April 26, 2022

Fusion Micro Finance Limited: Rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture	847.50	847.50	[ICRA]A-(Stable); outstanding
Non-Convertible Debenture	-	50.00	[ICRA]A-(Stable); assigned
Subordinated debt^	55.00	55.00	[ICRA]A-(Stable); outstanding
Total	**902.50**	**952.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action continues to factor in Fusion Micro Finance Limited's (Fusion) established track record of over a decade in the microfinance space and healthy growth in its scale of operations. The company's gross asset under management (AUM) grew to Rs. 5,988 crore as on December 31, 2021 from Rs. 4,638 crore as on March 31, 2021, registering an annualised growth of 41% in 9M FY2022.

Further, the rating draws comfort from the healthy capitalisation profile of the company, which is backed by timely capital support from its strong investor base. Fusion reported a total capital-to-risk-weighted assets ratio (CRAR) of 22.2% and a reported gearing of 4.0 times as on December 31, 2021 against 27.3% and 3.6 times, respectively, as on March 31, 2021. In addition, its portfolio is well diversified with a presence in 18 states with the top three states accounting for around 48% of its AUM as on December 31, 2021. Additionally, the rating continues to be supported by the company's robust and integrated systems and processes, which aids in good credit appraisal and portfolio monitoring.

The rating is, however, constrained by the deterioration in Fusion's asset quality and the consequent decline in its profitability with increased provisions and write-offs. It reported gross stage-3 assets of 5.52% as on December 31, 2021 (5.51% as on March 31, 2021) against 1.12% as on March 31, 2020. In addition, the company had a restructured portfolio outstanding of 2.01% (on an AUM basis) as on December 31, 2021. The increased delinquencies and restructuring are a result of the disruptions caused by the Covid-19 pandemic and has led to higher credit cost requirement. This resulted in subdued profitability as the company reported a profit after tax (PAT) of Rs. 8.76 crore in 9M FY2022 as compared to Rs. 43.94 crore in FY2021.

The rating also factors in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The Stable outlook on the rating reflects ICRA's opinion that Fusion will be able to maintain its credit profile, while expanding its scale of operations and be able to improve its profitability from the current lows.

Key rating drivers and their description

Credit strengths

Healthy capitalisation profile backed by timely capital support from strong investor base – Fusion's capitalisation profile is healthy, supported by regular capital infusions from its strong investor base. It reported a total CRAR of 22.16% (Tier I: 20.86%) as on December 31, 2021 against 27.26% (Tier I: 25.52%) as on March 31, 2021. Further, the reported gearing level remains comfortable at 4.0 times as on December 31, 2021 against 3.6 times as on March 31, 2021.

In H1 FY2022, Mr. Devesh Sachdev (promoter) infused around Rs. 64 crore into the company in Q2 FY2022 to convert his partly-paid shares into fully-paid shares. Further, the company had got approval for its process of raising Rs. 600-crore fresh equity capital via an initial public offer (IPO) from the Securities and Exchange Board of India (SEBI) in November 2021. ICRA expects Fusion to remain well capitalised over the medium term as well.

Established track record and improvement in scale and geographical diversity of operations – Incorporated in 1994, Fusion commenced its micro finance operations from 2010 and hence has an established track record of over a decade and displayed consistent growth in its AUM. Though the disbursements slowed down during H1 FY2021 and H1 FY2022 due to the first and the second wave of the pandemic respectively, the company ramped up its operations in the latter half of the respective years. Its gross AUM stood at Rs. 5,988 crore as on December 31, 2021 compared to Rs. 4,638 crore as on March 31, 2021, registering an annualised growth of 41% in 9M FY2022. The company also increased its branches to 859 as on December 31, 2021 from 725 as on March 31, 2021 (594 as on March 31, 2020) to meet its growth plans and channelise incremental disbursements. As on December 31, 2021 the company's operations were spread across 18 states with the top three states accounting for around 48% of the portfolio. At the district level, Fusion operates in 357 districts and the top 10 districts accounted for 11.9% of the total AUM as on December 31, 2021 (12.6% as on June 30, 2021).

Diversified funding profile - The company had a fairly diversified lenders' base as on December 31, 2021 with direct funding relationships with more than 50 distinct lenders, including public sector banks, private sector banks (including small finance banks (SFBs) and foreign banks), non-banking financial companies (NBFCs), and development financial institutions (DFIs) and the rest in the form of external commercial borrowings (ECBs), sub-debt and off-book funding. Going forward, the funding profile is expected to remain diversified with increasing share of public sector banks. ICRA notes that the company has been able to secure funding during the pandemic as well, raising around Rs. 3,661 crore in FY2021 and Rs. 2,815 crore in 9M FY2022 at competitive rates.

Experienced and professional management with good portfolio-monitoring processes - Fusion, which has completed more than a decade in microfinance operations, draws upon the experience of its promoters and management personnel, some of whom have remained with the company for long, and upon the instituted policies, operational infrastructure and guidance. Fusion has robust, digitally-enabled credit appraisal and monitoring processes such that detailed daily data at the last mile level is available through its management information system (MIS). It also has a strong recovery and internal audit team, which ensures checks and balances regularly through surprise visits, employee rotation and digital technology, affording accountability to all the employees.

Credit challenges

Deterioration in asset quality and decline in profitability following pandemic - Given the Covid-19-induced disruptions, Fusion's overall asset quality deteriorated with a gross stage-3 book of 5.51% as on March 31, 2021 compared to 1.12% as on March 31, 2020. Though the delinquencies increased further during May-June 2021 with the second wave of the pandemic affecting the livelihood of the borrowers and the company's on-ground operations, Fusion, subsequently, with write-offs and focus towards recoveries, was able to navigate the spillover effect and reported GS-3 of 5.52% as on December 31, 2021. Further, the company had not undergone any restructuring under 1.0., however, has restructured some portion of its loan book under restructuring 2.0. The company had a restructured portfolio outstanding of 2.01% (on an AUM basis) as on December 31, 2021.

Due to deterioration in the asset quality indicators, Fusion increased provisioning and write-offs. As a result, the credit costs of the company increased to 4.7% (estimated[1]) of average managed assets (AMA) in 9M FY2022 from 4.1% in FY2021 (2.2% as on March 31, 2020). This had resulted in subdued profitability of the company as it reported a PAT of Rs. 8.76 crore in 9M FY2022 as compared to Rs. 43.94 crore in FY2021. Going forward, the company's ability to recover from the delinquent and written off accounts, and arrest further slippages in the incremental portfolio, will help it reduce its credit costs and provide support to profitability, hence, it will remain monitorable.

Ability to manage political, communal and other risks in the microfinance sector – The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and its financial position. However, a geographically-diversified portfolio would mitigate these risks to some extent as these issues are largely region-specific, so far. Fusion's ability to on-board borrowers with a good credit history, recruit and retain employees and further improve the geographical diversity by penetrating in recently-entered territories with nascent operations would be relevant for managing high growth rates.

Marginal borrower profile with high susceptibility to income shocks – The rating factors in the risks associated with the marginal borrower profile, unsecured lending, increased risks from multiple lending and overleveraging, business and political risks, along with the challenges associated with a high pace of growth and attrition. While access to credit bureaus and the regulatory ceiling on borrower-indebtedness have reduced concerns on overleveraging and multiple lending, issues related to the policy of microfinance institutions (MFIs), regarding the inclusion of entities for calculating borrower leverage, multiple identity proof as well as gaps in the information available with the bureaus remain.

Liquidity position: Adequate

As on December 31, 2021, Fusion had a free cash and liquid balance of Rs. 983 crore with debt obligations of Rs. 919 crore over the three-month period ending March 2022 and collections of Rs. 1,200 crore during the same period. Timely collections from the restructured portfolio will aid its liquidity. Its asset-liability management (ALM) statement for December 2021 (provisional) showed positive mismatches across all buckets which further aid its liquidity. Additionally, Fusion had sanctioned but unavailed lines of Rs. 1,196 crore as on December 31, 2021, which, along with collections, will support its debt servicing and growth plans.

Rating sensitivities

Positive factors – ICRA could change the outlook to Positive or upgrade the rating if the company demonstrates sustained profitable growth (RoMA>2.5%) while maintaining comfortable capitalisation (managed gearing below 5 times) and asset quality.

Negative factors – ICRA could change the outlook to Negative or downgrade the rating if the company's managed gearing increases to more than six times on a sustained basis or there is a significant deterioration in the asset quality or weakening of the profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA Rating Methodology for Non-Banking Finance Companies]
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

[1]*The ratios computed by ICRA for 9M FY2022 are basis derived financials from the information available in 9M results*

About the company

Incorporated in 1994, Fusion Micro Finance Limited started microfinance operations in 2010 and became a registered NBFC-MFI in 2014. The company is into microfinance lending, providing financial services (and educating borrowers on financial literacy) to poor women in India who are organised as joint liability groups (JLGs). In addition to the core business of providing microcredit, Fusion uses its distribution channels to provide other financial products and services to members, primarily the purchase of productivity-enhancing products such as mobile phones, bicycles, emergency loans, etc.

