

July 19, 2023

**Fusion Micro Finance Limited: Ratings reaffirmed and outlook revised to Positive;
Ratings simultaneously withdrawn for Rs. 85-crore NCD and Rs. 40-crore MLD
programmes; Rating assigned to Rs. 63.5-crore NCDs**

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	539.50	539.50	[ICRA]A; reaffirmed and outlook revised to Positive from Stable
NCD programme	85.00	-	[ICRA]A; reaffirmed and outlook revised to Positive from Stable and rating withdrawn
NCD programme	-	63.50	[ICRA]A (Positive); assigned
MLD programme	40.00	-	PP-MLD[ICRA]A; reaffirmed and outlook revised to Positive from Stable, and rating withdrawn
Subordinated debt	55.00	55.00	[ICRA]A; reaffirmed and outlook revised to Positive from Stable
Total	719.50	658.00	

*Instrument details are provided in Annexure I

Rationale

The revision in the rating outlook reflects ICRA's expectation of a further increase in Fusion Micro Finance Limited's (Fusion) scale of operations, supported by its demonstrated ability to raise funds (debt and equity). Moreover, Fusion is expected to maintain healthy profitability and improve its asset quality metrics further. It reported assets under management (AUM) of Rs. 9,296 crore as on March 31, 2023 compared to Rs. 6,786 crore as on March 31, 2022. Its return on managed assets (RoMA) improved to 4.1% in FY2023 from 0.3% in FY2022. Fusion raised around Rs. 600-crore of equity in November 2022, which improved its capitalisation profile with a managed gearing¹ of 3.4 times as on March 31, 2023 compared to 4.8 times as on March 31, 2022.

ICRA notes that Fusion's profitability was impacted in FY2021 and FY2022 by higher credit costs because of the deterioration in its asset quality. However, with the reduction in incremental credit costs in FY2023 and the increase in the net interest margin (NIM), the profitability indicators improved in FY2023. The ratings also continue to factor in the company's established track record of operations in the microfinance industry and its healthy geographical diversification. The ratings also take into consideration Fusion's diversified borrowing profile, which mainly comprises funding from banks, followed by non-banking financial institutions (NBFCs) and financial institutions (FIs), non-convertible debentures (NCDs) and subordinated debt, external commercial borrowing (ECB) and direct assignment (DA).

The ratings are constrained by the company's moderate, albeit improving, asset quality as it reported gross stage 3 (GS3) of 3.5% as on March 31, 2023, after writing off Rs. 247 crore of the portfolio in FY2023. ICRA notes that the improvement in the GS3 from 5.7% as on March 31, 2022 was supported by recoveries, write-offs and the growing loan book. The ratings also factor 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 associated with microlending, which may lead to volatility in the asset quality indicators.

¹ Managed gearing = (on-book debt + off-book portfolio) / net worth

The Positive outlook reflects ICRA's opinion that the company would be able to improve its financial profile further, while expanding its scale of operations, maintaining healthy profitability and improving its asset quality.

ICRA has simultaneously reaffirmed, revised the outlook to Positive and withdrawn the ratings for the Rs. 85-crore NCD programme and Rs. 40-crore market linked debenture (MLD) programme as the said NCDs have been repaid by the company and it has not raised any funds against the MLD programme. There is no amount outstanding against the said instruments. The ratings have been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established track record of operations – Incorporated in 1994, Fusion commenced its microfinance operations in 2010. It has an established track record of over a decade with consistent growth in its AUM. Its gross AUM stood at Rs. 9,296 crore as on March 31, 2023 compared to Rs. 6,786 crore as on March 31, 2022. Since March 2019, Fusion's AUM increased at a compound annual growth rate (CAGR) of ~37% till March 2023.

The company also increased its branch network to 1,086 as on March 31, 2023, from around 504 as on March 31, 2019, to meet its growth plans and channelise incremental disbursements. As on March 31, 2023, Fusion's operations were well diversified across 20 states/Union Territories (UTs) with the top 3 states accounting for around 53% of the AUM.

Healthy profitability – Fusion's profitability was impacted in FY2021 and FY2022 by the Covid-19 pandemic, primarily on account of the elevated credit costs arising from the weakening in the asset quality. However, with the improvement in the asset quality, higher disbursements and better yields in FY2023, the company's overall profitability profile improved. Fusion reported a net profit of Rs. 387 crore in FY2023, translating into a RoMA of 4.1% and a return on average net worth (RoNW) of 21.2% vis-à-vis Rs. 22 crore, 0.3% and 1.7%, respectively, in FY2022. Further improvement in the lending yields and reduction in the credit costs are expected to support Fusion's earnings profile, going forward.

Comfortable capitalisation profile – Fusion had a capital to risk weighted assets ratio (CRAR) of 27.94%, a managed gearing² of 3.4 times and a reported net worth of Rs. 2,322 crore as on March 31, 2023. In November 2022, the company had launched its initial public offer (IPO), raising around Rs. 600 crore of primary capital. This has bolstered its capitalisation profile, making it well capitalised to absorb future losses, if any, and support its growth plans. Going forward, ICRA expects Fusion's capitalisation profile to remain comfortable.

Diversified funding profile – Fusion had a fairly diversified lenders' base as on March 31, 2023, 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), NBFCs, and development financial institutions (DFIs). In addition, the company had borrowings in the form of ECBs, NCD issuances, sub-debt and off-book funding. ICRA notes that Fusion raised funding of around Rs. 6,421 crore in FY2023. Going forward, the funding profile is expected to remain diversified.

Credit challenges

Moderate, albeit improving, asset quality metrics – Like other microfinance institutions (MFIs), Fusion's asset quality was impacted by the pandemic. It reported GS3 of 5.7% as on March 31, 2022. However, with write-offs, recoveries and growth in the loan book in FY2023, the GS3 declined to 3.5% as on March 31, 2023. ICRA notes that Fusion wrote off Rs. 247 crore of the portfolio in FY2023.

² Managed gearing = (on-book debt + off-book portfolio) / net worth

ICRA also notes that Fusion had not restructured its loan book under the Reserve Bank of India's (RBI) Restructuring Framework 1.0, though it had restructured 2.5% of its AUM under Framework 2.0, which was relatively lower than the industry average. The standard restructured book declined to 0.16% of the AUM, as on March 31, 2023, on the back of recoveries and slippages.

Political, communal and other risks in microfinance sector – The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and 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 onboard borrowers with a good credit history, recruit and retain employees and improve its geographical diversity further by penetrating in recently entered territories with nascent operations would be relevant for managing the high growth rates.

Marginal borrower profile with high susceptibility to income shocks – The ratings factor 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 credit bureau checks and the regulatory ceiling on the borrower's fixed obligation to income ratio reduce concerns on overleveraging, issues related to the policy of MFIs, regarding their underwriting practices, borrowers' income and leverage assessment, multiple identity proof as well as gaps in the information available with the bureaus remain.

Environment and social risks

Environmental – While MFIs like Fusion do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to whom such MFIs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for them. However, such risk is not material for Fusion as it benefits from adequate geographical diversification in its portfolio. Further, the lending is for loans with a tenure of around 2 years, which will allow it to adapt and take incremental exposure on borrowers that face relatively fewer downside environmental risks.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for MFIs as any material lapse could be detrimental to their reputation and invite regulatory censure. Fusion has not faced such lapses over the years, which highlights its sensitivity to such risks. While it contributes to promoting financial inclusion by lending to underserved women borrowers largely in rural areas, its lending practices remain prudent as reflected in the asset quality numbers in this segment compared with its peers.

Liquidity position: Adequate

As on March 31, 2023, Fusion had a free cash and liquid balance of Rs. 946 crore with debt obligations (including interest) of Rs. 2,120 crore for the six-month period ending September 2023 and collections (including interest) of Rs. 2,714 crore during this period. Factoring in the expected collections from advances, the liquidity profile is expected to remain adequate to meet the debt obligations in a timely manner.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company witnesses a further increase in its scale while maintaining healthy profitability (RoMA>3%), capitalisation (managed gearing below 4 times) and asset quality indicators on a sustained basis.

Negative factors – Pressure on the rating or outlook could arise if the company's managed gearing exceeds 5 times on a sustained basis or there is a significant deterioration in the asset quality or weakening of the profitability (RoMA<2%) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile 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. It is engaged in microfinance lending, providing financial services (and educating borrowers on financial literacy) to poor women in India who are organised as joint liability groups (JLGs). Fusion also uses its distribution channels to provide other financial products and services to members, primarily the purchase of productivity enhancing products such as mobile phones, mixer grinders/bicycles, emergency loans, etc. It also has a small portfolio in the micro, small and medium enterprise (MSME) segment, accounting for 3% of the total AUM as on March 31, 2023.

As on March 31, 2023, Fusion had a presence in 398 districts across 20 states/UTs through 1,086 MFI and MSME branches. It reported a profit after tax (PAT) of Rs. 387 crore in FY2023 on gross AUM of Rs. 9,296 crore as on March 31, 2023 vis-à-vis a PAT of Rs. 22 crore in FY2022 on gross AUM of Rs. 6,786 crore as on March 31, 2022.

