Fusion Microfinance (Pvt.) Ltd.

February 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	508.50	508.50	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Non-convertible Debenture Programme	64.60	0.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable) and Withdrawn
Total	**573.10**	**508.50**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating factors in Fusion Microfinance (Pvt.) Ltd.'s (FMPL) improved capitalisation profile and loss-absorption capacity following the recent primary infusion of Rs. 300 crore (total deal size of Rs. 520 crore) by Warburg Pincus (Creation Investments also participated in the secondary round), its ability to consistently grow its portfolio while diversifying geographically both at the state and the district levels and the improved profitability in 9M FY2019. 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 2.39% and 1.34%, respectively, as on December 31, 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. 2,359 crore as on December 31, 2018 vis-à-vis Rs. 771 crore as on March 31, 2017), strong investor profile, diversified funding profile, prudent capital management philosophy and adequate liquidity profile. Going forward, the company's ability to maintain good asset quality and a prudent capitalisation profile, manage the operational and political risks and improve the profitability indicators will be important from a 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

One of the largest MFIs in terms of asset base, geographically diversified portfolio - FMPL's portfolio grew to Rs. 2,359 crore as on December 31, 2018 from Rs. 1,556 crore as on March 31, 2018. The company started operations in Assam, Tamil Nadu, Puducherry and Gujarat in 9M FY2019 and was present in 18 states through 483 branches as on December 31, 2018. ICRA notes that FMPL has diversified its portfolio geographically with the share of the top 3 states reducing to 54% as on December 31, 2018 from 71% as on March 31, 2016. Even at the district level, the share of the top 5 and top 10 districts decreased to 10% and 17%, respectively, as on December 31, 2018 from 24% and 38%, respectively, as on March 31, 2016.

Strong investor profile; regular capital infusion – While the pace of growth has been higher than internal capital generation, FMPL has been able to raise external equity through various rounds of capital infusion with the latest infusion being Rs. 300 crore in December 2018 from Warburg Pincus. Warburg Pincus acquired a 43.56% stake and is now the largest shareholder in the microfinance institution (MFI) followed by Creation Investments, which holds 31.13%. The company's gearing stood at 3.54 times and net worth, as a percentage of the managed portfolio, stood at 26% as on December 31, 2018. Overall, the company intends to operate at leverage levels of below 5 times going forward as well. Given its strong investor profile and the demonstrated capital-raising ability, ICRA expects the company to be adequately capitalised going forward.

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 installed good systems with all the branches being digitised with credit bureau checks and loan utilisation checks being conducted in all cases. This enabled FMPL to report good asset quality indicators despite the high pace of growth before demonetisation. As on December 31, 2018, the company operated through 483 branches and 4,171 staff members.

Diversified funding profile although company remains dependent on wholesale funding sources – As on December 31, 2018, the company had funding lines from 50 lenders comprising a healthy mix of public and private sector banks, financial institutions and NCD funding. While funding remains diversified and FMPL was able to raise Rs. 1,239 crore in Q3 FY2019, it remains dependent on wholesale funding sources with bank and financial institution borrowings accounting for 67% of the outstanding borrowings as on December 31, 2018. The weighted average cost of funding improved marginally to 12.30% as on December 31, 2018 from 12.47% as on March 31, 2018 on the back of lower incremental funding cost.

Credit challenges

Monoline nature of operations; relatively risky target segment - FMPL's product diversification remains low being concentrated only in the microfinance segment. Also, the company's portfolio remains relatively risky being purely unsecured in nature. FMPL's ability to maintain the asset quality indicators through economic cycles remains a key rating sensitivity. Unsecured lending to the marginal borrower profile, and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political and operational risks, which could negatively impact the company's operations and thus its financial position. However, a geographically-diversified portfolio mitigates these risks to some extent as these issues are largely region-specific so far. FMPL's ability to on-board borrowers with good credit history, recruit and retain employees and maintain geographical diversity would be a key rating sensitivity.

Improved asset quality indicators though marginal profile of borrowers an operational risk – FMPL's overall asset quality indicators, though improving with 0+ dpd of 2.39% (down from 30.40% in March 2017) and 90+ dpd of 1.34% (down from 12.14% in March 2017) as on December 31, 2018, remain exposed to risks associated with the MFI business. The company's ability to maintain the asset quality in the new originations, as it diversifies geographically, and maintain field discipline will be important from a credit perspective.

Lack of diversity in earnings; profitability indicators improve in 9M FY2019 – As per 9M FY2019 provisional financials, FMPL reported PAT of Rs. 49.30 crore on a managed asset base of Rs. 2,994 crore with return on assets (RoA) and return on equity (RoE) of 2.53% and 15.26%, respectively. The overall profitability indicators improved after FMPL reported a loss of Rs. 39.41 crore in FY2018 on account of increased credit costs of 5.23% in FY2018 and 3.18% in FY2017. Credit costs normalised to 0.67% in 9M FY2019 as the company has fully provided for demonetisation related losses. FMPL's operating expenses remained stable at 5.54% in 9M FY2019 vis-à-vis 5.68% in FY2018. The overall ability of the company to maintain good profitability indicators over cycles and diversify its earnings by venturing into other products/asset classes will be important from a credit perspective.

Liquidity position

The company had adequate liquidity in the form of cash and liquid mutual fund balances to the tune of ~Rs. 492 crore and sanctioned but unutilised funding lines of ~Rs. 330 crore against liability maturities of Rs. 472 crore over the next six months as on December 31, 2018. Additionally, FMPL has inflows of Rs. 824 crore from loan maturities during the same period, assuming 100% collection. Although liquidity remains comfortable, the company's ability to raise funds at competitive rates on a regular basis to fund its growth plans would be critical.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer

About the company

FMPL is a Delhi-based microfinance institution, which started operations in 2010. As on December 31, 2018, FMPL's operations were spread across 483 branches in 18 states. The company has a proven track record in the microfinance segment with a managed portfolio base of Rs. 2,359 crore as on December 31, 2018. The three states of Bihar, Uttar Pradesh and Odisha accounted for 21%, 19% and 15%, respectively, of the portfolio as on December 31, 2018. Warburg Pincus acquired a significant minority stake in FMPL for Rs. 300 crore in the form of primary infusion in December 2018. The overall deal size was Rs. 520 crore with the existing investor Creation Investments also participating in the secondary round.

FMPL has a diversified funding profile comprising around 50 lenders. While the company has been able to diversify its resource mix over a period of time, it remains dependent on wholesale funding with NCDs accounting for 23% of its borrowings as on December 31, 2018. In 9M FY2019, the company returned to profitability after reporting losses in FY2018 with RoE of 15.26% on account of a fall in credit costs to 0.67% in 9M FY2019 from 5.23% in FY2018. The diversity in its earnings remains low with the company solely reliant on the microfinance segment.

As on December 31, 2018, FMPL's regulatory capital adequacy stood at 29.90% and its gross and net NPAs were 1.34% and 0.00%, respectively.

Key financial indicators (provisional)

	FY2018 (audited)	9M FY2019
Net Interest Income	102.96	150.23
Profit before Tax	(53.60)	68.21
Profit after Tax	(39.41)	49.30
Gross Advances (on book)	1,322.69	2,186.19
Gross Advances (including off book)	1,555.60	2,358.74
Total Managed Assets	2,138.53	3,055.06
% Tier 1	15.14%	25.11%
% CRAR	24.36%	29.90%
Gearing	6.31	3.54
% Net Profit / Average Managed Assets	-2.33%	2.53%
% Return on Net Worth	-16.62%	15.26%
% Gross NPA	3.51%	1.34%
% Net NPA	0.00%	0.00%
Net NPA / Net Worth	0.00%	0.00%

Amounts in Rs. crore
Source: ICRA research and company

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	
					February 2019	October 2018	September 2018	August 2018	August 2018	March 2018	May 2017	March 2017	September 2016	July 2016	June 2016	July 2015	April 2015
1	NCD	Long Term	508.50	508.50	[ICRA]A- (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)	[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
INE139R07225	NCD	22-Oct-18	12.20%	22-Oct-21	35.00	[ICRA]A- (Stable)
INE139R07217	NCD	27-Sep-18	12.50%	27-Sep-21	25.00	[ICRA]A- (Stable)
INE139R07209	NCD	7-Aug-18	12.20%	7-Aug-21	68.00	[ICRA]A- (Stable)
INE139R07191	NCD	16-Mar-18	12.02%	16-Mar-24	63.00	[ICRA]A- (Stable)
INE139R07183	NCD	15-Mar-18	12.30%	15-Mar-21	19.00	[ICRA]A- (Stable)
INE139R07167	NCD	07-Jul-17	13.15%	07-Jul-20	32.50	[ICRA]A- (Stable)
INE139R08017	NCD	15-Mar-17	13.85%	30-Mar-23	50.00	[ICRA]A- (Stable)
INE139R07142	NCD	15-Sep-16	13.25%	15-Sep-25	55.00	[ICRA]A- (Stable)
INE139R07134	NCD	31-Aug-16	13.60%	31-Aug-21	47.00	[ICRA]A- (Stable)
INE139R07126	NCD	28-Jun-16	13.22%	13-Jul-19	61.00	[ICRA]A- (Stable)
INE139R07118	NCD	02-Jun-16	14.15%	16-May-22	53.00	[ICRA]A- (Stable)
INE139R07092	NCD	30-Jun-15	14.50%	13-Aug-20	42.60	[ICRA]A- (Stable); withdrawn
INE139R07159	NCD	24-Dec-14	15.00% (13.00% after Put/ Call Option)	16-Dec-18	22.00	[ICRA]A- (Stable); withdrawn

Source: Fusion Microfinance (Pvt.) Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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