Fusion Microfinance (Pvt.) Ltd.

August 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	537.10	537.10	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB(Stable)
Total	**537.10**	**537.10**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the rating of Rs. 537.10-crore non-convertible debenture (NCD) programme of Fusion Microfinance (Pvt.) Ltd. (FMPL)[1] to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB. The outlook on the long-term rating is Stable.

Rationale

The revision in rating factors in FMPL's ability to consistently grow its portfolio while diversifying geographically both at the state as well as the district levels, and maintain good capitalisation levels. The rating further considers improvement in the financial flexibility arising out of increasing number of lenders in the overall funding mix and improved loss-absorption capacity owing to the Rs. 75 crore-equity infusion in FY2018. ICRA has also noted the improvement in the asset quality with good collection efficiencies in the portfolio originated post demonetisation with 0+ dpd and 90+ dpd improving to 3.89% and 2.96%, respectively, as on June 30, 2018 from 30.40% and 12.14%, respectively, as on March 31, 2017. The rating continues to factor in FMPL's experienced management team, good loan origination systems and processes, which have helped the company expand its operations (total managed portfolio of Rs. 1,694 crore as on June 30, 2018 vis-à-vis Rs. 771 crore as on March 31, 2017), strong investor profile and a diversified funding profile, prudent capital management philosophy and an adequate liquidity profile. Going forward, the company's ability to maintain good collection in the portfolio originated post demonetisation, maintain prudent capitalisation profile and manage operational and political risks and improve profitability indicators will be important from the credit perspective.

Outlook: Stable

ICRA believes that FMPL will continue to benefit from the extensive experience of its promoter and senior management. The outlook may be revised to Positive if a substantial improvement in profitability and capitalisation strengthens the financial risk profile. The outlook may be revised to Negative in case of further slippages in the asset quality indicators and if increased credit costs weaken the solvency profile.

Key rating drivers

Credit strengths

Strong investor profile; regular capital infusion - FMPL's capitalisation profile improved after the company raised Rs. 75 crore from the current investors during December 2017-January 2018 to support its loss-absorption capacity. The

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

company’s on-book gearing stood at 6.23 times and net worth, as a percentage of the managed portfolio, stood at 17% as on March 31, 2018. ICRA notes that the company is in the process of raising Rs. 250 crore primary equity in the current financial year. Overall, the company’s ability to maintain healthy capitalisation levels will be important from the credit perspective.

Experienced and professional management team with good loan origination and risk management system - FMPL’s management team is well experienced and has scaled up the business with improved profitability over the past seven years. The company has digitised all its branches and conducts credit bureau checks and loan utilisation checks for all cases. This has enabled the company to report good asset quality indicators despite high pace of growth before demonetisation. As on June 30, 2018, the company operated through 391 branches with 3,465 staff members.

Diversified funding profile – As on June 30, 2018, the company had funding lines from 45 lenders with a mix of public and private sector banks, financial institutions and NCD funding. The cost of funds declined to 10.67% in FY2018 from 13.27% in FY2017 on account of a fall in interest rates and lower incremental cost of funds. The company also had unutilised funding lines of Rs. 90 crore as on March 31, 2018.

Credit challenges

Geographically diversified portfolio though share of top states remains high - FMPL’s portfolio grew to Rs. 1,694 crore as on June 30, 2018 from Rs. 771 crore as on March 31, 2017. FMPL started operations in Assam in Q1 FY2019 and was present in 15 states through 391 branches as on June 30, 2018. ICRA notes that FMPL’s portfolio, albeit geographically diversified, is exposed to concentration risks with the top 3 and top 5 states accounting for 56% and 77%, respectively, of the overall portfolio as on March 31, 2018 compared to 71% and 94%, respectively, as on March 31, 2016. FMPL’s top-5 and top-10 districts accounted for 72% and 117%, respectively, of its net worth as on June 30, 2018.

Improved asset quality indicators though marginal profile of borrowers an operational risk - FMPL’s overall asset quality indicators had deteriorated significantly post demonetisation with the 0+ dpd reaching a peak of 35.93% as on January 31, 2017. However, focussed collection efforts, which led to an improved collection efficiency and increased disbursements, resulted in the 0+ dpd improving to 3.89% (down from 30% in March 2017) and a 90+ dpd of 2.96% as on June 30, 2018 (down from 17% in March 2017). The net NPA stood at 0.00% as on June 30, 2018 as the company had a provision coverage of 100%. The company had raised Rs. 75 crore equity during December 2017-January 2018 to improve its loss-absorption capacity. While the asset quality indicators have been improving, the company’s ability to maintain the asset quality in the fresh disbursements and maintain field discipline will be important from the credit perspective.

