JM FINANCIAL

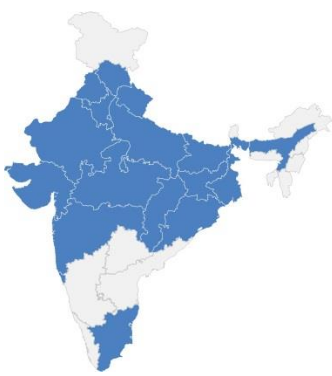
Fusion Micro Finance

Set to take off

2nd largest NBFC-MFI; Well diversified

Positioned to capitalise on sectoral tailwinds

Valuation inexpensive; Initiate with BUY & TP of INR 550



Fusion Micro Finance Limited (Fusion) was founded in 2010 with the core idea of creating opportunities at the bottom of the pyramid, and it does so by providing financial services to unserved and underserved women in rural and peri-rural areas across India. Since inception, Fusion has prioritised organic geographic expansion with a focus on strategic management of state concentration risk by expanding into underpenetrated rural areas.

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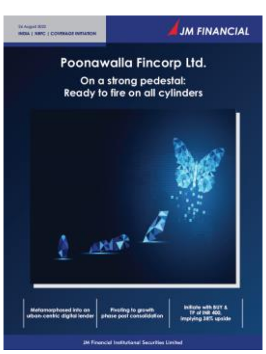

[Poonawalla Fincorp]

[CreditAccess Grameen]

[Yes Bank]

[Bajaj Finance - App deep dive]

[NBFC - Borrowings appetite - not bothersome yet]

Fusion Micro Finance

Set to take off

Fusion Micro Finance (Fusion), India's 2nd largest NBFC-MFI, has built a diversified microfinance franchise over the past few years with presence across 19 states and 390 districts (as of Sep'22). Since inception, Fusion has prioritised organic geographic expansion with a focus on strategic management of state concentration risk by expanding into underpenetrated rural areas. This has enabled Fusion to deliver a 51% CAGR in AUM over FY17-1HFY23 and 39% CAGR in total borrowers over the same period.

In our view, Fusion is set to benefit from cyclical tailwinds in the sector as it exits turbulence caused by Covid-19 over the past couple of years and NBFC-MFI as a class see expansion of market share vs. banks. Fusion's stable management, focus on technology with respect to driving efficiencies and ability to grow borrower base faster than peers should hold the company in good stead as the sector enters a sweet spot w.r.t. growth and asset quality. Fusion's performance in relation to outstanding restructured assets, write-offs have been relatively better than peers (Exhibit 31) and we expect the same to sustain given its stringent underwriting practices.

Fusion trades at attractive valuation of 1.4x FY24E BVPS and 7.5x FY24E EPS in wake of 4.5%/4.7% RoA for FY24E/FY25E and 21.3%/22.9% RoE for FY24E/FY25E and earnings CAGR of 41% over FY23-25E. We initiate coverage with a BUY rating and a target price of INR 550 valuing it at 1.75x Dec'24 BVPS and 8.5x Dec'24 EPS.

2nd largest NBFC-MFI with a diversified presence; AUM to grow at 30% CAGR over FY22-25E: Fusion's extensive geographic presence and focus on organic diversification has enabled it to deliver sustained growth over the last few years (AUM CAGR of 51% over FY17-1HFY23). Fusion's network has expanded from 12 states and 264 branches in FY17 to 19 states and 1,031 branches in 1HFY23. Fusion has established a strong presence in states like Bihar, Uttar Pradesh, Odisha, Madhya Pradesh and Rajasthan which are significantly underpenetrated and provide huge potential for growth and expansion of borrower base. Going forward, we expect Fusion's AUM to grow at a CAGR of 30% over FY22-25E driven by a) improving on-ground conditions, b) deepening rural presence and c) expansion of branch network.

Well-placed on asset quality and risk metrics; strong capital position: In 1HFY23, we have seen GNPAs/NNPAs/restructuring improve to 3.8%/1.1%/0.5% (vs 5.7%/1.6%/1.6% in FY22). Credit costs were elevated at 7.2% in FY22 on account of residual impact of Covid-19 and it has moderated to 2.5% (annualised) in 1HFY23. Management plans to build a provision buffer of 2.5-3% over the next 2 to 3 years to further strengthen their balance sheet. We build in avg. credit costs of 1.9% over FY23-25E. Fusion has a strong capitalisation profile (CRAR of 21% as of Sep'22) and is expected to increase to 27-30% post the recent capital raise which should support its growth plans. Further, Fusion benefits from a large and diversified mix of lenders (56 as of Jun'22) and recent credit rating upgrades should keep cost of borrowing under control.

Return metrics set to expand; valuation attractive given sectoral tailwinds: We expect the return metrics to improve from here on driven by a) NIMs expansion (NIMs at11.4-11.5% in FY24E/25E (+c.150bps from FY22 levels)), b) credit costs normalisation and c) strong credit growth. We build in RoA of 3.9%/4.5%/4.7% for FY23E/24E/25E and RoE of 19.4%/21.3%/22.9% for FY23E/24E/25E. Fusion currently trades at 1.4x FY24E BVPS, which we believe is inexpensive given sectoral tailwinds, strong growth outlook and potential to deliver superior return metrics. We initiate coverage on Fusion with a BUY rating and a target price of INR 550 valuing it at 1.75x Dec'24 BVPS.

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	550
Upside/(Downside)	42%

Key Data – FUSION IN	
Current Market Price	INR388
Market cap (bn)	INR39.1/US$0.5
Free Float	23%
Shares in issue (mn)	101.6
52-week range	416/321
Sensex/Nifty	60,353/17,992
INR/US$	82.6

Price Performance			
%	1M	6M	12M
Absolute	1.7	NA	NA
Relative*	5.9	NA	NA

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Profit	439	218	3,436	5,215	6,793
Net Profit (YoY) (%)	-36.9%	-50.5%	1,479.6%	51.8%	30.3%
Assets (YoY) (%)	37.7%	24.9%	40.6%	27.7%	22.0%
ROA (%)	0.9%	0.3%	3.9%	4.5%	4.7%
ROE (%)	3.6%	1.7%	19.3%	21.3%	22.9%
EPS	5.6	2.6	34.7	52.6	68.6
EPS (YoY) (%)	-36.9%	-52.7%	1,219.6%	51.8%	30.3%
P/E (x)	**69.8**	**147.6**	**11.2**	**7.4**	**5.7**
BV	158	162	225	270	328
BV (YoY) (%)	3.8%	2.5%	39.2%	19.9%	21.6%
P/BV (x)	**2.46**	**2.40**	**1.72**	**1.44**	**1.18**

Source: Company data, JM Financial. Note: Valuations as of 5/Jan/2023

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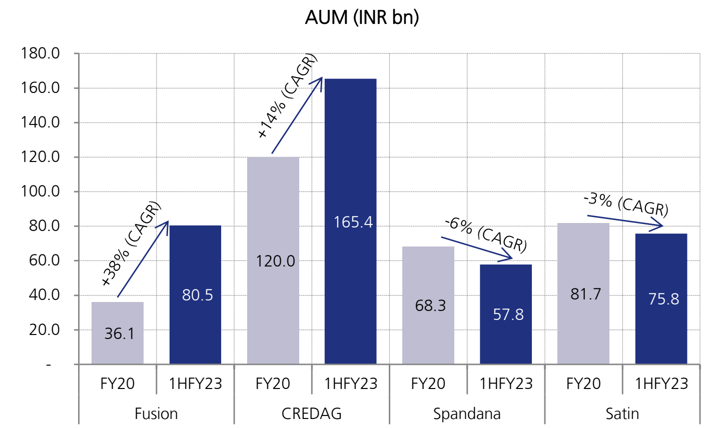
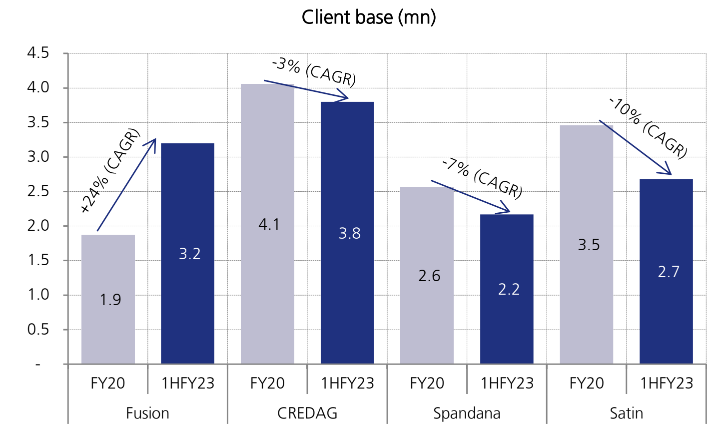
Focus Charts

Exhibit 1. Fusion's AUM growth has been higher than peers



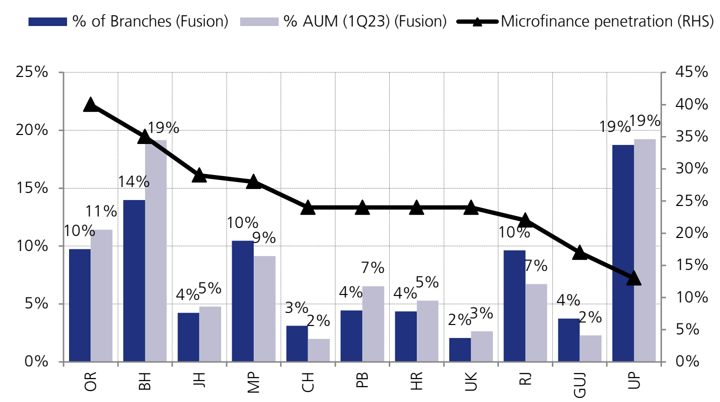
Source: Company, JM Financial

Exhibit 2. Client base has grown at 24% CAGR (FY20-1HFY23)



