

March 16, 2020

Fusion Microfinance (Pvt.) Ltd.: Ratings upgraded for PTCs issued under 5 micro loan securitisation transactions

Summary of rating action

Sl.	Trust Name	Instrument*	Initial Amount (Rs. crore ¹)	Amount O/s during Previous Surveillance (Rs. crore)	Amount O/s after Dec-19 Payout (Rs. crore)	Rating Action
1.	Vivriti Slytherin 03 2019	PTC Series A1	40.37	NA	11.77	Rating upgraded from [ICRA]A(SO) to [ICRA]AA(SO)
		PTC Series A2	2.24	NA	2.24	Rating upgraded from [ICRA]BBB-(SO) to [ICRA]AA-(SO)
2.	Vivriti Ravenclaw 02 2019	PTC Series A1	34.30	NA	1.86	Rating upgraded from [ICRA]A-(SO) to [ICRA]AAA(SO)
		PTC Series A2	1.91	NA	1.91	Rating upgraded from [ICRA]BBB-(SO) to [ICRA]AA(SO)
3.	Northern Arc 2019 MFI Ross	PTC Series A1	39.11	NA	11.47	Rating upgraded from [ICRA]A+(SO) to [ICRA]AA(SO)
		PTC Series A2	2.01	NA	2.01	Rating upgraded from [ICRA]BBB+(SO) to [ICRA]AA-(SO)
4.	Northern Arc 2019 MFI Reznor	PTC Series A1	51.93	NA	7.87	Rating upgraded from [ICRA]A+(SO) to [ICRA]AA+(SO)
		PTC Series A2	3.27	NA	3.27	Rating upgraded from [ICRA]BBB+(SO) to [ICRA]AA(SO)
5.	Northern Arc 2019 MFI Torfa	PTC Series A1	49.52	NA	2.88	Rating upgraded from [ICRA]A(SO) to [ICRA]AAA(SO)
		PTC Series A2	2.78	NA	2.78	Rating upgraded from [ICRA]BBB(SO) to [ICRA]AA(SO)

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under five securitisation transactions originated by Fusion Microfinance (Pvt.) Ltd. (Fusion). The PTCs are backed by microloan receivables. The receivables have been assigned to the trusts at par and the trusts have issued PTCs backed by the same.

The rating upgrade is on account of the substantial amortisation of the pools and the strong cumulative collection efficiency observed in the transactions. The amortisation has led to a healthy build-up of cover from the outstanding credit enhancements to support the future PTC payouts.

¹ 100 lakh = 1 crore = 10 million

Pool performance summary (till December 2019 payout month)

Parameter	Slytherin	Ross	Ravenclaw	Reznor	Torfa
Months Post Securitisation	9	9	9	9	9
Pool Amortisation	63.76%	61.82%	85.11%	74.14%	83.69%
PTC Amortisation PTC A1	63.76%	61.82%	85.11%	74.14%	83.69%
Cumulative Collection Efficiency ²	99.06%	97.74%	99.15%	95.83%	98.99%
Loss-cum-0+ dpd ³ (% of initial pool)	1.55%	1.65%	0.94%	1.14%	1.30%
Loss-cum-90+ dpd (% of initial pool)	0.76%	0.89%	0.59%	0.69%	0.78%
0+ dpd ⁴ (% of balance pool)	2.77%	2.61%	2.35%	2.42%	3.77%
90+ dpd (% of balance pool)	1.10%	1.12%	0.84%	1.23%	1.65%
Cumulative Cash Collateral Utilisation	0.00%	0.00%	0.00%	0.00%	0.00%
Cumulative Prepayment Rate	5.10%	4.23%	14.01%	10.64%	13.87%
Breakeven Collection Efficiency ⁵ for PTC A1	52.85%	49.61%	<0%	28.30%	<0%
Breakeven Collection Efficiency PTC A1 + A2	66.42%	61.25%	31.85%	48.88%	25.04%
Cash Collateral (% of balance pool)	16.55%	14.41%	33.57%	21.27%	36.80%
Principal Subordination (% of balance pool) for PTC A1	27.59%	32.77%	67.20%	48.72%	68.25%
Principal Subordination (% of balance pool) for PTC A2	13.79%	20.98%	33.63%	27.40%	37.58%

A summary of the performance of the pools till December 2019 (payout month) has been tabulated below.

Key rating drivers

Credit strengths

- Moderate to high amortisation of PTCs, resulting in build-up of credit enhancement cover available for the balance PTC payouts
- No CC utilisation in any of the pools till date
- Cumulative collection efficiency of pools has remained above 95% after December 2019 payouts

Credit challenges

- Moderate geographical concentration of the contracts in the pools
- Performance of pools would remain exposed to natural calamities that may impact the income-generating capability of the borrower, given the marginal borrower profile; further, pool performance would be exposed to political and communal risks

² (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled Principal portion of contracts delinquent for more than 30 days, as a % of Balance Principal

⁵ (Balance Cash Flows payable to investor– Cash Collateral available)/ Balance Pool Cash Flows

Description of key rating drivers highlighted above

The pools have amortised considerably (above 60% for all the pools) after the December 2019 payouts. Thus, the CC (as a percentage of the balance PTC payouts) has built up in these transactions. For all transactions, the cumulative collection efficiency has been good (above 95% for all the pools) till December 2019, the payout month. There has not been any shortfall in the collections to meet the promised interest payouts in these transactions. Thus, there has not been any CC utilisation in these transactions till date.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to upgrade the ratings for these transactions. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securities (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected loss and prepayments during the balance tenure of the pools are given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1.	Vivriti Slytherin 03 2019	1.75-2.25%	6.00-10.00%
2.	Vivriti Ravenclaw 02 2019	1.75-2.25%	6.00-10.00%
3.	Northern Arc 2019 MFI Ross	0.75-1.25%	6.00-10.00%
4.	Northern Arc 2019 MFI Reznor	1.25-1.75%	6.00-10.00%
5.	Northern Arc 2019 MFI Torfa	0.75-1.25%	6.00-10.00%

Liquidity position

PTC series A1 for Vivriti Ravenclaw 02 2019 and Northern Arc 2019 MFI Torfa: Superior

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be highly comfortable to meet the promised payouts to the PTC Series A1 investors.

PTC series A1 for Vivriti Slytherin 03 2019, Northern Arc 2019 MFI Ross and Northern Arc 2019 MFI Reznor: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant

liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

PTC series A2 for Vivriti Slytherin 03 2019, Vivriti Ravenclaw 02 2019, Northern Arc 2019 MFI Ross, Northern Arc 2019 MFI Reznor and Northern Arc 2019 MFI Torfa: Strong

As per the transaction structure, after PTC series A1 is fully paid out, only the interest amount is promised to the PTC Series A2 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to meet the promised payouts to the PTC Series A2 investors.

Rating sensitivities

Positive triggers – A rating upgrade for the pools could occur on an increase in the cash collateral cover, which would be enough to cover all future investor payouts.

Negative triggers – A rating downgrade in the pools is unlikely to occur, given the limited residual tenor of the PTCs, unless there is a severe and immediate deterioration in the collection efficiencies of the pools.

Analytical approach

The rating actions are based on the performance of the pools till December 2019 (payout month), the present delinquency profile of the pool contracts, performance expected over the balance pool tenure, and the credit enhancement available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Fusion is a Delhi-based microfinance institution, which commenced operations in 2010. As on June 30, 2019, Fusion's operations were spread across 531 branches in 18 states. Fusion has a proven track record in the microfinance segment with a managed portfolio base of Rs. 2,801 crore as on June 30, 2019.

Bihar, Uttar Pradesh and Odisha accounted for 20%, 18% and 14%, respectively, of the portfolio as on June 30, 2019. Warburg Pincus acquired a significant minority stake in Fusion for Rs. 520 crore, of which Rs. 300 crore was in the form of a primary infusion in December 2018. Creation Investments also participated in the equity round and held a stake of 31.13% as on March 31, 2019.

Fusion has a diversified funding profile with around 56 lenders in its resource profile. While the company has been able to diversify its resource mix, it remains dependent on wholesale funding with private sector banks and NCDs accounting for 48% and 18% of its borrowings, respectively, as on June 30, 2019. In FY2019, the company returned to profitability after reporting losses in FY2018 with an RoE of 14.90% on account of a fall in credit costs to 0.85% in FY2019 from 5.23% in FY2018. The diversity in its earnings remains low with the company solely reliant on the microfinance segment.

As on June 30, 2019, Fusion's regulatory capital adequacy stood at 25.89% and its gross and net NPAs were 1.53% and 0.00%, respectively.

Key financial indicators (audited)

	FY2018	FY2019	Q1 FY2020 (provisional)
Net Interest Income	102.96	213.15	69.17
Profit before Tax	(53.60)	88.22	29.81
Profit after Tax	(39.41)	65.35	20.68
Gross Advances (on book)	1,322.69	2,341.83	2,547.83
Gross Advances (including off book)	1,555.60	2,641.39	2,800.85
Total Managed Assets	2,138.53	3,708.53	3,669.13
% Tier 1	15.14%	23.36%	22.30%
% CRAR	21.87%	27.33%	25.89%
Gearing (owned)*	6.31	4.29	4.02
% Net Profit / Average Managed Assets	-2.33%	2.25%	2.23%
% Return on Net Worth	-16.62%	14.85%	13.07%
% Gross NPA (owned)	3.98%	1.41%	1.53%
% Net NPA (owned)	0.00%	0.00%	0.00%
Net NPA / Net Worth	0.00%	0.00%	0.00%

**Gearing calculation includes interest accrued but not due in the numerator and the net worth excludes preference share capital, which is considered as debt*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

Name of Instrument	Type	Current Rating (FY 2020)			Chronology of Rating History for the Past 3 Years		
		Rated Amount	Amount Outstanding	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in 2018
				16-March-2020			
Vivriti Slytherin 03 2019	PTC Series A1	40.37	11.77	[ICRA]AA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-
	PTC Series A2	2.24	2.24	[ICRA]AA-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

Amount in Rs. crore

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		Rated Amount	Amount Outstanding	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in 2019	Date & Rating in 2018
				16-March-2020			
Vivriti Ravensclaw 02 2019	PTC Series A1	34.30	1.86	[ICRA]AAA(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-
	PTC Series A2	1.91	1.91	[ICRA]AA(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

Amount in Rs. crore

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		Rated Amount	Amount Outstanding	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in 2019	Date & Rating in 2018
				16-March-2020			
Northern Arc 2019 MFI Ross	PTC Series A1	39.11	11.47	[ICRA]AA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-
	PTC Series A2	2.01	2.01	[ICRA]AA-(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-

Amount in Rs. crore

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		Rated Amount	Amount Outstanding	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in 2019	Date & Rating in 2018
				16-March-2020			
Northern Arc 2019 MFI Reznor	PTC Series A1	51.93	7.87	[ICRA]AA+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-
	PTC Series A2	3.27	3.27	[ICRA]AA(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-

Amount in Rs. crore

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		Rated Amount	Amount Outstanding	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in 2019	Date & Rating in 2018
				16-March-2020			
					05-June-2019	02-April- 2019	-

Name of Instrument	Type	Current Rating (FY 2020)			Chronology of Rating History for the Past 3 Years			
		Rated Amount	Amount Outstanding	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in 2019	Date & Rating in 2018
				16-March-2020	05-June-2019	02-April- 2019		
Northern Arc 2019 MFI Torfa	PTC Series A1	49.52	2.88	[ICRA]AAA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
	PTC Series A2	2.78	2.78	[ICRA]AA(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate (p.a.)	Scheduled Maturity Date*	Rated Amount (Rs. crore)	Current Rating
1.	Vivriti Slytherin 03 2019	PTC Series A1	March 2019	9.35%	November 2020	11.77	[ICRA]AA(SO)
		PTC Series A2	March 2019	14.00%	November 2020	2.24	[ICRA]AA-(SO)
2.	Vivriti Ravenclaw 02 2019	PTC Series A1	March 2019	9.50%	October 2020	1.86	[ICRA]AAA(SO)
		PTC Series A2	March 2019	14.00%	October 2020	1.91	[ICRA]AA(SO)
3.	Northern Arc 2019 MFI Ross	PTC Series A1	March 2019	9.10%	January 2021	11.47	[ICRA]AA(SO)
		PTC Series A2	March 2019	15.50%	January 2021	2.01	[ICRA]AA-(SO)
4.	Northern Arc 2019 MFI Reznor	PTC Series A1	March 2019	9.25%	December 2020	7.87	[ICRA]AA+(SO)
		PTC Series A2	March 2019	14.50%	December 2020	3.27	[ICRA]AA(SO)
5.	Northern Arc 2019 MFI Torfa	PTC Series A1	March 2019	9.50%	January 2021	2.88	[ICRA]AAA(SO)
		PTC Series A2	March 2019	15.50%	January 2021	2.78	[ICRA]AA(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

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