Key financial indicators (audited)

Fusion Micro Finance Limited	FY2020	FY2021	FY2022	FY2023
Accounting as per	Ind AS	Ind AS	Ind AS	Ind AS
Net interest income	329	452	568	957
Profit after tax	70	44	22	387
Net worth	1,199	1,246	1,338	2,322
Assets under management	3,607	4,638	6,786	9,296
PAT / Average managed assets	1.7%	0.8%	0.3%	4.1%
PAT / Average net worth	7.6%	3.6%	1.7%	21.2%
Gross stage 3	1.1%	5.5%	5.7%	3.5%
Net stage 3	0.4%	2.3%	1.7%	0.9%
Capital adequacy ratio	35.8%	27.3%	21.9%	27.9%
Gearing (reported; times)	2.5	3.6	4.3	2.9
Gearing (managed; times)	2.7	3.7	4.8	3.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years									
			Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021				
					Jul-19-23	Jan-27-23	Dec-09-22	Apr-26-22	Apr-7-22	Sep-21-21	Dec-14-20	Nov-11-20	Oct-5-20	Aug-24-20	May-11-20
1	Non-convertible debenture	Long term	539.50	447.83	[ICRA]A (Positive)	[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)	[ICRA]A- (Stable)
2	Non-convertible debenture	Long term	63.50	63.50	[ICRA]A (Positive)	-	-	-	-	-	-	-	-	-	-
3	Subordinate debt	Long term	55.00	55.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A - (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
4	Marked linked debenture	Long term	40.00	-	PP-MLD [ICRA]A (Positive); withdrawal	PP-MLD [ICRA]A (Stable)	-	-	-	-	-	-	-	-	-
5	Non-convertible debenture	Long term	85.00	-	[ICRA]A (Positive); withdrawal	[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)	[ICRA]A- (Stable)
6	Non-convertible debenture	Long term	-	-	-	-	-	-	-	-	-	-	-	-	[ICRA]A- (Stable); withdrawal
7	Non-convertible debenture	Long term	-	-	-	-	-	-	-	-	-	-	-	[ICRA]A- (Stable); withdrawal	[ICRA]A- (Stable)

	Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years										
			Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021					
						Jul-19-23	Jan-27-23	Dec-09-22	Apr-26-22		Apr-7-22	Sep-21-21	Dec-14-20	Nov-11-20	Oct-5-20	Aug-24-20
8	Non-convertible debenture	Long term	-	-	-	-	-	-	-	-	[ICRA]A-(Stable); withdrawal	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
9	Non-convertible debenture	Long term	-	-	-	-	-	-	-	[ICRA]A-(Stable); withdrawal	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
10	Non-convertible debenture	Long term	-	-	-	-	[ICRA]A (Stable); withdrawal	[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)
11	Non-convertible debenture	Long term	-	-	-	[ICRA]A (Stable); withdrawal	[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)	[ICRA]A-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Subordinated debt	Very Simple
MLD programme	Moderately Complex

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
INE139R07399	NCD	Mar-16-2018	10.70%	Mar-16-2024	63.00	[ICRA]A (Positive)
INE139R08017	NCD	Mar-15-2017	13.85%	Mar-30-2023	50.00	[ICRA]A (Positive)
INE139R07290	NCD	Jul-29-2020	11.50%	Jul-29-2023	20.00	[ICRA]A (Positive)
INE139R08074	NCD	Nov-02-2020	11.53%	Nov-02-2026	75.00	[ICRA]A (Positive)
INE139R08082	NCD	Dec-21-2021	10.50%	Dec-21-2023	45.00	[ICRA]A (Positive)
INE139R08116	NCD	Apr-19-2022	11.04%	Dec-31-2024	35.00	[ICRA]A (Positive)
INE139R07431	NCD	May-04-2022	10.35%	May-04-2027	145.00	[ICRA]A (Positive)
INE139R07373	NCD	Dec-23-2020	11.25%	Dec-23-2023	50.00	[ICRA]A (Positive)
INE139R07381	NCD	Mar-10-2021	11.15%	Mar-09-2027	70.00	[ICRA]A (Positive)
INE139R07407	NCD	Mar-18-2021	11.00%	Mar-18-2026	50.00	[ICRA]A (Positive)
INE139R08108	Subordinated debt	Mar-31-2022	13.00%	Jun-30-2027	25.00	[ICRA]A (Positive)
INE139R08090	Subordinated debt	Mar-31-2022	12.11%	Sep-30-2027	30.00	[ICRA]A (Positive)
INE139R07258	NCD	Jun-10-2020	11.90%	Jun-12-2023	10.00	[ICRA]A (Positive); withdrawn
INE139R07266	NCD	Jun-19-2020	11.90%	Jun-19-2023	30.00	[ICRA]A (Positive); withdrawn
INE139R07274	NCD	Jun-30-2020	11.25%	Jun-30-2023	20.00	[ICRA]A (Positive); withdrawn
INE139R07282	NCD	Jul-31-2020	11.25%	Apr-21-2023	25.00	[ICRA]A (Positive); withdrawn
Not placed	MLD	NA	NA	NA	40.00	PP-MLD [ICRA]A (Positive); withdrawn

Annexure II: List of entities considered for consolidated analysis: Not applicable

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