

November 27, 2025

Fusion Finance Limited: Rating reaffirmed and outlook revised to Stable from Negative; [ICRA]A- (Stable) assigned to Rs. 500-crore NCD programme and withdrawn for Rs. 145-crore NCD programme

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
NCD programme	-	500.00	[ICRA]A- (Stable); assigned
NCD programme	145.00	-	[ICRA]A- (Stable); reaffirmed and outlook revised to Stable from Negative and simultaneously withdrawn
Subordinated debt	55.00	55.00	[ICRA]A- (Stable); reaffirmed and outlook revised to Stable from Negative
Total	200.00	555.00	

**Instrument details are provided in Annexure I; NCD – Non-convertible debenture*

Rationale

The rating action considers the steady improvement in Fusion Finance Limited’s (Fusion) current bucket collections, reported at 98.5% in September 2025 vis-à-vis 96.6% in September 2024, and the decline in slippages to 0.6% in Q2 FY2026 from 3.0% in Q2 FY2025. The company’s reported asset quality metrics have also improved with gross stage 3 assets declining to 4.6% as on September 30, 2025 (7.9% as on March 31, 2025; gross stage 2 assets of 2.2% as on September 30, 2025) from the peak of 12.9% as on December 31, 2024. While this was largely driven by write-offs, with limited recoveries thus far, ICRA has considered the moderation in incremental slippages in H1 FY2026. Consequently, credit costs and resultant losses have been declining in recent quarters. ICRA expects this trend to continue with the improvement in disbursements and having tighter underwriting guardrails. The company was carrying sizeable provisions for its delinquent portfolio (provision coverage of 92.2% and 70.0% on stage 3 and stage 2 assets, respectively; total provision of 7.0% on overall portfolio as of September 2025), limiting the incremental impact on its financial profile from such accounts.

ICRA notes Fusion’s plans to increase lending to the micro, small and medium enterprise (MSME) segment (10% of assets under management (AUM) as of September 2025). Additionally, the company has strengthened its capital position via the Rs. 800-crore equity capital raise through a rights issue, with Rs. 400 crore received in April 2025, and the balance expected by December 2025. This shall further strengthen the capitalisation buffers and support credit expansion over the near term.

The company reported a net loss of Rs. 114 crore in H1 FY2026 (net loss of Rs. 22 crore in Q2 FY2026) vis-à-vis the net loss of Rs. 1,225 crore in FY2025 (Rs. 165 crore loss in Q4 FY2025). Nevertheless, Fusion’s elevated cost structure, following the decline in AUM in FY2025 and H1 FY2026, is expected to continue suppressing earnings in the near term. While disbursements are gradually improving, rejection rates remain high due to tightened lending norms for microfinance loans. The rating continues to factor in Fusion’s established track record of operations with a presence in 22 states/Union Territories (UTs) as of September 2025.

ICRA notes that Fusion remains in breach of various financial covenants in respect of borrowings amounting to Rs. 2,077 crore as on September 30, 2025 (Rs. 4,763 crore as on March 31, 2025), making them repayable on demand. As a result, the statutory auditor continues to highlight material uncertainty regarding the company’s ability to continue as a going concern. Inability to obtain the requisite waivers as per the stipulated covenants or arrange fresh funding could lead to pressure on the liquidity profile; this shall remain monitorable. ICRA notes that Fusion has obtained an extension from lenders for borrowings aggregating Rs. 1,331 crore as on September 30, 2025. Further, it has been able to raise fresh funding from various lenders despite the breach of covenants, albeit at a higher cost amid prevalent stress in the microfinance industry.

ICRA has simultaneously revised the outlook to Stable from Negative, reaffirmed and withdrawn the rating for the Rs. 145-crore non-convertible debenture (NCD) programme as the instrument has been redeemed with no amount outstanding against the same. This is 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 – Commencing operations in 2010, Fusion is one of the larger microfinance companies in India with a presence in 22 states/UTs, catering to more than 25 lakh borrowers as on September 30, 2025. The company was operating through a network of 1,545 branches with AUM of Rs. 7,038 crore as on September 30, 2025. ICRA notes that the company's AUM declined in FY2025 and H1 FY2026 amid industry-wide asset quality stress. Nonetheless, ICRA takes comfort from Fusion's track record of operations and the gradually improving disbursements. Apart from microfinance, the company has a small share of MSME loans, comprising ~10% of the AUM as on September 30, 2025, which it intends to gradually scale up.

Improvement in capitalisation profile – Fusion has strengthened its capital position via the Rs. 800-crore rights issue, with Rs. 400 crore received in April 2025 and the balance expected by December 2025. Supported by the first tranche of Rs. 400 crore, the company's net worth improved to Rs. 1,918 crore while its gearing (managed) declined to 3.1 times as of September 2025 from Rs. 1,643 crore and 4.4 times, respectively, as of March 2025. The capital-to-risk weighted assets ratio (CRAR) of 31.3%, as on September 30, 2025 (22.4% as on March 31, 2025), was well above the regulatory requirement of 15%. The incumbent second tranche of Rs. 400 crore by December 2025 shall further improve the company's capitalisation profile for its near-to-medium-term credit expansion and provide a buffer against asset quality volatility, given the target borrower profile.

Credit challenges

Weak, albeit improving, asset quality and earnings profile – The company's current bucket collections improved steadily to 98.5% in September 2025 from 96.6% in September 2024. Its reported asset quality metrics have also been gradually improving with gross stage 3 assets declining to 4.6% as on September 30, 2025 (7.9% as on March 31, 2025; gross stage 2 assets of 2.2% as on September 30, 2025) from the peak of 12.9% as on December 31, 2024. While this was largely driven by write-offs (Rs. 732 crore in H1 FY2026; Rs. 1,333 crore in FY2025), with limited recoveries thus far, incremental slippages also moderated in H1 FY2026. Further, Fusion has made sizeable provisions for its delinquent portfolio (92.2% and 70.0% on stage 3 and stage 2 assets respectively; total provision of 7.0% on overall portfolio as of September 2025), limiting the incremental impact on its financial profile from such accounts. Consequently, credit costs and resultant losses have been declining in recent quarters; ICRA expects this trend to continue. The company reported a net loss of Rs. 114 crore in H1 FY2026 (net loss of Rs. 22 crore in Q2 FY2026) vis-à-vis a net loss of Rs. 1,225 crore in FY2025 (Rs. 165 crore loss in Q4 FY2025). Nevertheless, the elevated cost structure, following the decline in the AUM in FY2025 and H1 FY2026, is expected to continue suppressing earnings in the near term.

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 partially 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 would be relevant for managing its operations and growth.

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 of its portfolio. Further, the lending is for loans with a tenure of around two 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.

Liquidity position: Adequate

As on September 30, 2025, the company held a free cash and bank balance and liquid investments of Rs. 892 crore. This, along with the scheduled collections (principal) of Rs. 2,417 crore, is sufficient to meet the scheduled debt repayments of Rs. 2,208 crore over the next six months, i.e. until March 31, 2026. Factoring in the scheduled collections from advances, the liquidity profile is expected to remain adequate to meet the scheduled debt obligations in a timely manner.

ICRA notes that Fusion was in continued breach of various financial covenants in respect of borrowings amounting to Rs. 2,077 crore as on September 30, 2025 (Rs. 4,763 crore as on March 31, 2025), making them repayable on demand. While the current liquidity profile is adequate, inability to obtain the requisite waivers as per the stipulated covenants or arrange fresh funding could lead to pressure on the liquidity profile; this remains a key monitorable. Fusion has obtained an extension from lenders for borrowings aggregating Rs. 1,331 crore as on September 30, 2025. Further, it has been able to raise fresh funding from various lenders despite the breach of covenants, albeit at higher costs amid prevalent stress in the microfinance industry.

Rating sensitivities

Positive factors – An increase in the scale of operations, along with continued improvement in the asset quality and profitability, while maintaining a prudent capitalisation profile on a sustained basis could positively impact the rating.

Negative factors – Pressure on the rating could arise if there is a significant deterioration in the asset quality, affecting the profitability on a sustained basis. The weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretched liquidity position could also exert pressure on the rating.

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	Standalone

About the company

Incorporated in 1994, Fusion Finance Limited started microfinance operations in 2010 and became a registered non-banking financial company-microfinance institution (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 for 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 ~10% of the total assets under management (AUM) as on September 30, 2025. As on September 30, 2025, Fusion had a presence in 491 districts across 22 states/UTs through 1,545 branches. It reported a net loss of Rs. 114 crore in H1 FY2026 on gross AUM of Rs. 7,038 crore as on September 30, 2025.

Key financial indicators (audited)

Fusion	FY2024	FY2025	H1 FY2026 [^]
Total income	2,412	2,387	878
Profit after tax	505	(1,225)	(114)
Total managed assets	13,302	10,012	8,192
Return on average managed assets	4.2%	-10.5%	-2.5%
Managed gearing (times)	3.4	4.4	2.9
Gross stage 3 assets	2.9%	7.9%	4.6%
CRAR	27.5%	22.4%	31.3%

