Date: 26.08.2024

Letter No. FL/SEC/2024-25/SE-72

The Manager Listing Department National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block Bandra Kurla Complex, Bandra (E), Mumbai - 400 051	The Manager Listing Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai - 400 001
Scrip Code: FUSION	Scrip Code: 543652

Sub: Rating Reaffirmed by CRISIL: Announcement under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Ma'am,

In accordance with Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that CRISIL, the Credit Rating Agency, has revised the outlook of its credit rating on the Bank Loan Facilities of Fusion Finance Limited to **'CRISIL A+/Negative'**

Summary of Rating Action is as below:

Total Bank Loan Facilities Rated	Rs. 8000 Crore
Long Term Rating	CRISIL A+/Negative (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs. 50 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Copy of the Rating Rationale dated 26th August, 2024 received at 05:46 PM today, is enclosed herewith.

Request you to take the same on records.

Thanking you
For Fusion Finance Limited
(Formerly Fusion Micro Finance Limited)

DEEPAK MADAAN
Digitally signed by DEEPAK MADAAN
Date: 2024.08.26 22:40:24 +05'30'

Deepak Madaan
Company Secretary & Chief Compliance Officer
Membership No. A24811
Place: Gurugram

Rating Rationale

August 26, 2024 | Mumbai

Fusion Finance Limited

Rating outlook revised to 'Negative'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.8000 Crore**
Long Term Rating	**CRISIL A+/Negative (Outlook revised from 'Stable'; Rating Reaffirmed)**

Rs.50 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long term bank facilities of Fusion Finance Limited (Fusion – erstwhile Fusion Microfinance Limited) to '**Negative'** from 'Stable' while reaffirming the rating at **'CRISIL A+'.** Commercial paper has been reaffirmed at 'CRISIL A1+'**.**

The revision in outlook reflects an unanticipated deterioration in asset quality leading to a potential long term moderation on the company's steady state profitability. In Q1 2025, the company reported a loss of Rs 35.6 crore on account of incremental provisioning of Rs 207.5 crore done during the quarter. This includes pre-emptive provisioning of Rs 141.5 crore done against identified ~55000 stressed accounts across SMA buckets and another Rs 66 crore of provisions made due to change in ECL model. The ~55000 accounts, identified as stressed by the company, are likely to become NPAs in the near term owing to over leveraging at ground level. Most of these customers have been classified as non-performing assets (NPAs) with other lenders. While this provisioning was done in advance of these accounts becoming NPA, it led to an increase in annualized credit cost to 10.5% in Q1FY25 as against 3.1% in fiscal 2024 and 2.2% in fiscal 2023. With this proactive provisioning already being made for the identified stressed portfolio, the provisioning requirement for incremental slippages to NPA is expected to be lower. However, in context of increased indebtedness of the identified borrowers, further slippages beyond this identified portfolio in the near term and the impact of provisioning requirement stemming from this – on the overall profitability, will remain a key monitorable.

The ratings continue to reflect the established market position of Fusion with regional diversification in portfolio and healthy capitalisation. These strengths are partially offset by inherently modest credit profile of borrowers leading to unanticipated moderation in asset quality and profitability and potential risk from local socio-political issues in the microfinance sector.

Fusion is among the top five microfinance institutions (MFIs) in India, with its assets under management (AUM) of Rs 12,193 crore as on June 30, 2024. Over fiscal 2024, AUM witnessed a growth of 23% year-on-year and stood at Rs 11,476 crore as of March 31, 2024 (Rs 9,296 crore as of March 31, 2023). Its overall 90+ days past due (dpd; as a percentage of overall AUM) increased to 5.3% (adjusted for proactive classification of overdue accounts as NPA, without the adjustment – this would have been 3.5%) as on June 30, 2024, from 2.9% as on March 31, 2024. The company has proactively classified a portfolio of Rs 221 crore (1.8% of the AUM as of June 30, 2024) pertaining to ~55,000 customers, currently in Stage 1 and Stage 2, as Stage 3. As of June 30, 2024, these identified stressed accounts were in overdue bucket (not necessarily NPA) of Fusion however, as per the company's understanding – have been classified as NPA by other lenders. CRISIL Ratings also notes that Fusion has not sold any portfolio to asset reconstruction companies (ARCs) but has written off Rs 58 crore in Q1 FY25 and Rs 319 crore in fiscal 2024.

The collection efficiency for this identified stressed pool was 25% for July 2024. Earlier as well, the company faced some recovery challenges in a few northern states (mainly Punjab and Haryana) due to 'Karz Mukti Abhiyan' that resulted in collection efficiency in states such as Punjab falling to 75% during the fourth quarter of fiscal 2024. The overall collection efficiency has ranged within 95-97% during the past 4-5 quarters.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of Fusion.

Key Rating Drivers & Detailed Description

Strengths:

Established market position and track record with regionally diversified presence

Incorporated in 2010, Fusion has an established track record of operations across business cycles, including landmark challenges such as demonetisation and the Covid-19 pandemic. Fusion's AUM stood at Rs 12,193 crore as on June 30, 2024, having grown from Rs 11,476 crore as of March 31, 2024 (Rs 9296 crore in March 31, 2023). Its market position is supported by geographical diversity in the loan portfolio which has increased over time, with highest exposure to a state at 23.6% (Uttar Pradesh) as of June 30, 2024. On the same date, the exposure to the top three states was 54.7% (Uttar Pradesh, Bihar and Odisha) of the overall AUM. The company benefits from its large network of 1303 MFI branches and 95 SME branches in over 470 districts across 22 states, with a strong focus on rural and semi-urban areas. In light of recent ground level stress levying pressure on asset quality, the company has stopped disbursements in 104 branches and has calibrated its growth strategy in certain states which are exhibiting lower collection efficiency. However, its impact on growth is expected to be moderate in the medium to long term.

Healthy capitalisation

Fusion has maintained healthy capital position backed by steady accretion. While networth, at Rs 2819 crore as of June 30, 2024, has declined from Rs 2848.15 crore as of March 31, 2024 on account of negative accrual in Q1 2025, tier I and overall capital adequacy ratio remains comfortable at 24.71% and 25.86%, respectively, on June 30, 2024. Adjacently, gearing has remained range bound at 3.2x as of June 30, 2024 from 3.0x as a quarter ago. Net-worth was Rs 2,322 crore and gearing 2.9 times as on March 2023. The company had cumulative accretion of Rs 892 crore in the past two fiscals, which strengthened the capital position, thus providing room for growth. Nevertheless, the ability of the company to maintain its gearing and capital adequacy metrics and, to restore its internal accruals to adequate levels, while growing the portfolio will remain key monitorable.

Weaknesses:

Inherently modest credit profiles of borrowers leading to unanticipated moderation in asset quality and profitability

A significant portion of the portfolio comprises microfinance loans to clients with below-average credit risk profiles and lack of access to formal credit. Typical borrowers are cattle owners, vegetable vendors, tailors, tea shops, provision stores and small fabrication units. The income flow of these borrowers could be volatile and depends on the local economy — any economic slowdown could lead to potential pressure on cash flow at the household level, thereby restricting repayment capability.

The asset quality of Fusion, after improving over fiscal 2024, has unexpectedly deteriorated to GNPA level of 5.46% from 2.89%, a quarter ago. In Q1 2025, the company identified ~55000 accounts in its overdue bucket which it has proactively classified as Stage 3 assets basis its assessment of high probability of default from these customers. The loan portfolio corresponding to this identified stressed pool was Rs 221 crore and against this, the company has made advanced provisioning of Rs 141.5 crore in the quarter. With this, the annualized credit costs for Q1 2025 have surged to 10.5% as compared to 3.1% for fiscal 2024 and 2.2% for fiscal 2023 – leading to a quarterly loss of Rs 35.6 crore as against a profit of Rs 120.5 crore for the corresponding quarter of the previous fiscal.

The pool of accounts identified as stressed and proactively classified under SMA 3 bucket, pertains to customers who – though not NPA with Fusion, have been classified as NPA by other lenders in Q1 2025 and the primary reason for the same is pointing to over indebtedness. As per the company, these borrowers were eligible for loans basis the company's policy on indebtedness and lender cap at the time of on-boarding. Subsequently, towards the end of Q1 2025, Fusion ran a comprehensive check of the indebtedness and credit performance of its borrowers– as a regular monitoring exercise and found the debt obligation per customer to have increased significantly which constrained their ability to repay to lenders. As of June 2024, these customers are in SMA 0, 1, 2 bucket with Fusion; however, have high probability of slipping into NPA in the next two quarters. Thus, as a precautionary step, the company has done pre-emptive provisioning of Rs 141.5 crore for these customers. Additionally, Rs 66 crore worth of provisions were created due to change in ECL model. These impacts have caused the annualized credit cost to spike to 10.5% in Q1FY25 from 3.1% in fiscal 2024.

With this surge in credit costs, the company reported a loss of Rs 35.6 crore in Q1 2025 even though its pre-provisioning profitability was at 9% (annualised) and has remained above 7% in the past two fiscals. With this proactive provisioning already being made for the identified stressed portfolio, the provisioning requirement for incremental slippages to NPA is expected to be lower. However, in context of increased indebtedness of the identified borrowers, incremental slippages in the near term beyond the identified portfolio, and the impact of provisioning requirement stemming from this – on the overall profitability, will remain a key monitorable.

Potential risk from local socio-political issues in the microfinance sector

In the past, the microfinance sector has witnessed various events over the years, including regulatory and legislative challenges that have disrupted operations. Some of these events include the Andhra crisis, demonetisation in 2016, Covid-19, and socio-political issues specific to certain states. These events have adversely affected the sector, elevating delinquencies and hurting the profitability and capitalisation metrics of NBFC-MFIs. These challenges underscore the vulnerability of the microfinance business model to external risks. Covid-19, in particular, introduced new challenges, aggravating existing vulnerabilities in the microfinance sector by heightening credit risks and the likelihood of loan default by borrowers.

While the sector has navigated these happenings, it remains susceptible to issues, including local elections, natural calamities, and borrower protests, which may increase delinquencies for a while. MFIs remain vulnerable to socially sensitive factors and the macroeconomic scenario.

Liquidity: Strong

Fusion has a comfortable asset-liability management (ALM) profile, with cumulative positive mismatches across all buckets up to one year as on June 30, 2024. The company had cash and equivalents of Rs 1175 crore as on July 31, 2024 and the unutilised bank lines stood at ~Rs 2100 crore as on the same date. In fiscal 2024, the company raised about Rs 8,814 crore through term loans, non-convertible debentures, and direct assignment. Incrementally, they have raised about Rs 2,823 crore from April'24 to July'24.

Outlook: Negative

CRISIL Ratings believes that continued pressure on the company's asset quality can result in lower steady state profitability, thereby constraining its ability to sustain its capital position through internal accruals.

Rating Sensitivity Factors

Upward Factors

- Increase in scale of operations while maintaining asset quality
- Sustained profitability (RoMA above 4%) while maintaining adjusted gearing below 3 times

Downward Factors

- Sustained deterioration in asset quality or/ and earnings profile.
- Moderation in capital position – evidenced by adjusted gearing increasing to and remaining above 5 times commensurate with a decline in tier I capital adequacy ratio to below 18%

About the Company

Fusion was incorporated in 1994 as Ambience Fincap Pvt Ltd and later in 2009 was takeover by Mr. Devesh Sachdev and changed name to Fusion Microfinance, now renamed as Fusion Finance. Fusion started operations as a non-deposit-accepting non-banking financial company in 2010 and was converted into an MFI on January 28, 2014. The company provides financial services to poor women and predominantly follows the joint-liability group model, wherein each group has 5-7 members. The loans are provided mainly for agricultural and allied activities, business activities, and establishment and expansion of micro enterprises. As on March 31, 2024, the company had a network of 1,303 MFI branches and 95 SME branches in over 470 districts across 22 states, with a strong focus on rural and semi-urban areas.

Promoted by Mr Devesh Sachdev, the company has attracted high-pedigree domestic and global investors over the years. After capital infusion in fiscal 2019 and the third quarter of fiscal 2020, Warburg Pincus (through Honey Rose Investment Ltd) acquired a 48.6% stake in Fusion, becoming the largest shareholder. This marked the exit of Belgian Investment Company (Belgian), NMI Frontier (NMI), RIF North II (RIF) and Small Industries Development Bank of India (SIDBI) from the investor group and reduction in the stakes held by Global Financial Inclusion Fund (Global Financial), Creation Investments and Oikocredit. Post the recent IPO, Warburg Pincus remains the majority shareholder along with the exit of Global Financial and Oikocredit

Key Financial Indicators

Particulars as on	Unit	June 2024	March 2024	March 2023	March 2022
		Actual	Actual	Actual	Actual
AUM (IGAAP)	Rs crore	12,193	11,476	9,296	6,786
Total income	Rs crore	707	2,412	1800	1,201
Profit after tax (PAT)	Rs crore	-35.6	505	387	22
RoMA*	%	-1.1	4.3	4.3	0.3
GNPA (Stage 3)	%	5.5	2.9	3.5	5.7
Adjusted gearing (including off book assets)	Times	3.7	3.4	3.3	4.8

**on an annualized basis*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale