the subsequent socio-political events. For Fusion, the ultimate credit loss due to disruption after demonetisation was close to 12.4%, which was borne over the following two fiscals. This indicates the fragility of the business model vis-a-vis external risks. As the business involves lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, including charging of high interest rates and consequently, to tighter regulations and legislation.

### **Liquidity: Strong**

Liquidity should continue to be healthy. Cash and equivalents were Rs 676 crore as on June 30, 2022. Liquidity buffer to cover total debt and loan repayments including operating expenses over the following two months till August 2022 was 2.0 times (assuming 80% collections). In Q1 2023, the company raised about Rs 1,372 crore of funds through terms loans, non-convertible debentures and Direct Assignment.

### **Outlook: Stable**

Fusion's capitalisation metrics should remain adequate over the medium term, supported by its ability to raise capital. The business risk profile will benefit from the expanding scale of operations, improving asset quality and moderate resource profile

### **Rating Sensitivity Factors**

#### **Upward Factors**

- Overall profitability (RoMA) remaining above 3% while maintaining adjusted gearing at less than 4 times
- Geographical diversification in operations alongside scale with reduction in state and district level concentration

#### **Downward Factors**

- Deterioration in asset quality or earnings profile, resulting in stressed profitability and capital position.
- Moderation in capitalization – evidenced by gearing increasing to and remaining above 5 times commensurate to a decline in tier I CAR to below 18%.

### **About the Company**

Company was incorporated on September 5, 1994, as Ambience Fincap Private Limited and later in 2009 was takeover by Mr. Devesh Sachdev and changed name to Fusion Microfinance. Fusion started operation in 2010 as a non-deposit-accepting non-banking finance company and subsequently got converted into an MFI on January 28, 2014. Fusion provides financial services to poor women and predominantly follows the joint-liability group model, wherein each group has 5-7 members. The loans are provided mainly for agricultural and allied activities, business activities, and establishment and expansion of micro enterprises. As on June 30, 2022, the company had a network of 928 MFI branches and 38 SME branches spread across over 377 districts within 19 states, with a strong focus on rural and semi-urban areas.

Promoted by Mr Devesh Sachdev, the company has attracted domestic and global investors with high pedigree over the years. Until 2018, key investors such as Creation Investments, Oikocredit, Belgian Investment Company (Belgian), NMI Frontier (NMI), RIF North II (RIF), Small Industries Development Bank of India (SIDBI) and Global Financial Inclusion Fund (Global Financial), acquired about a 90% stake in the company.

Subsequently, after capital infusion in fiscal 2019 and the third quarter of fiscal 2020, Warburg Pincus (through Honey Rose Investment Ltd) acquired a 48.6% stake in the company, making it the largest shareholder in Fusion. This marked the exit of Belgian, NMI, SIDBI and RIF from the investor group and reduction in the respective stakes held by Global Financial, Creation Investments and Oikocredit. With the recent IPO, Warburg Pincus will remain the majority shareholding of the company.

### **Key Financial Indicators**

Particulars as on	Unit	Q1 FY 23/as of June 2022	March 2022	March 2021	March 2020
		Actual	Actual	Actual	Actual
<b>AUM (IGAAP)</b>	<b>Rs crore</b>	<b>7,389</b>	<b>6,786</b>	<b>4,637</b>	<b>3,607</b>
<b>Total income</b>	<b>Rs crore</b>	<b>360</b>	<b>1,201</b>	<b>873</b>	<b>730</b>
<b>Profit after tax (PAT)</b>	<b>Rs crore</b>	<b>75</b>	<b>22</b>	<b>44</b>	<b>70</b>
<b>RoMA</b>	<b>%</b>	<b>3.7</b>	<b>0.3</b>	<b>0.8</b>	<b>1.7</b>
<b>GNPA (Stage 3)</b>	<b>%</b>	<b>3.7</b>	<b>5.7</b>	<b>5.5</b>	<b>1.1</b>

<b>Adjusted gearing (including off book assets)</b>	<b>Times</b>	<b>4.8</b>	<b>5.1</b>	<b>3.9</b>	<b>2.7</b>
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**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the `Annexure – Details of Instrument` in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Non-Convertible Debenture*	NA	NA	NA	50	Simple	CRISIL A/Stable
NA	Long Term Bank Facility	NA	NA	NA	1922.32	NA	CRISIL A/Stable
NA	Subordinated Unsecured Term Loan	NA	NA	Dec-24	30	NA	CRISIL A/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2047.68	NA	CRISIL A/Stable

\*Yet to be issued

**Annexure - Rating History for last 3 Years**

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	4000.0	CRISIL A/Stable	04-07-22	CRISIL A-/Stable	31-12-21	CRISIL A-/Stable	18-12-20	CRISIL A-/Stable	25-09-19	CRISIL A-/Stable	--
			--	31-05-22	CRISIL A-/Stable	21-09-21	CRISIL A-/Stable	06-11-20	CRISIL A-/Stable	--	--	
			--	04-02-22	CRISIL A-/Stable	14-07-21	CRISIL A-/Stable	21-04-20	CRISIL A-/Stable	--	--	
			--	--	--	07-07-21	CRISIL A-/Stable	21-01-20	CRISIL A-/Stable	--	--	
			--	--	--	01-07-21	CRISIL A-/Stable	--	--	--	--	
			--	--	--	13-05-21	CRISIL A-/Stable	--	--	--	--	
			Non Convertible Debentures	LT	50.0	CRISIL A/Stable	04-07-22	CRISIL A-/Stable	31-12-21	CRISIL A-/Stable	18-12-20	CRISIL A-/Stable
--	31-05-22	CRISIL A-/Stable				21-09-21	CRISIL A-/Stable	06-11-20	CRISIL A-/Stable	--	--	
--	04-02-22	CRISIL A-/Stable				14-07-21	CRISIL A-/Stable	--	--	--	--	
--	--	--				07-07-21	CRISIL A-/Stable	--	--	--	--	
--	--	--				01-07-21	CRISIL A-/Stable	--	--	--	--	
--	--	--				13-05-21	CRISIL A-/Stable	--	--	--	--	
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All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Long Term Bank Facility	46.08	Woori Bank	CRISIL A/Stable
Long Term Bank Facility	495.05	ICICI Bank Limited	CRISIL A/Stable

Long Term Bank Facility	46.88	IDBI Bank Limited	CRISIL A/Stable
Long Term Bank Facility	94.99	The Karnataka Bank Limited	CRISIL A/Stable
Long Term Bank Facility	25	Canara Bank	CRISIL A/Stable
Long Term Bank Facility	256.3	State Bank of India	CRISIL A/Stable
Long Term Bank Facility	67.21	SBM Bank (India) Limited	CRISIL A/Stable
Long Term Bank Facility	32.58	IndusInd Bank Limited	CRISIL A/Stable
Long Term Bank Facility	159.84	The Federal Bank Limited	CRISIL A/Stable
Long Term Bank Facility	198.63	RBL Bank Limited	CRISIL A/Stable
Long Term Bank Facility	5.75	Micro Units Development and Refinance Agency Limited	CRISIL A/Stable
Long Term Bank Facility	107.5	Standard Chartered Bank Limited	CRISIL A/Stable
Long Term Bank Facility	57.27	Union Bank of India	CRISIL A/Stable
Long Term Bank Facility	18.51	Bandhan Bank Limited	CRISIL A/Stable
Long Term Bank Facility	44.52	CSB Bank Limited	CRISIL A/Stable
Long Term Bank Facility	266.21	IDFC FIRST Bank Limited	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	47.68	Not Applicable	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	500	Not Applicable	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	1500	Not Applicable	CRISIL A/Stable
Subordinated Unsecured Term Loan	30	IDFC FIRST Bank Limited	CRISIL A/Stable

This Annexure has been updated on 14-Nov-2022 in line with the lender-wise facility details as on 31-Dec-2021 received from the rated entity

## Criteria Details

### Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

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