September 21, 2021 Revised

Fusion Micro Finance Limited: Rating reaffirmed; withdrawn for Rs. 81-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	962.50	962.50	[ICRA]A- (Stable); reaffirmed
Non-convertible debenture programme	81.00	-	[ICRA]A- (Stable); reaffirmed and simultaneously withdrawn
Total	**1,043.50**	**962.50**	

**Instrument details are provided in Annexure-1*

Rationale

The outstanding rating on the Rs. 81-crore non-convertible debenture (NCD) programme of Fusion Micro Finance Limited (Fusion) has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings and as requested by the company. The rated instruments were fully paid and there is no amount outstanding against the same.

The rating continues to factor in Fusion's established track record and the steady growth in its scale of operations in the microfinance industry. Fusion reported gross assets under management (AUM) of Rs. 4,638 crore as on March 31, 2021 (Rs. 4,631 crore as on June 30, 2021) against Rs. 3,607 crore as on March 31, 2020. In addition, its portfolio is well diversified with a presence in 18 states and with the top three states accounting for around 48% of its AUM as on June 30, 2021.

The rating also factors in Fusion's healthy capitalisation profile (supported by timely capital infusion by promoters and shareholders) and its adequate liquidity profile. Fusion reported a total capital to risk-weighted assets ratio (CRAR) of 27.3% and a managed gearing[1] of 3.7 times as on March 31, 2021 (27.6% and 3.7 times, respectively, as on June 30, 2021; provisional) against 35.8% and 2.7 times, respectively, as on March 31, 2020.

ICRA has also noted the impact of the second wave of the Covid-19 pandemic on the company's collection efficiency (CE) and disbursements in Q1 FY2022, which slowed down the recovery seen in Q3 and Q4 FY2021. However, after the lifting of regional lockdowns, the company is witnessing an improvement in both disbursements and collections from June 2021. Nevertheless, Fusion's ability to improve the asset quality metrics and recover from delinquent accounts will be critical. ICRA expects the asset quality pressures to persist in the near to medium term, which could possibly suppress the profitability indicators for FY2022.

The rating is constrained by the deterioration in Fusion's asset quality and the consequent decline in its profitability with increased provisioning requirement. It reported gross stage 3 assets of 5.5% as on March 31, 2021 (6.2% as on June 30, 2021; provisional) against 1.1% as on March 31, 2020. The company has not restructured any book till June 30, 2021 and is expected to undertake some restructuring in Q2 FY2022.

The deterioration in the asset quality is on account of the disruptions caused by the pandemic and has led to higher credit cost requirement. This has moderated Fusion's profitability. It reported a net profit of Rs. 44 crore in FY2021, translating into a return on average managed assets (RoMA) of 0.8% and a return on average net worth (RoNW) of 3.6% against Rs. 70 crore,

[1] *Managed gearing = (total external debt + DA book)/Net worth*

1.7% and 7.6%, respectively, in FY2020. 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.

ICRA notes that although Fusion's RoMA declined below 1.5% in FY2021, the same was on account of the pandemic and the profitability is expected to normalise in FY2022.

The Stable outlook on the rating reflects ICRA's opinion that Fusion will continue to benefit from the extensive experience of its promoters and senior management.

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 total CRAR of 27.26% (Tier I: 25.52%) as on March 31, 2021 against 35.82% (Tier I: 33.08%) as on March 31, 2020. Further, the managed gearing[1] level remains comfortable at 3.7 times as on March 31, 2021 (3.7 times as on June 30, 2021) against 2.7 times as on March 31, 2020.

ICRA also notes that Mr. Devesh Sachdev (promoter) infused around Rs. 64 crore in Q2 FY2022 to convert his partly-paid shares into fully-paid shares. Moreover, the company is in the process of raising Rs. 600-crore fresh equity capital via an initial public offer (IPO) for which it has filed a draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (SEBI). 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 – Fusion has an established track record of over a decade and displayed consistent growth in its AUM. Its gross AUM stood at Rs. 4,638 crore as on March 31, 2021 (Rs. 4,631 crore as on June 30, 2021), growing at a compound annual growth rate (CAGR) of 44% from March 2018. Further, Fusion's operations are spread across 18 states with the top 3 states accounting for around 48% of the portfolio as on June 30, 2021. At the district level, Fusion operates in 331 districts and the top 10 districts accounted for 12.6% of the total AUM as on June 30, 2021.

Diversified funding profile; however, high share of funding from wholesale sources – Fusion's lender base, as on June 30, 2021, was fairly diversified with direct funding relationships with more than 50 distinct lenders including public banks, private banks (including small finance banks (SFBs) and foreign banks), non-banking financial companies (NBFCs), and development financial institutions (DFIs) and remaining in form of ECB, sub-debt and off-book funding. It also raised a small quantum of debt in FY2021 in the form of external commercial borrowings (ECBs).

As on June 30, 2021, 38% of its outstanding borrowing was funded by private banks, 22% by non-convertible debentures (NCDs - issued largely to banks), and 16% by NBFCs and DFIs. Going forward, the funding profile is expected to diversify with additional reliance on NCDs and ECBs. ICRA notes that the company has been able to secure funding during the pandemic as well, raising around Rs. 3,661 crore in FY2021.

Experienced and professional management along with good credit appraisal and 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 therefrom. 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 on account of pandemic – Given the Covid-19-induced disruptions, Fusion's overall asset quality deteriorated with a gross stage 3 book of 5.5% as on March 31, 2021 compared to 1.1% as on March 31, 2020. The asset quality deteriorated further with the second wave of the pandemic as the gross stage 3 book reached 6.2% as on June 30, 2021 (provisional).

ICRA notes that the CE is gradually improving as the company reported adjusted CE[2] of 93-94% in August 2021, representing an improvement from 84% in May 2021. The improvement in the CE is expected to improve the asset quality with a gradual increase in recoveries from overdues. Fusion's ability to navigate the asset quality stress will remain a monitorable.

Decline in profitability – Fusion reported a net profit of Rs. 44 crore in FY2021, translating into RoMA of 0.8% and RoNW of 3.6% against Rs. 70 crore, 1.7% and 7.6%, respectively, in FY2020. In Q1 FY2022 (provisional), it reported a net profit of Rs. 3 crore with RoMA of 0.2% and RoNW of 1.0%. The moderation in the profitability in FY2021 and Q1 FY2022 was on account of higher credit costs as the asset quality deteriorated due to the pandemic. The credit cost, with respect to the average managed assets (AMA), was 4.1% in FY2021 against 2.2% in FY2020 (0.6% in FY2019). Fusion's ability to contain the credit costs and grow the loan book while controlling the operating expenses shall be key for its financial profile.

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 thus 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 June 30, 2021, Fusion had a free cash and liquid balance of Rs. 1,238 crore with debt obligations (excluding interest) of Rs. 1,323 crore over the six-month period ending December 2021 and collections (excluding interest) of Rs. 1,586 crore during the same period. Its asset-liability management (ALM) statement for June 2021 (provisional) showed positive mismatches across all buckets. The company's liquidity is comfortable even after collections at a CE of 70%.

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.

[2] Adjusted CE = (Current month's collections + overdue recoveries) / (Current month's demand)

Negative factors – ICRA could change the outlook to Negative or downgrade the rating if the company's managed gearing increases to more than 6 times on a sustained basis or there is a significant deterioration in the asset quality or weakening of the profitability (RoMA<1.5%) on a sustained basis.

Analytical approach

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

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 primarily engaged in microfinance lending activities, 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 June 30, 2021, Fusion had a presence in 331 districts across 18 states through 745 branches. It reported a profit after tax (PAT) of Rs. 43.9 crore in FY2021 on gross AUM of Rs. 4,638 crore as on March 31, 2021 vis-à-vis a PAT of Rs. 69.6 crore in FY2020 on gross AUM of Rs. 3,607 crore as on March 31, 2020. As per provisional financials for Q1 FY2022 under Ind-As accounting, it reported a PAT of Rs. 3 crore on gross AUM of Rs. 4,631crore as on June 30, 2021.

Key financial indicators (audited)

Fusion Micro Finance Limited (standalone)	FY2019	FY2020	FY2021	Q1 FY2022^
Accounting as per	**Ind-As**	**Ind-As**	**Ind-As**	**Ind-As**
Total income (Rs. crore)	497	730	873	265
Profit after tax (Rs. crore)	51	70	44	3
Net worth (Rs. crore)	626	1,199	1,246	1,250
Gross AUM (Rs. crore)	2,641	3,607	4,638	4,631
Total managed assets (Rs. crore)	3,701	4,538	6,250	6,269
Return on average managed assets (%)	1.8%	1.7%	0.8%	0.2%
Return on net worth (%)	11.3%	7.6%	3.6%	1.0%
Managed gearing (times)	4.8	2.7	3.7	3.7
Gross stage 3/gross advances (%)	1.5%	1.1%	5.5%	6.2%
Net stage 3/net advances (%)	0.6%	0.4%	2.3%	3.0%
Solvency (net stage 3/net worth)	2.3%	1.1%	8.2%	10.5%
CRAR (%)	26.9%	35.8%	27.3%	27.6%

Source: *Company, ICRA Research; All ratios and values as per ICRA calculations; Gross AUM as per IGAAP valuation/accounting*

^ Q1 FY2022 values and ratios as per provisional financials

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 Aug 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021					Date & Rating in FY2020	Date & Rating in FY2019					
					Sep-21-21	Dec-14-20	Nov-11-20	Oct-5-20	Aug-24-20	May-11-20	Aug-30-19	Feb-4-19	Oct-22-18	Sep-25-18	Sep-7-18	Aug-27-18	Aug-2-18
1	NCD programme	Long term	962.50	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]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	NCD programme	Long term	81.00	0.00	[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)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	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
INE139R07225	NCD	Oct-22-2018	12.20%	Oct-22-2021	35.00	[ICRA]A- (Stable)
INE139R07217	NCD	Sep-27-2018	12.50%	Sep-27-2021	25.00	[ICRA]A- (Stable)
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)
INE139R07183	NCD	Mar-15-2018	12.30%	Mar-15-2021	19.00	[ICRA]A- (Stable); withdrawn
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)
INE139R07241	NCD	Aug-31-2016	13.60%	Aug-31-2021	47.00	[ICRA]A- (Stable); withdrawn
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)
INE139R08066	NCD	Aug-5-2020	11.96%	Aug-6-2021	15.00	[ICRA]A- (Stable); withdrawn
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)
Proposed	NCD	Yet to be issued	10.50%	24 months	45.00	[ICRA]A- (Stable)
Unallocated	NCD	-	-	-	186.50	[ICRA]A- (Stable)

Source: *Company data*

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

Corrigendum

Document dated September 21, 2021 has been corrected with revisions as detailed below:

Page 3 – Value of Gross stage 3 book has been rectified to 6.2% from 10.1%

Page 6 – Total income for FY2019, FY2020 & Q1 FY2022, Return on average managed assets for FY2019, Net stage 3/net advances for Mar-2021 & Jun-2021 and Solvency (net stage 3/net worth) for Jun-2021 has been rectified as mentioned below

Particulars	Previous value	Corrected value
Total Income for FY2019 (Rs. crore)	494	497
Total Income for FY2020 (Rs. crore)	728	730
Total Income for Q1 FY2022 (Rs. crore)	261	265
Return on average managed assets for FY2019	1.7%	1.8%
Net stage 3/net advances for Mar-2021	2.2%	2.3%
Net stage 3/net advances for Jun-2021	2.8%	3.0%
Solvency (net stage 3/net worth) for Jun-2021	10.4%	10.5%

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 300
sachin.sachdeva@icraindia.com

Jatin Arora
+91 124 4545 300
jatin.arora@icraindia.com

Prateek Mittal
+91 33 7150 1132
prateek.mittal@icraindia.com

Arpit Agarwal
+91 124 4545 833
arpit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches