February 21, 2025

Fusion Finance Limited: Rating downgraded to [ICRA]A- (Negative); rating withdrawn for Rs. 35-crore NCD programme

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
NCD programme	145.00	145.00	[ICRA]A- (Negative); rating downgraded from [ICRA]A (Negative)
NCD programme	35.00	0.00	[ICRA]A- (Negative); rating downgraded from [ICRA]A (Negative) and withdrawn
Subordinated debt	55.00	55.00	[ICRA]A- (Negative); rating downgraded from [ICRA]A (Negative)
Total	**235.00**	**200.00**	

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

Rationale

The rating action factors in the continued deterioration in Fusion Finance Limited's (Fusion) asset quality and earnings profile. The company's gross stage 3 assets increased to 12.6% as of December 2024 from 9.4% as of September 2024 (2.9% as of March 2024) amid industry-wide stress in the asset quality. Consequently, the earnings profile was adversely impacted and Fusion continued to report losses for the third consecutive quarter. It reported a net loss of Rs. 719 crore in Q3 FY2025 (The management have estimated Q3 FY2025 loss to be Rs.380 crore basis normalized tax rate, as mentioned in the investor presentation*)*, a sharp increase from the losses of Rs. 305 crore and Rs. 36 crore in Q2 FY2025 and Q1 FY2025, respectively, resulting in an aggregate loss of Rs. 1,060 crore in 9M FY2025 vis-à-vis a net profit of Rs. 505 crore in FY2024. The deterioration in the asset quality was due to various industry wide factors including, but not limited to, adverse climatic conditions, attrition at the field level, worsening of credit discipline and overleveraging of borrowers. ICRA takes note of the corrective measures being taken by the company. Nonetheless, its ability to arrest further slippages and achieve recoveries from delinquent customers remains monitorable.

Further, given the deterioration in the asset quality and profitability, Fusion was in continued breach of various financial covenants (in respect of borrowings amounting to Rs. 5,288 crore) as on December 31, 2024 (Rs. 5,618 crore as on September 30, 2024), making these borrowings repayable on demand. As a result, the statutory auditor highlighted material uncertainty regarding the company's ability to continue as a going concern, though it has obtained an extension of less than 12 months from lenders for borrowings aggregating Rs. 4,145 crore as on December 31, 2024. While the liquidity profile is adequate at present, it could face pressure on the company's inability to obtain the requisite waivers.

The rating continues to factor in Fusion's established track record of operations with a presence in 22 states/Union Territories (UTs) as of December 2024. The company remains adequately capitalised with a net worth of Rs. 1,806 crore and a gearing (managed) of 4.7 times as on December 31, 2024, notwithstanding the deterioration from Rs. 2,523 crore and 3.9 times, respectively, as on September 30, 2024, in light of the losses incurred in 9M FY2025. It is in the process of raising equity capital via a rights issue of up to Rs. 800 crore (of which Rs. 400 crore is expected in March 2025), which shall help it maintain a prudent capitalisation profile while providing for the deterioration in the asset quality and the consequent losses.

ICRA has downgraded and simultaneously withdrawn the rating for the Rs. 35-crore non-convertible debenture (NCD) programme in accordance with its policy on the withdrawal of credit ratings as the instruments have matured and have been fully repaid.

The Negative outlook on the rating reflects ICRA's expectation of near-term pressure on the company's asset quality and profitability.

Key rating drivers and their description

Credit strengths

Established track record of operations – Commencing operations in 2010, Fusion is one of the largest microfinance companies in India with a presence in 22 states/UTs, catering to more than 36 lakh borrowers as on December 31, 2024. The company was operating through a network of 1,506 branches with assets under management (AUM) of Rs. 10,599 crore as on December 31, 2024. ICRA notes that disbursements declined in 9M FY2025 amid asset quality challenges and the implementation of tighter customer selection criteria. ICRA expects AUM growth to remain under pressure in Q4 FY2025. ICRA takes comfort from Fusion's track record of operations and expects a gradual improvement in disbursements in FY2026. Apart from microfinance, the company has a small share of micro, small and medium enterprise (MSME) loans, comprising ~6% of the AUM as on December 31, 2024.

Adequate capitalisation profile; capital raise planned in the near term – Fusion remains adequately capitalised with a net worth of Rs. 1,806 crore and a gearing (managed) of 4.7 times as on December 31, 2024, notwithstanding the deterioration from Rs. 2,523 crore and 3.9 times, respectively, as on September 30, 2024, in light of the losses incurred in 9M FY2025. The company's capital-to-risk weighted assets ratio (CRAR) of 22.2%, as on December 31, 2024 (24.4% as on September 30, 2024), was well above the regulatory requirement of 15%. Fusion is in the process of raising equity capital via a rights issue of up to Rs. 800 crore (of which Rs. 400 crore is expected in March 2025), which shall help it maintain a prudent capitalisation profile while providing for the deterioration in the asset quality and the consequent losses. ICRA takes note of the majority shareholder and the promoter's intent to continue supporting the company by participating in the upcoming round of equity infusion. Going forward, ICRA expects Fusion's capitalisation profile to remain adequate with the gearing (managed) staying below 5 times on a sustained basis.

Credit challenges

Continued deterioration in asset quality and profitability – The company reported a significant deterioration in its asset quality in 9M FY2025 with the gross stage 3 assets increasing to 12.6% as of December 2024 and 9.4% as of September 2024 from 2.9% as of March 2024. The delinquencies in the softer buckets (1-90 days past due) also increased to 7.2% as of December 2024 from 2.9% as of March 2024 (1.8% as of December 2023). This was due to various factors including, but not limited to, adverse climatic conditions, attrition at the field level, worsening of credit discipline and overleveraging of borrowers. Fusion has taken certain corrective measures such as tightening of customer selection criteria and strengthening of the collections, tele-calling and senior management teams. Further, the company has made sizeable provisions for its delinquent portfolio (87.8% on stage 3 assets; total provision of 16.4% on overall portfolio as of December 2024), limiting the incremental impact on its financial profile from such delinquent accounts. As a result, net stage 3 have improved to 1.7% as of December 2024 from 2.4% as of September 2024. Nevertheless, its ability to arrest further slippages and achieve recoveries from delinquent customers remains monitorable.

Given the deterioration in the asset quality and increase in write-offs and provisioning, the company's credit costs increased significantly to 17.0% (annualised) of average managed assets (AMA) in 9M FY2025 (17.9% (annualised) in Q3 FY2025; 15.2% in H1 FY2025) from 2.8% in FY2024. Fusion also had to reverse the deferred tax asset of Rs. 281 crore in Q3 FY2025, which impacted the profitability to some extent. This, along with the increase in operating expenses, has adversely impacted the earnings profile, resulting in a net loss of Rs. 1,060 crore in 9M FY2025 (net loss of Rs. 719 crore[1]in Q3 FY2025) vis-à-vis a net profit of Rs. 505 crore in FY2024. ICRA expects the asset quality and profitability to remain under pressure in the near term.

[1] *The management have estimated Q3 FY2025 loss to be Rs.380 crore basis normalized tax rate, as mentioned in the investor presentation*

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 further by penetrating in recently entered territories with nascent operations would help manage 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 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 December 31, 2024, the company held free cash, bank balances and liquid investments of Rs. 1,151 crore. This, along with the scheduled collections (principal) of Rs. 4,777 crore, is sufficient to meet the scheduled debt repayments of Rs. 3,804 crore over the next six months, i.e. until June 30, 2025. 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. Nevertheless, the company faces prepayment risk, given the possibility of debt acceleration due to the breach of covenants, including financial, operating and rating-linked covenants, which may result in a stressed liquidity profile. ICRA notes that Fusion is in the process of obtaining the requisite waivers from its lenders and has received waivers for 78% of the borrowings with the breaches; this remains a key monitorable.

Rating sensitivities

Positive factors – ICRA could revise the outlook if the company demonstrates a sustained improvement in its asset quality and profitability indicators while maintaining a prudent capitalisation profile.

Negative factors – The rating could be downgraded if there is no material improvement in the asset quality or profitability.

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

Analytical approach	Comments
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 6.0% of the total assets under management (AUM) as on December 31, 2024.

As on December 31, 2024, Fusion had a presence in 496 districts across 22 states/UTs through 1,506 MFI + MSME branches. It reported a net loss of Rs. 1,060 crore in 9M FY2025 on gross AUM of Rs. 10,599 crore as on December 31, 2024 vis-à-vis a net profit of Rs. 505 crore in FY2024 on gross AUM of Rs. 11,476 crore as on March 31, 2024.

Key financial indicators (audited)

Fusion	FY2023	FY2024	9M FY2025^
Total income	1,782	2,386	1,880
Profit after tax	387	505	(1,060)
Total managed assets	10,655	13,302	12,064
Return on average managed assets	4.1%	4.2%	-11.1%
Managed gearing (times)	3.4	3.4	4.7
Gross NPA/Stage 3	3.5%	2.9%	12.6%
CRAR	27.9%	27.5%	22.2%

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	Amount rated (Rs. crore)	Current (FY2025) Feb-21-2025	FY2025 Date	FY2025 Rating	FY2024 Date	FY2024 Rating	FY2023 Date	FY2023 Rating	FY2022 Date	FY2022 Rating
NCD programme	Long term	145.00	[ICRA]A- (Negative)	Nov-26-2024	[ICRA]A (Negative)	Jul-19-2023	[ICRA]A (Positive)	Apr-07-2022	[ICRA]A- (Stable)	Sep-21-2021	[ICRA]A- (Stable)
				May-16-2024	[ICRA]A+ (Stable)	Jan-12-2024	[ICRA]A+ (Stable)	Apr-26-2022	[ICRA]A- (Stable)	-	-
				-	-	-	-	Dec-09-2022	[ICRA]A (Stable)	-	-
				-	-	-	-	Jan-27-2023	[ICRA]A (Stable)	-	-
NCD programme	Long term	35.00	[ICRA]A- (Negative); withdrawn	Nov-26-2024	[ICRA]A (Negative)	Jul-19-2023	[ICRA]A (Positive)	Apr-07-2022	[ICRA]A- (Stable)	Sep-21-2021	[ICRA]A- (Stable)
				May-16-2024	[ICRA]A+ (Stable)	Jan-12-2024	[ICRA]A+ (Stable)	Apr-26-2022	[ICRA]A- (Stable)	-	-
				-	-	-	-	Dec-09-2022	[ICRA]A (Stable)	-	-
				-	-	-	-	Jan-27-2023	[ICRA]A (Stable)	-	-
Subordinated debt	Long term	55.00	[ICRA]A- (Negative)	Nov-26-2024	[ICRA]A (Negative)	Jul-19-2023	[ICRA]A (Positive)	Apr-07-2022	[ICRA]A- (Stable)	-	-
				May-16-2024	[ICRA]A+ (Stable)	Jan-12-2024	[ICRA]A+ (Stable)	Apr-26-2022	[ICRA]A- (Stable)	-	-
				-	-	-	-	Dec-09-2022	[ICRA]A (Stable)	-	-
				-	-	-	-	Jan-27-2023	[ICRA]A (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Non-convertible debentures	Very 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- (Negative)
INE139R08108	**Subordinated debt**	Mar-31-2022	13.00%	Jun-30-2027	25.00	[ICRA]A- (Negative)
INE139R08090	**Subordinated debt**	Mar-31-2022	12.11%	Sep-30-2027	30.00	[ICRA]A- (Negative)
INE139R08116	**NCD**	Apr-19-2022	11.04%	Dec-31-2024	35.00	[ICRA] A- (Negative); withdrawn

Annexure II: List of entities considered for consolidated analysis

Not applicable

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