Source: Company data, ICRA Research; All values and ratios are as per ICRA's calculations and estimates; Amount in Rs. crore; [^] As per limited review financials and data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2026)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Nov-27-2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
NCD programme	Long term	145	[ICRA]A-(Stable); withdrawn	Feb-21-2025	[ICRA]A-(Negative)	Jul-19-2023	[ICRA]A (Positive)	Apr-7-2022	[ICRA]A-(Stable)
				Nov-26-2024	[ICRA]A (Negative)	Jan-12-2024	[ICRA]A+ (Stable)	Apr-26-2022	[ICRA]A-(Stable)
				May-16-2024	[ICRA]A+ (Stable)	-	-	Dec-9-2022	[ICRA]A (Stable)
				-	-	-	-	Jan-27-2023	[ICRA]A (Stable)
NCD programme	Long term	-	-	Feb-21-2025	[ICRA]A-(Negative); withdrawn	Jul-19-2023	[ICRA]A (Positive)	Apr-7-2022	[ICRA]A-(Stable)
				Nov-26-2024	[ICRA]A (Negative)	Jan-12-2024	[ICRA]A+ (Stable)	Apr-26-2022	[ICRA]A-(Stable)
				May-16-2024	[ICRA]A+ (Stable)	-	-	Dec-9-2022	[ICRA]A (Stable)
				-	-	-	-	Jan-27-2023	[ICRA]A (Stable)
NCD programme	Long term	500	[ICRA]A-(Stable)	-	-	-	-	-	-
Subordinated debt	Long term	55	[ICRA]A-(Stable)	Feb-21-2025	[ICRA]A-(Negative)	Jul-19-2023	[ICRA]A (Positive)	Apr-7-2022	[ICRA]A-(Stable)

Instrument	Type	Current (FY2026)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Nov-27-2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
				Nov-26-2024	[ICRA]A (Negative)	Jan-12-2024	[ICRA]A+ (Stable)	Apr-26-2022	[ICRA]A- (Stable)
				May-16-2024	[ICRA]A+ (Stable)	-	-	Dec-9-2022	[ICRA]A (Stable)
				-	-	-	-	Jan-27-2023	[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
INE139R07431	NCD	May-04-2022	10.35%	May-04-2027	145.00	[ICRA]A- (Stable); withdrawn
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)
Yet to be issued	NCD	NA	NA	NA	500.00	[ICRA]A- (Stable); assigned

Annexure II: List of entities considered for consolidated analysis

Not applicable

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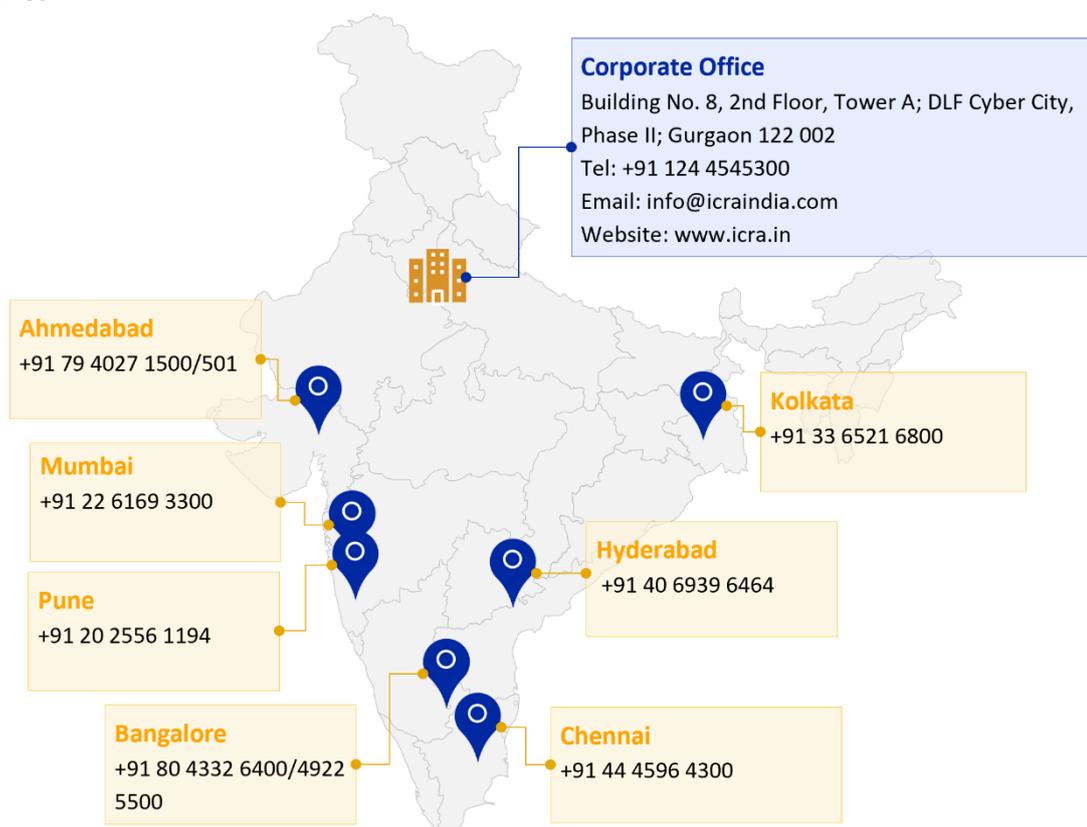


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