As on December 31, 2021, Fusion had its presence in 357 districts across 18 states through 859 branches. It reported n profit after tax (PAT) of Rs. 9 crore in 9M FY2022 on a gross AUM of Rs. 5,988 crore (I GAAP) as on December 31, 2021 vis-à-vis a PAT of Rs. 43.94 crore in FY2021 on a gross AUM of Rs. 4,638 crore (I GAAP) as on March 31, 2021.

Key financial indicators (audited)

Fusion Micro Finance Limited	FY2020	FY2021	9M FY2022
Accounting as per	Ind AS	Ind AS	Ind AS
Net interest income	329	452	401
Profit after tax	70	44	9
Net worth	1,199	1,246	NA
Assets Under Management	3,608	4,638	5,988
% PAT / Average managed assets*	1.7%	0.8%	0.2%
% PAT / Average net worth*	7.6%	3.6%	0.9%
% Gross Stage-3	1.1%	5.5%	5.5%
% Net Stage-3	0.4%	2.3%	2.4%
% Capital adequacy ratio	35.8%	27.3%	22.6%
Gearing (reported; times)	2.5	3.6	4.0
Gearing (managed; times)	2.7	3.7	NA

Source: *Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore;*

**- 9M FY2022's ratios are as per ICRA's estimates and are subject to change basis availability of balance sheet and notes to accounts*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)						Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021					Date & Rating in FY2020
					Apr-26-22	Apr-7-22	Sep-21-21	Dec-14-20	Nov-11-20	Oct-5-20	Aug-24-20	May-11-20	Aug-30-19
1	Non-Convertible Debenture	Long term	847.50	731.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-Convertible Debenture*	Long term	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Subordinated debt	Long term	55.00	0.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)							
4	Non-Convertible Debenture	Long term	50.00	-	[ICRA]A- (Stable)								

** Rating withdrawn*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures	Simple
Subordinated Debt	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Rating
INE139R08041	NCD	Sep-10-2019	11.91%	Sep-9-2025	35.00	[ICRA]A- (Stable)
INE139R07191	NCD	Mar-16-2018	12.02%	Mar-16-2024	63.00	[ICRA]A- (Stable)
INE139R08017	NCD	Mar-15-2017	13.85%	Mar-30-2023	50.00	[ICRA]A- (Stable)
INE139R08058	NCD	Sep-15-2016	13.25%	Sep-15-2025	55.00	[ICRA]A- (Stable)
INE139R07233	NCD	Feb-6-2016	12.75%	May-16-2022	53.00	[ICRA]A- (Stable)
INE139R07258	NCD	Oct-6-2020	11.90%	Dec-6-2023	10.00	[ICRA]A- (Stable)
INE139R07266	NCD	Jun-19-2020	11.40%	Jun-19-2023	30.00	[ICRA]A- (Stable)
INE139R07274	NCD	Jun-30-2020	11.25%	Jun-30-2023	20.00	[ICRA]A- (Stable)
INE139R07290	NCD	Jul-29-2020	11.50%	Jul-29-2023	20.00	[ICRA]A- (Stable)
INE139R07282	NCD	Jul-31-2020	11.25%	Apr-21-2023	25.00	[ICRA]A- (Stable)
INE139R07308	NCD	Dec-8-2020	10.50%	Dec-2-2022	50.00	[ICRA]A- (Stable)
INE139R07316	NCD	Feb-11-2020	11.53%	Feb-11-2026	75.00	[ICRA]A- (Stable)
INE139R07324	NCD	Nov-13-2020	9.75%	May-13-2022	25.00	[ICRA]A- (Stable)
INE139R07332	NCD	Nov-13-2020	10.50%	May-13-2022	50.00	[ICRA]A- (Stable)
INE139R07340	NCD	Nov-13-2020	10.40%	May-13-2022	50.00	[ICRA]A- (Stable)
INE139R07357	NCD	Nov-19-2020	10.50%	May-19-2022	25.00	[ICRA]A- (Stable)
INE139R07365	NCD	Nov-13-2020	10.25%	May-13-2022	35.00	[ICRA]A- (Stable)
INE139R08082	NCD	Dec-21-2021	10.50%	Dec-21-2023	45.00	[ICRA]A- (Stable)
To be issued	NCD	NA	NA	NA	35.00	[ICRA]A- (Stable)
To be issued	NCD	NA	NA	NA	145.00	[ICRA]A- (Stable)
Unallocated	NCD	NA	NA	NA	1.50	[ICRA]A- (Stable)
INE139R08108	Subordinate Debt	Mar-31-2022	13.00%	Jun-30-2027	25.00	[ICRA]A- (Stable)
INE139R08090	Subordinate Debt	Mar-31-2022	13.00%	Sep-30-2027	30.00	[ICRA]A- (Stable)

** Rating withdrawn*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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