Profitability impacted due to demonetisation related credit costs, improvement seen in Q1 FY2019 – The overall profitability indicators declined as FMPL reported a loss of Rs. 39 crore in FY2018 on account of an increased credit costs of 5.23% vis-à-vis 3.18% during FY2017. Return on Managed Assets (RoMA) and Return on Equity (RoE) declined to -2.33% and -16.52%, respectively, during FY2018 vis-à-vis 0.42% and 2.83%, respectively, during FY2017 (2.53% and 23.15%, respectively, during FY2016). However, the company reported a profit of Rs. 15.97 crore with RoMA and ROE of 2.99% and 24.04%, as per provisional Q1 FY2019 financials. The overall ability of the company to maintain good profitability indicators over cycles will be important from the credit perspective.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Rating Methodology for Non-Banking Finance Companies

About the company

Delhi-based FMPL is a microfinance institution that started operations in 2010. As on June 30, 2018, FMPL's operations were spread across 391 branches in 15 states. FMPL has a good track record of almost eight years in the microfinance segment with a managed portfolio base of Rs. 1,694 crore as on June 30, 2018. The three states of Bihar, Uttar Pradesh and Odisha accounted for 22%, 20% and 14%, respectively, of the portfolio as on March 31, 2018. While the company raised Rs. 75 crore recently, the increased provisioning requirement had offset its impact with net worth/managed advances of 17% as on March 31, 2018. FMPL is in the process of raising Rs. 250 crore equity in Q2 FY2019.

FMPL has a diversified funding profile with around 45 lenders. While the company has been able to diversify its resource mix, it remains dependent on wholesale funding with NCDs accounting for 29% of its borrowings as on June 30, 2018. During FY2018, the company reported weak profitability (RoE of -16.52%) on account of increased credit costs (5.23% of average managed assets), but it returned to profitability as per Q1 FY2019 provisional financials. The diversity in its earnings remains low with the company solely reliant on the microfinance segment.

FMPL reported a loss of Rs. 39.41 crore on managed assets of Rs. 2,139 crore in FY2018 compared to profit after tax (PAT) of Rs. 4.10 crore on managed assets of Rs. 1,239 crore in FY2017. FMPL reported a profit of Rs. 15.97 crore on a managed asset base of Rs. 2,063 crore during Q1 FY2019. FMPL's regulatory capital adequacy as on June 30, 2018 stood at 21.65% and its gross and net NPA (including managed portfolio) were 2.96% and 0.00%, respectively.

Key financial indicators (audited)

	FY 2017	FY 2018
Net Interest Income	73.95	102.96
Profit before Tax	4.82	(53.60)
Profit after Tax	4.10	(39.41)
Gross Advances (on book)	751.02	1,322.69
Gross Advances (including off book)	771.16	1,492.76
Total Managed Assets	1,238.57	2,138.53
% Tier 1	19.94%	15.14%
% CRAR	25.97%	24.36%
Gearing	4.35	6.23
% Net Profit / Average Managed Assets	0.42%	-2.33%
% Return on Net Worth	2.83%	-16.52%
% Gross NPA	0.38%*	3.51%
% Net NPA	0.15%*	0.00%
Net NPA / Net Worth	0.52%*	0.00%

Amounts in Rs. crore
Source: ICRA research and company
** With RBI dispensation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018		Date & Rating in FY2017				Date & Rating in FY2016	
					August 2018	August 2018	March 2018	May 2017	March 2017	September 2016	July 2016	June 2016	July 2015	April 2015
1	NCD	Long Term	68.00	**68.00**	**[ICRA] BBB+ (Stable)**	**[ICRA] BBB (Stable)**	-	-	-	-	-	-	-	-
2	NCD	Long Term	63.00	**63.00**	**[ICRA] BBB+ (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	-	-	-	-	-	-	-
3	NCD	Long Term	19.00	**19.00**	**[ICRA] BBB+ (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	-	-	-	-	-	-	-
4	NCD	Long Term	387.10	**387.10**	**[ICRA] BBB+ (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB (Stable)**	**[ICRA] BBB- (Stable)**

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE139R07209	NCD	7-Aug-2018	12.20%	7-Aug-2021	68.00	[ICRA]BBB+ (Stable)
INE139R07191	NCD	16-Mar-18	12.02%	16-Mar-24	63.00	[ICRA]BBB+ (Stable)
INE139R07183	NCD	15-Mar-18	12.30%	15-Mar-21	19.00	[ICRA]BBB+ (Stable)
INE139R07167	NCD	07-Jul-17	13.15%	07-Jul-20	32.50	[ICRA]BBB+ (Stable)
INE139R08017	NCD	15-Mar-17	13.85%	30-Mar-23	50.00	[ICRA]BBB+ (Stable)
INE139R07142	NCD	15-Sep-16	13.25%	15-Sep-25	55.00	[ICRA]BBB+ (Stable)
INE139R07134	NCD	31-Aug-16	13.60%	31-Aug-21	47.00	[ICRA]BBB+ (Stable)
INE139R07126	NCD	28-Jun-16	13.22%	13-Jul-19	61.00	[ICRA]BBB+ (Stable)
INE139R07118	NCD	02-Jun-16	14.15%	16-May-22	53.00	[ICRA]BBB+ (Stable)
INE139R07092	NCD	30-Jun-15	14.50%	13-Aug-20	42.60	[ICRA]BBB+ (Stable)
INE139R07100	NCD	30-Apr-15	14.85%	30-Apr-19	24.00	[ICRA]BBB+ (Stable)
INE139R07159	NCD	24-Dec-14	15.00% (13.00% after Put/ Call Option)	16-Dec-18	22.00	[ICRA]BBB+ (Stable)

Source: Fusion Microfinance (Pvt.) Ltd.

ANALYST CONTACTS

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

Supreeta Nijjar
+91 124 4545 324
supreetan@icraindia.com

Saagar Malhotra
+91 124 4545 308
saagar.malhotra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents