Date: 28.12.2022

Letter No. FMFL/SEC/2022-23/SE-89

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: UPGRADE IN CREDIT RATING – ANNOUNCEMENT UNDER REGULATION 30 OF THE 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 CARE Ratings Limited, the Credit Rating Agency, has upgraded its rating on the Long-Term Bank Facilities and Long-Term Instruments of Fusion Micro Finance Limited to **'CARE A; Stable (Single A; Outlook: Stable)'** from 'CARE A-; Stable (Single A Minus; Outlook: Stable)'.

Summary of Rating Action is as below:

Facilities/Instruments	Amount (₹ crore)	Rating	Rating Action
Long-term bank facilities	1,500.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long-term instruments	30.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)

A copy of the Credit Rating Rationale, as received from CARE Ratings Limited, is enclosed herewith.

Request you to take the same on records.

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

DEEPAK MADAAN
Digitally signed by DEEPAK MADAAN
Date: 2022.12.28 16:24:30 +05'30'

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

Fusion Micro Finance Limited

December 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,500.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total bank facilities	**1,500.00 (₹ One thousand five hundred crore only)**		
Long-term instruments	30.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total Long-term instruments	**30.00 (₹ Thirty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The upgrade of the rating assigned to various instruments of Fusion Micro Finance Limited (Fusion) is driven by substantial increase in the company's capital base as it came up with its IPO issue in the month of November 2022 through which it raised fresh equity capital of ₹600 crore while ₹504 crore were through offer for sale and continuous improvement in its asset base. The rating continues to factor in the company's established track record of operations of over a decade, its strong market presence in northern and eastern region of India, diversified resource base with availability of funds at competitive rates and adequate liquidity position. The rating also derives strength from the experienced management team, satisfactory risk management and internal control systems and management information systems in place for FMFL.

However, these rating strengths are partially offset by moderate though improving asset quality, inherent risks involved in the microfinance industry including unsecured lending, marginal profile of borrowers, socio-political intervention risk, regulatory uncertainty and its unforeseen impact in certain geographies that could adversely impact credit profile of micro finance companies including that of FMFL.

Rating sensitivities

Positive factors – Factors that could individually or collectively lead to positive rating action/upgrade:

- Significant increase in scale of operations in a sustainable and profitable manner
- Significant improvement in geographical diversification

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Weakness in capitalisation profile with gearing rising above 5x
- Decline in asset quality with Net stress assets to net worth ratio increasing above 30%
- Weakness in profitability with return on total assets (RoTA) below 2.5% on continuous basis.

Detailed description of the key rating drivers

Key rating strengths

Healthy capitalization supported by equity infusion and strong investor base:

In the month of November 2022, FMFL has completed raising capital through its IPO with fresh issuance of ₹600 crore and ₹504 crore from offer for sale from the existing shareholders. With the capital infusion, the net worth of the company is expected to be more than ₹2,000 crore. As on September 30, 2022, the tangible net worth stands at ₹1,443 crore with gearing of 4.5x as compared to the tangible net worth of ₹1,251 crore and gearing of 4.6x as on March 31, 2022.

The capitalization profile has moderated to 20.97% as on September 30, 2022 as compared to 27.26% as on March 31, 2022 due to substantial loan book growth. With the capital infusion, capitalization position is expected to strengthen.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improving profitability:
The operating profitability of the company has shown improvement in last two years. The CARE calculated Net interest margins (NIMs) stood at 9.08% in fiscal 2021 and 8.77% in fiscal 2022. However, despite high credit cost of 4.43% in fiscal 2021 and 5.69% in fiscal 2022, the company was able to report profits with RoTA of 0.8% in fiscal 2021 and 0.3% in fiscal 2022.
During H1 FY2023, with the improved cost of funds of 9.7%, the NIMs of the company improved to 11.1%, combined with controlled credit cost of 2.1%, the RoTA has increased to 4.4% (annualized) as on September 30, 2022. Going forward, CARE Ratings Limited (CARE Ratings) expects the company's profitability to strengthen further with the improvement in asset quality and implementation of risk-based pricing under MFI guidelines.

Established track record of operations of over a decade with experienced management team:
Having started operations as micro finance institution in 2010, FMFL has completed over a decade in the microfinance industry. With average tenure of microfinance loans of two years, the product profile is well seasoned. The asset under management (AUM) of FMFL stood at ₹6,786 crore as on March 31, 2022 with 46% YOY growth, and 37% three years compounded annual growth rate (CAGR). The AUM has further scaled up to ₹8,047 crore, up by 19% Y-o-Y as on September 30, 2022. FMFL's majority portfolio is owned (91% of AUM as on September 30, 2022), remaining being in the form of direct assignments.
FMFL has presence in 19 states in India. Credit concentration remains high with majority proportion in Bihar, Uttar Pradesh (UP) and Odisha aggregating 50.6% of AUM as on September 30, 2022 (282% of net worth), though improved from 55.7% of AUM (327.5% of net worth) as on March 31, 2018.

Experienced promoters and management team:
FMFL is promoted by Devesh Sachdev, a first-generation entrepreneur who is currently Managing Director and Chief Executive Officer (MD & CEO) of the company and has over two decades of experience in the service industry. The company is backed by marquee of private equity investors, namely, Warburg Pincus (WP) through Honey Rose Investments Limited and Creation Investments Capital Management (Creation Investments). WP, through Honey Rose Investments Limited has been majority stakeholder in FMFL over the years with 48.6% stake followed by Creation Investments with 30.0% stake as on September 30, 2022. However, post IPO, their shareholding has reduced to 39.4% and 23.7% respectively. Furthermore, two of the existing investors, namely, Oikocredit International and Global Financial Inclusion Fund have exited from the company.
The board of FMFL has two nominee directors, three independent directors along with MD & CEO. Nominee directors include Kenneth Dan Vander Weele from Creation Investments and Narendra Ostawal from WP India Private Limited. Vander Weele is the Chief Investment Officer of Creation Investments. He is a founding board member Creation Investments Social Ventures Fund I. Narendra Ostawal leads investment evaluation in the financial services sector for WP India and was associated with various investments of the WP group.

Diversified resource base:
FMFL has diversified resource profile with availability of funds at competitive rates. Its resource profile has good mix of public sector banks, foreign banks, private sector banks, financial institutions (FIs), subordinate debt and non-convertible debentures (NCDs). Term loans from banks and FIs, constitute nearly 77.4% of its borrowings as on September 30, 2022 (vs. 70.4% of borrowings as on September 31, 2021), remaining being NCD (9.01%), subordinate debt (2.2%), external commercial borrowings (1.1%). Also, FMFL had an off-balance sheet portfolio of ₹744 crore comprising Direct Assignment, 10.2% of total borrowings as on September 30, 2022, up from 6.3% as on September 30, 2021. The cost of funds (CARE Ratings' calculation) for FMFL, has improved in FY22 to 9.7% from 10.1% in FY21 amidst declining interest rate environment during the last year.

Key rating weaknesses

Moderate asset quality:
FMFL has been able to maintain asset quality at a comfortable level over the years. However, owing to challenging operating environment amidst COVID-19-induced disruption, the company has reported increase in GNPA ratio to 5.7% as on March 31, 2022 from 1.1% as on March 31, 2020 due to significant increase in slippages. However, as on September 30, 2022, the asset quality improved with GNPA ratio of 3.8%, due to significant write offs (2.5% of opening gross loans in H1FY23 as compared to 0.9% in FY21 and 1.3% in FY20 respectively).
Half year ending September 2022, FMFL restructured portfolio stood at ₹37 crore which forms 0.5% of gross advances as on September 30, 2022 as compared to ₹110 crore (1.7%) as on March 31, 2022 and ₹129 crore (2.8%) as on September 30, 2021.
As on March 31, 2022, the Net NPA (NNPA)% (CARE Ratings' calculation) stood at 1.7% as on March 31, 2022 improved from 2.3% as on March 31, 2021. The NNPA has further improved to 1.12% as on September 30, 2022. The asset quality of FMFL

remains a key monitorable, given the fact that it caters to a customer segment with an inherently weaker credit profile and those who are more susceptible to economic vulnerabilities and socio-political risks.

Inherent industry risks:
The microfinance sector continues to be impacted by the inherent risk involved viz. socio-political intervention risk and regulatory uncertainty and risks emanating from unsecured lending and marginal profile of borrowers who are vulnerable to economic downturns besides operational risks related to cash based transaction.

Liquidity: Adequate

The company has a favorable liquidity position given most of the borrowings are for longer tenure repayable over 2-9 years as against shorter tenure of its advances viz. microfinance loans of 17-25 months. As per asset liability mismatch statement as on September 30, 2022, FMFL has no negative cumulative mismatches in any time bucket. As on September 30, 2022, it has liquidity of Rs. 918.32 crore in form of cash in hand, bank balance and unpledged fixed deposits. Over next six months, company has total debt repayments of Rs. 1,894 crore (principal portion) while company expects Rs. 2,307 crore as repayment from loan book.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company

FMFL was originally incorporated as Ambience Fincap Private Limited (AFPL) in September 05, 1994. The company is registered with Reserve Bank of India as a non-deposit accepting, systemically important non-banking financial company in 2010. In July 2021, the company registered itself again as FMFL as it converted itself to public company from private company. FMFL provides loans to the female individual members in a group (joint liability group (JLG)), with each group consisting of 3-5 members. The loans provided to individuals are based on the mutual guarantee from members. It lends to JLG borrowers at 19.15%-22.95% interest rate (on a reducing balance) for a period of 17 to 25 months with a repayment frequency of 14/28 days. As on September 30, 2022, the company operates in 19 states with AUM of ₹ 8,047 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1 FY 2023 (UA)
Total operating income	873.09	1,201.35	812.77
PAT	43.94	21.76	170.16
Interest coverage (times)	1.15	1.05	1.75
Total Assets*	5,761.22	7,203.65	8,218.92
Net NPA^ (%)	2.28	1.71	1.12
ROTA (%)	0.88	0.34	4.41

A: Audited; UA: unaudited
*excludes Deferred tax assets and intangible assets
^CARE calculated

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Subordinate Debt		March 31, 2018	13.90%	September 29, 2023	30.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	September 27, 2025	1500.00	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	1500.00	CARE A; Stable	-	1)CARE A-; Stable (21-Jan-22) 2)CARE A-; Stable (03-Sep-21)	1)CARE A-; Stable (25-Jan-21) 2)CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20) 2)CARE A-; Stable (04-Apr-19)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (25-Jan-21) 2)CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)
3	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (03-Sep-21)	1)CARE A-; Stable (25-Jan-21) 2)CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20) 2)CARE A-; Stable (04-Apr-19)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (25-Jan-21) 2)CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)
5	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (21-Jan-22)	1)CARE PP MLD A-; Stable (25-Jan-21) 2)CARE PP MLD A-; Stable (07-May-20)	1)CARE PP MLD A-; Positive (23-Jan-20)
6	Debt-Subordinate Debt	LT	30.00	CARE A; Stable	-	1)CARE A-; Stable (21-Jan-22)	1)CARE A-; Stable (25-Jan-21) 2)CARE A-; Stable (07-May-20)	1)CARE A-; Positive (23-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Capital adequacy ratio	Should be more than 15%
II. Gross NPA	Should be less than 5%
III. Debt equity ratio	Should be less than 6x

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debt-Subordinate Debt	Complex
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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