January 12, 2024

Fusion Micro Finance Limited: Rating upgraded to [ICRA]A+ (Stable); outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	603.00	603.00	[ICRA]A+ (Stable) upgraded from [ICRA]A (Positive) and outlook revised to Stable from Positive
Subordinated debt	55.00	55.00	[ICRA]A+ (Stable) upgraded from [ICRA]A (Positive) and outlook revised to Stable from Positive
Total	**658.00**	**658.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in the improvement in Fusion Micro Finance Limited's (Fusion) profitability and asset quality profile, while its scale of operations continues to expand at a healthy pace. With the increase in the share of the portfolio generated at higher lending rates, after the revised regulations became applicable, the company witnessed an improvement in its margins. Further, with credit costs remaining range-bound, Fusion profitability metrics improved further in H1 FY2024. The return on managed assets (RoMA) increased to 4.4% in H1 FY2024 from 4.1% as on March 31, 2023 (0.3% in FY2022).

The rating factors in the improvement in asset quality metrices with Fusion's reported gross stage 3 (GS3) improving to 2.7% as on September 30, 2023 from 5.7% as on March 31, 2022 which was supported by recoveries, write-offs (Rs. 163 crore of the portfolio written-off in H1 FY2024) and the growing loan book. It reported assets under management (AUM) of Rs. 10,026 crore as on September 30, 2023 compared to Rs. 9,296 crore as on March 31, 2023. Fusion raised around Rs. 600-crore of equity in November 2022, which improved its capitalisation profile with a managed gearing[1] of 3.4 times as on March 31, 2023 compared to 4.8 times as on March 31, 2022. As on September 30, 2023, the managed gearing stood at 3.3 times. The rating also continues to factor in the company's established track record of operations in the microfinance industry, its healthy geographical diversification and its fairly diversified borrowing profile.

The rating, however, 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 associated with microlending, which may lead to volatility in the asset quality indicators.

The Stable outlook reflects ICRA's opinion that the company would be able to maintain a steady credit profile, while expanding its scale of operations, maintaining healthy profitability and improving its asset quality further.

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. 10,026 crore as on September 30, 2023 compared to Rs. 9,296 crore as on March 31, 2023. Since March 2019, Fusion's AUM increased at a compound annual growth rate (CAGR) of ~35% till September 2023.

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

The company also increased its branch network to 1,164 as on September 30, 2023 from 504 as on March 31, 2019 to meet its growth plans and channelise incremental disbursements. As on September 30, 2023, Fusion's operations were well diversified across 22 states/Union Territories (UTs) with the top 3 states accounting for around 54% 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 increase in the share of portfolio generated at higher yields and the credit costs remaining range-bound, the company witnessed further improvement in its profitability metrics in H1 FY2024. Fusion reported a net profit of Rs. 246 crore in H1 FY2024, translating into a RoMA of 4.4% and a return on average net worth (RoNW) of 20.1% vis-à-vis Rs. 387 crore, 4.1% and 21.2%, respectively, in FY2023.

Comfortable capitalisation profile – Fusion had a capital-to-risk weighted assets ratio (CRAR) of 28.8%, a managed gearing of 3.3 times and a reported net worth of Rs. 2,577 crore as on September 30, 2023. In November 2022, the company had launched its initial public offering (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.

Credit challenges

Political, communal and other risks in microfinance sector, given the marginal borrower profile – 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.

The rating also 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 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 microfinance institutions (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 to borrowers facing 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 a 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 September 30, 2023, Fusion had a free cash and liquid balance of Rs. 1,400 crore with debt obligations of Rs. 2,689 crore over the six-month period ending March 2024 and collections of Rs. 2,857 crore during this period. Factoring in the estimated collections from advances, the liquidity profile is expected to remain adequate to meet the debt obligations in a timely manner. Additionally, it had unavailed sanctions in hand (excluding direct assignment) of Rs. 4,485 crore, which will support its debt servicing and growth plans.

Fusion had a fairly diversified lenders' base as on September 30, 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), non-banking financial institutions (NBFCs), and development financial institutions (DFIs).

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to scale up its operations significantly while maintaining prudent capitalisation and a healthy profitability profile and demonstrating a sustained improvement in its asset quality.

Negative factors – The rating could be downgraded if the managed gearing exceeds 5 times on a sustained basis or the asset quality deteriorates significantly or the profitability weakens (RoMA of less than 2.5%) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's 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

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. Fusion also has a small portfolio in the micro, small and medium enterprise (MSME) segment, accounting for 4% of the total AUM as on September 30, 2023.

As on September 30, 2023, Fusion had a presence in 420 districts across 22 states/UTs through 1,164 branches. It reported a profit after tax (PAT) of Rs. 246 crore in H1 FY2024 on gross AUM of Rs. 10,026 crore as on September 30, 2023 vis-à-vis a PAT of Rs. 387 crore in FY2023 on gross AUM of Rs. 9,296 crore as on March 31, 2023.

Key financial indicators (audited)

Fusion Micro Finance Limited	FY2022	FY2023	H1 FY2024
Accounting as per	Ind AS	Ind AS	Ind AS
Total income	1,194	1,782	1,109
Profit after tax	22	387	246
Total managed assets	8,237	10,655	11,763
Return on managed assets	0.3%	4.1%	4.4%
Gearing (managed; times)	4.8	3.4	3.3
Gross stage 3	5.7%	3.5%	2.7%
CRAR	21.9%	27.9%	28.8%

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)		Date & Rating in FY2024		Chronology of Rating History for the Past 3 Years: Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021		
			Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2023 (Rs. crore)	Jan-12-24	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	276.27	[ICRA]A + (Stable)	[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)
2	Non-convertible debenture	Long term	63.50	63.50	[ICRA]A + (Stable)	[ICRA]A (Positive)	-	-	-	-	-	-	-	-
3	Subordinated debt	Long term	55.00	55.00	[ICRA]A + (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A - (Stable)	[ICRA]A- (Stable)	-	-	-	-
4	Marked linked debenture	Long term	-	-	-	PP-MLD [ICRA]A (Positive); withdrawn	PP-MLD [ICRA]A (Stable)	-	-	-	-	-	-	-
5	Non-convertible debenture	Long term	-	-	-	[ICRA]A (Positive); withdrawn	[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); withdrawn
7	Non-convertible debenture	Long term	-	-	-	-	-	-	-	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)

			Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years							
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021		
					Jan-12-24	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
8	Non-convertible debenture	Long term	-	-	-	-	-	-	-	-	[ICRA]A-(Stable); withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
9	Non-convertible debenture	Long term	-	-	-	-	-	-	-	[ICRA]A-(Stable); withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
10	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)
11	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)

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: 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+ (Stable)
INE139R08017	**NCD**	Mar-15-2017	13.85%	Mar-30-2023	50.00	[ICRA]A+ (Stable)
INE139R07290	**NCD**	Jul-29-2020	11.50%	Jul-29-2023	20.00	[ICRA]A+ (Stable)
INE139R08074	**NCD**	Nov-02-2020	11.53%	Nov-02-2026	75.00	[ICRA]A+ (Stable)
INE139R08082	**NCD**	Dec-21-2021	10.50%	Dec-21-2023	45.00	[ICRA]A+ (Stable)
INE139R08116	**NCD**	Apr-19-2022	11.04%	Dec-31-2024	35.00	[ICRA]A+ (Stable)
INE139R07431	**NCD**	May-04-2022	10.35%	May-04-2027	145.00	[ICRA]A+ (Stable)
INE139R07373	**NCD**	Dec-23-2020	11.25%	Dec-23-2023	50.00	[ICRA]A+ (Stable)
INE139R07381	**NCD**	Mar-10-2021	11.15%	Mar-09-2027	70.00	[ICRA]A+ (Stable)
INE139R07407	**NCD**	Mar-18-2021	11.00%	Mar-18-2026	50.00	[ICRA]A+ (Stable)
INE139R08108	**Subordinated debt**	Mar-31-2022	13.00%	Jun-30-2027	25.00	[ICRA]A+ (Stable)
INE139R08090	**Subordinated debt**	Mar-31-2022	12.11%	Sep-30-2027	30.00	[ICRA]A+ (Stable)

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

ANALYST CONTACTS

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

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Jatin Arora
+91 124 4545 846
jatin.arora@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

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.

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