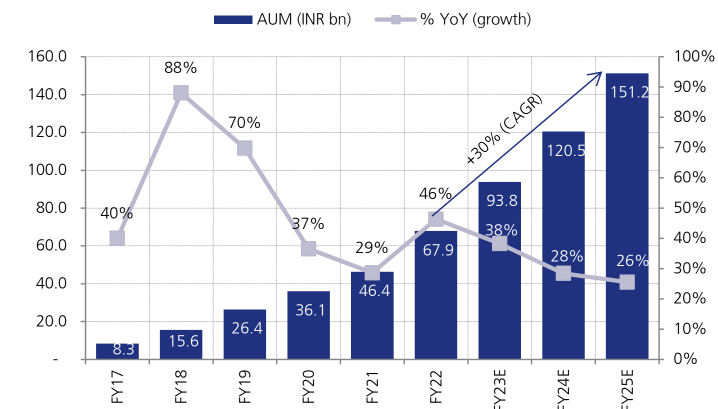
Source: Company, JM Financial

Exhibit 3. States where Fusion operates remain underpenetrated



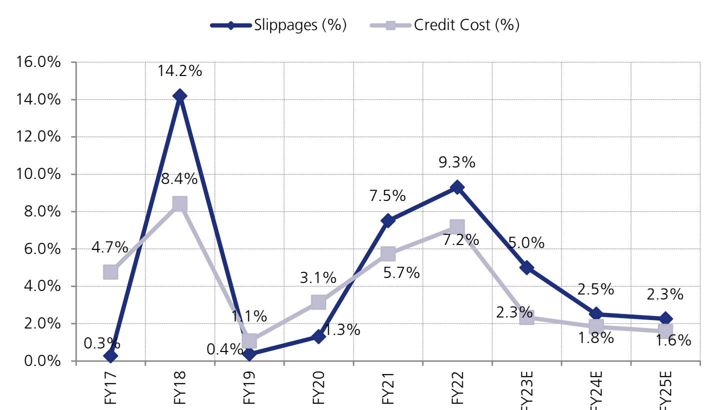
Source: Company, JM Financial

Exhibit 4. AUM expected to grow at a CAGR of 30% (FY22-25E)



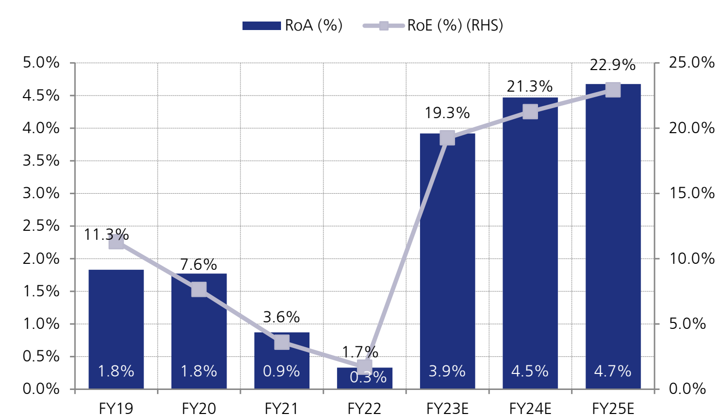
Source: Company, JM Financial

Exhibit 5. Slippages and credit cost to moderate going ahead



Source: Company, JM Financial

Exhibit 6. Return metrics set to expand



Source: Company, JM Financial

Company Overview

Fusion Micro Finance Limited (Fusion) was founded in 2010 with the core idea of creating opportunities at the bottom of the pyramid, and it does so by providing financial services to unserved and underserved women in rural and peri-rural areas across India. Since inception, Fusion has prioritised organic geographic expansion with a focus on strategic management of state concentration risk by expanding into underpenetrated rural areas. As of September 30, 2022, Fusion had an AUM of INR 80.5bn and has achieved a significant footprint across India, with its reach extending to 3.2mn active borrowers served through a network of 1,031 branches and 9,500+ employees spread across 390 districts and 19 states and union territories in India. Fusion's focus customer segment is women in rural areas with an annual household income of up to INR 300,000. Fusion's business runs on a joint liability group-lending model, wherein a small number of women form a group (typically comprising five to seven members) and guarantee one another's loans.

Fusion's key product offerings are:

I. **Income-generating loans:** It is Fusion's core loan product for use by women in rural areas and is intended to provide capital for their small businesses. Fusion grants income-generating loans for amounts ranging from INR 10,000 to INR 40,000 for the first loan cycle and INR 10,000 to INR 80,000 for subsequent cycles. As per latest disclosure, the annual effective interest rate of income-generating loans for below activities is 22.65% for the first loan cycle and 22.25% for subsequent loan cycles, and Fusion charges a non-refundable loan processing fee equal to 1.25% of the loan amount (plus applicable tax). The term of an income-generating loan for below activities is typically 11 to 24 months, with principal and interest payments due on a fortnightly or monthly basis, subject to compliance with any applicable local law requirements. Fusion's income-generating loans also include top-up loans and cross-sell loans.

   Fusion's income-generating loans typically fund businesses operating in the following sectors:

   - Agriculture-allied and agriculture: This category includes activities such as dairy production, animal husbandry, poultry farming and crop cultivation.
   - Manufacturing and production: This category includes activities such as the manufacturing and/or production of bags, furniture, mats and handicrafts, as well as bread and other baked goods.
   - Trade and retail: This category includes activities such as the sale of clothes, groceries and general merchandise.
   - Services: This category includes activities such as the provision of clothes tailoring and stitching services as well as small food establishments.
   - Others: This category includes all other activities that do not fall within the above categories.

Fusion's income generating loans also include top-up and cross-sell loans:

- **Top-up loans:** Top-up loans are granted to existing customers to manage interim working capital requirements for their existing business. To be eligible for top-up loans, a customer must have a minimum attendance rate of 60.00% at scheduled center meetings and no history of defaults on her previous or on-going loans with Fusion or any other lender. Fusion grants top-up loans for amounts ranging from INR 5,000 to INR 12,000. As per latest disclosure, the annual effective interest rate of top-up loans is 22.25%, and Fusion charges a non-refundable loan processing fee equal to 1.25% of the loan amount (plus applicable tax). The term of a top-up loan is typically 12 months, with principal and interest payments due on a fortnightly or monthly basis, subject to compliance with any applicable local law requirements.

- **Cross-sell loans:** Apart from the above-mentioned loans, Fusion also leverages its existing customer base to provide cross-sell loans that are utilized for livelihood and productivity enhancing purposes. Fusion has partnered with leading brands to fund the purchases of mobile phones, bicycles, kitchen appliances and other items by customers. As of June 30, 2022, Fusion has entered into agreements with (i) smartphone brands for the sale of smartphones, (ii) bicycle manufacturers for the sale of a range of bicycles, (iii) kitchen appliances manufacturers for the sale of blenders and cookers, and (iv) agriculture solutions providers for the sale of tarpaulins. In addition to interest income on such loans, Fusion also receives processing and referral fees by the aforementioned manufacturers and distributors for these services.

  The prices of the above products financed by Fusion range from approximately INR 1,000 to INR 11,500. As per latest disclosure, the annual effective interest rate for such loans is 22.25% and Fusion charges a non-refundable loan processing fee of 1.00% of the amount of the loan provided. The term of these loans is typically eight months, with repayment made in the form of EMIs on a fortnightly or monthly basis during the term of the loan.

II. **MSME loans:** Fusion offers MSME loans to eligible enterprises. To be eligible for MSME loans, an enterprise must be a manufacturer, trader or service provider, and have an investment limit of less than INR 1,500,000.

Fusion grants MSME loans for amounts up to INR 1,500,000. As per latest disclosure, the annual effective interest rate of MSME loans is 27.00%, and Fusion charges a non-refundable loan processing fee up to 3.00% of the loan amount. The term of an MSME loan is up to 10 years, with principal and interest payments due on a monthly basis, subject to compliance with any applicable local law requirements.

III. **Emergency loans:** Emergency loans are granted to existing customers to fund urgent financial requirements arising out of unforeseen events such as health emergencies, natural disasters and family bereavements. To be eligible for emergency loans, a customer must have completed at least one cycle of income-generation loans with no delinquency and a minimum attendance rate of 60.00% at scheduled center meetings.

Fusion grants emergency loans for amounts ranging from INR 3,000 to INR 7,000. As per latest disclosure, the annual effective interest rate of emergency loans is currently 19.00%, and Fusion does not charge a processing fee for such loans. The term of an emergency loan is typically 8 months, with repayment made in the form of equated monthly installments on a fortnightly or monthly basis.

The table below sets forth the distribution of AUM across different products, as of June 30, 2022:

Exhibit 7. Split of AUM across different products as of 1Q23

Loan Type	AUM (INR mn)	% of Total AUM	Number of Loans Outstanding
Income-generating loans (IGL):			
Agriculture-allied and agriculture	56,943	77%	2,262,482
Manufacturing and production	7,394	10%	304,795
Trade and retail	3,581	5%	152,720
Services	3,224	4%	143,508
Others	624	1%	24,352
Top-up loans	287	0%	56,353
Cross-selling loans	194	0%	27,805
Sub-total for IGL	72,246	98%	2,972,015
MSME loans	1,644	2%	6,028
Total	73,890	100%	2,978,043

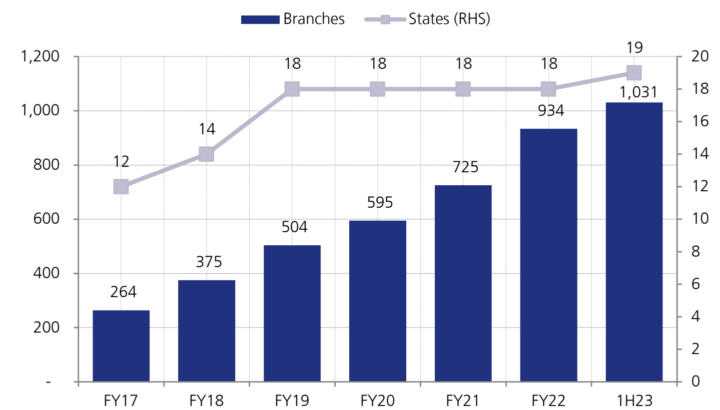
Source: Company, JM Financial

Well diversified and extensive PAN-India presence with strong rural focus

Fusion's extensive geographic presence and focus on organic diversification has enabled it to deliver sustained growth over the last few years (AUM CAGR of 51% over FY17-1HFY23) and puts it in a vantage position to lend across the country in a scalable manner. As of 2Q23, Fusion had 3.2mn active borrowers, catered to by 1,031 branches and 9,500+ employees spread across 390 districts in 19 states and union territories in India.

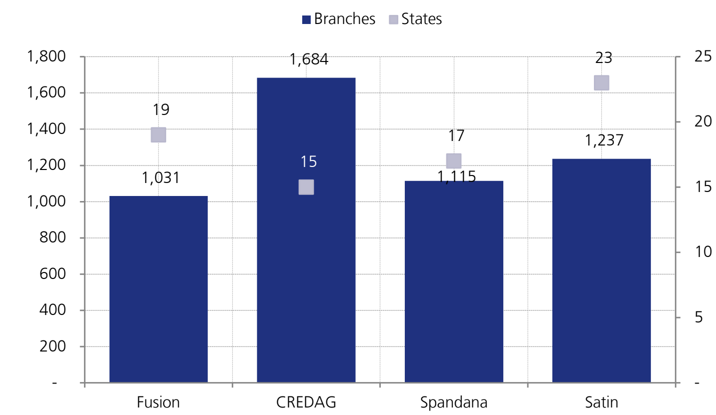
Fusion's network has expanded from 12 states and 264 branches in FY17 to 19 states and 1,031 branches in 1HFY23. Further, overall AUM remains well diversified with no single state contributed to more than 20% of total AUM, and proportion of AUM in 5 largest states in terms of AUM concentration has gradually decreased over the years to 66.8% of total AUM in 1HFY23 (from 74% in FY17).

Exhibit 8. Continued expansion of its network



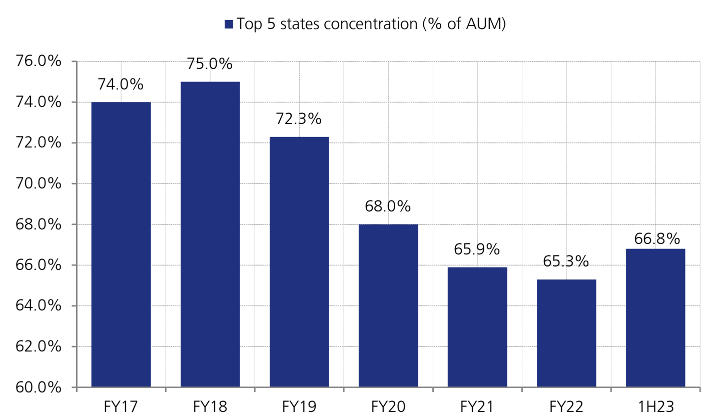
Source: Company, JM Financial

Exhibit 9. Fusion's network distribution vs. peers



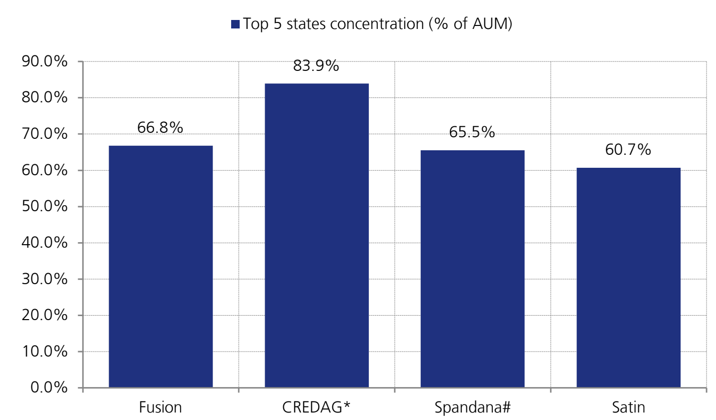
Source: Company, JM Financial

Exhibit 10. Concentration of top-5 states (% of AUM) has declined



Source: Company, JM Financial

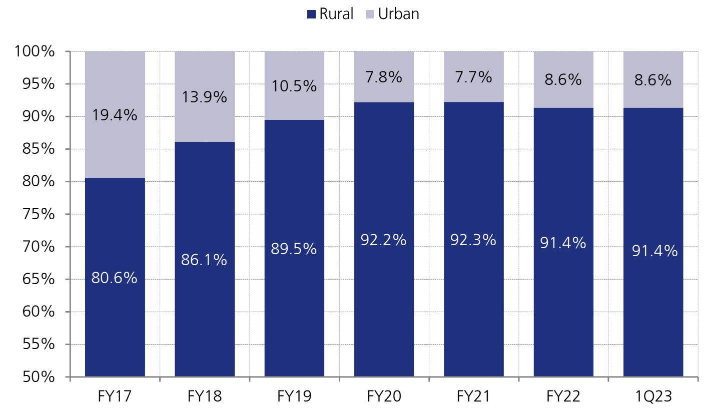
Exhibit 11. Comparison of top-5 states conc. with peers (1HFY23)



Source: Company, JM Financial, *top 4 states for CREDAG, # as on 1Q23

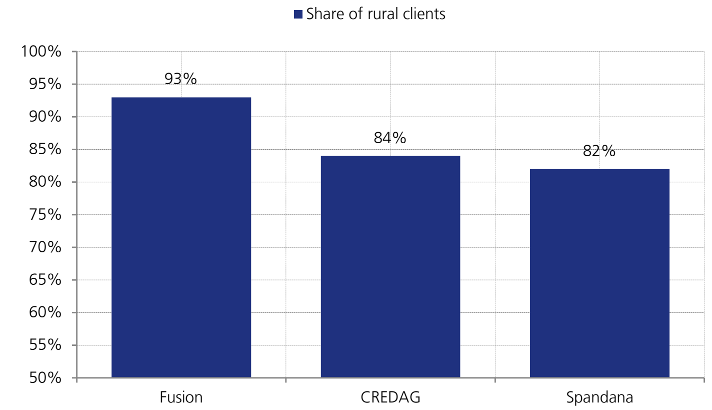
Fusion focuses predominantly on customers in rural areas in India, who largely lack access to the formal banking and present a latent opportunity for micro-loans players. Over the last decade, Fusion has built a deep rural franchise in the microfinance segment with 91.4% (as of 1HFY23) of the AUM derived from the rural areas (vs. 80.6% in FY17).

Exhibit 12. Strong rural presence (91.4% of AUM as of 1Q23)



Source: JM Financial, Company

Exhibit 13. Fusion has higher share of rural clients (vs. peers)

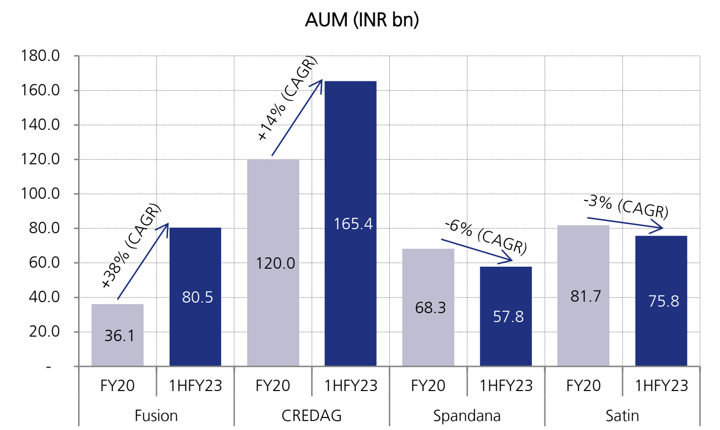


Source: JM Financial, Company, as of 2Q23

AUM growth has been healthy despite Covid-19; expect AUM to grow at a CAGR of 30% over FY22-25E

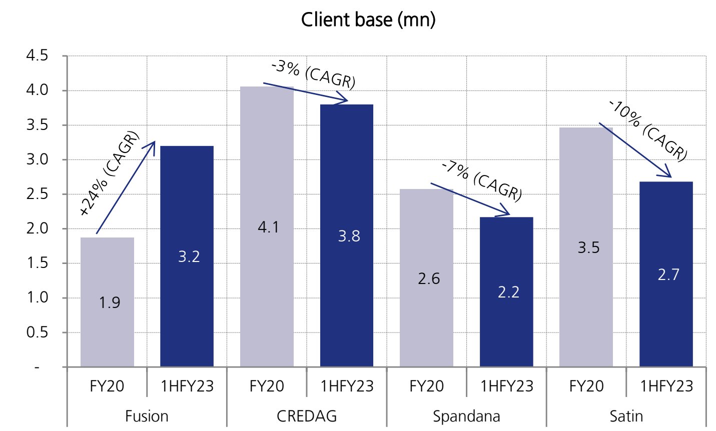
Fusion's AUM has grown at a CAGR of 51% to INR 80.5bn over FY17-1HFY23 to become the second largest NBFC-MFI (in terms of AUM) on account of expansion of its geographical presence, addition of borrowers and healthy disbursements trend. Despite the challenges arising after the pandemic, Fusion's AUM has grown at CAGR of 38% over FY20-1HFY23, which is much higher than its peers (growing in the range of -3% to +14%). Disbursements trend has been healthy growing at a CAGR of 48% over FY17-FY22, while disbursements did witness some slowdown in FY20-FY21 on account of Covid-19 but recovery post that has been impressive (disbursements grew +67% YoY in FY22). It should be noted that average ticket size on disbursements has only grown at a 9% CAGR over FY20-1QFY23 (vs. 15% to 37% for peers), thus indicating strong customer additions (24% CAGR) over the same period (vs. -10% to -3% for peers). As of Sep'22, Fusion has a borrower base of 3.2mn of which c.41% (as per management) is unique to Fusion and c.26% is new-to-credit.

Exhibit 14. Fusion's AUM growth has been higher than peers



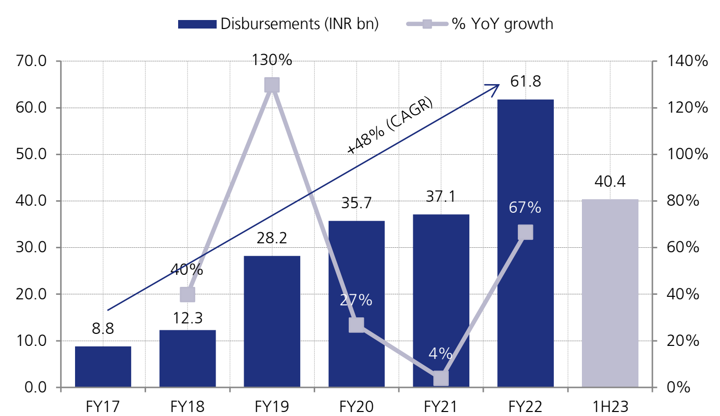
Source: Company, JM Financial

Exhibit 15. Client base has grown at 24% CAGR (FY20-1HFY23)



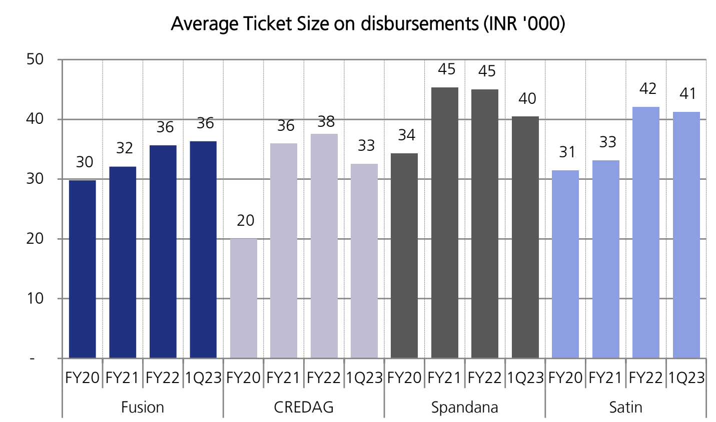
Source: Company, JM Financial

Exhibit 16. Trend in disbursements has been healthy



Source: Company, JM Financial

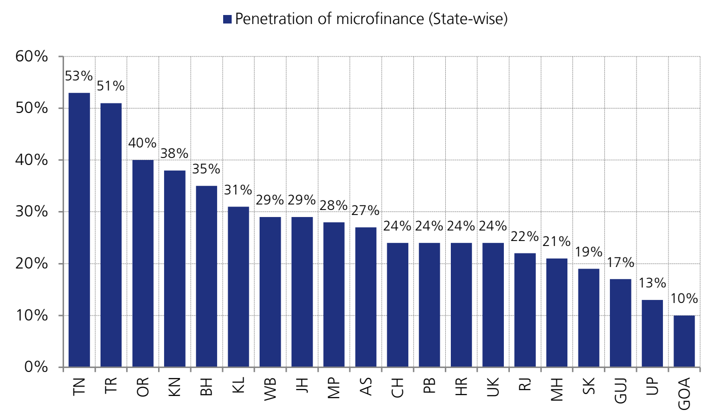
Exhibit 17. Comparison of ATS of Fusion and its peers



Source: Company, JM Financial

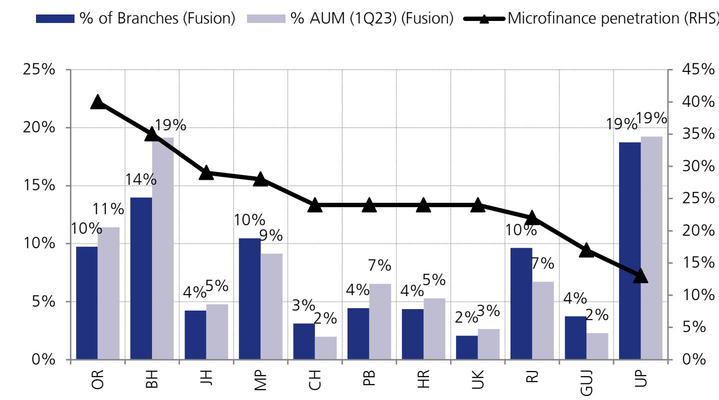
Fusion has established a strong presence in states like Bihar, Uttar Pradesh, Odisha, Madhya Pradesh and Rajasthan which are significantly underpenetrated and provide huge potential for growth and expansion of borrower base. Further, RBI's new norms on microfinance loans increases the addressable market and provides pricing flexibility which should lead to better growth and risk management for a rural player like Fusion. Going forward, we expect Fusion's AUM to grow at a CAGR of 30% over FY22-25E driven by a) improving on-ground conditions, b) deepening rural presence and c) expansion of branch network.

Exhibit 18. State-wise penetration of microfinance



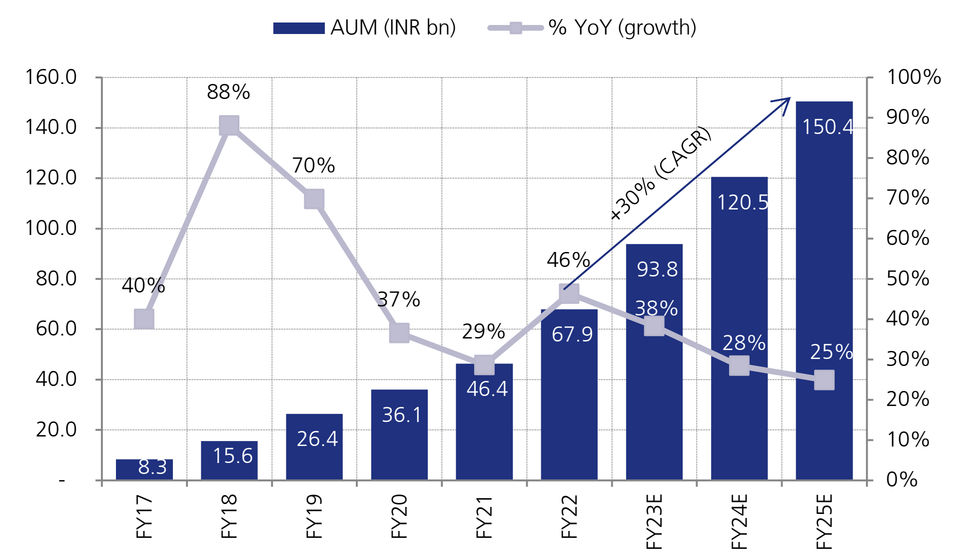
Source: Company, JM Financial

Exhibit 19. States where Fusion operates remain underpenetrated



Source: Company, JM Financial

Exhibit 20. AUM expected to grow at a CAGR of 30% over FY22-25E

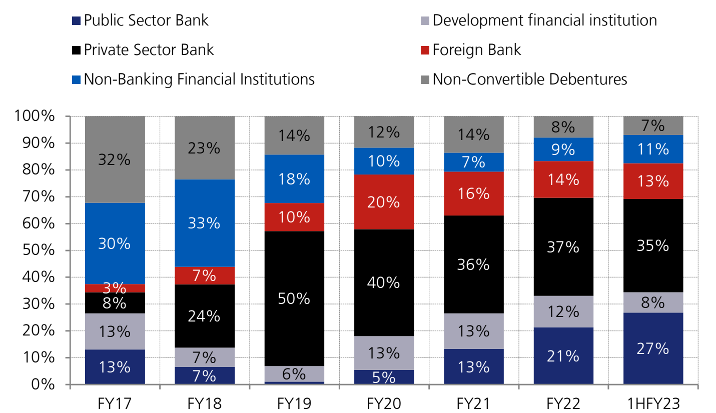


Source: Company, JM Financial

Well-diversified liability mix

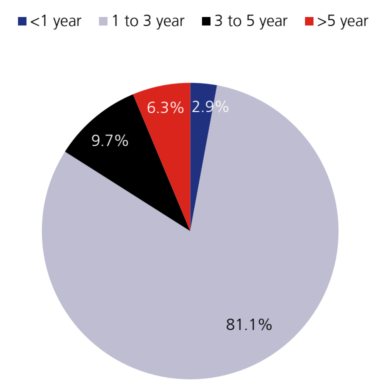
Over the years, Fusion has adopted a calibrated approach towards diversifying its fund-raising sources and minimizing costs of borrowings with prudent asset liability management and effective liquidity management. Fusion benefits from a large and diversified mix of lenders which has increased over the years and included 56 lenders as of June 30, 2022, comprising a range of public banks, private banks, foreign banks and financial institutions. According to CRISIL, Fusion had the second highest number of lender relationships among the top 10 NBFC-MFIs in India as of March 31, 2022.

Exhibit 21. Access to diversified sources of capital



Source: Company, JM Financial

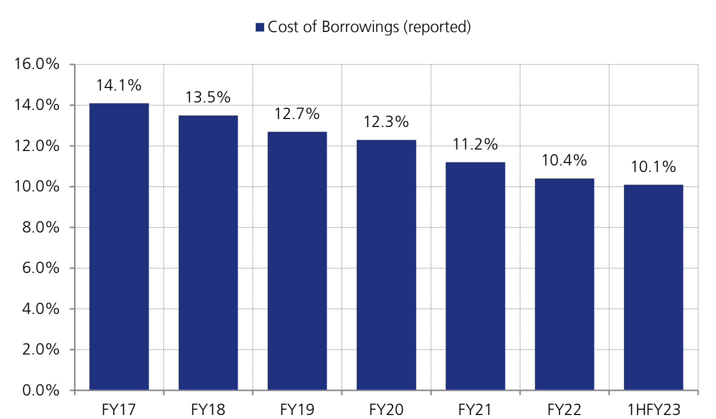
Exhibit 22. Tenure-mix of borrowings as of 1HFY23



Source: Company, JM Financial

In spite of difficult market conditions (demonetisation, IL&FS crisis, Covid-19), Fusion has been able to optimize its cost of funds and raise both equity and debt financing as required over the years. We believe this is due to their strategic liability management, continuous engagement through transparent communication and reporting, as well as improving credit ratings and stable credit history, and should continue to provide them a competitive advantage when borrowing funds for our future growth and operations. Fusion's average cost of borrowing has come down to 10.1% in 1HFY23 (vs. 14.1% in FY17).

Exhibit 23. Cost of borrowings has declined to 10.1% as of 1HFY23



Source: Company, JM Financial

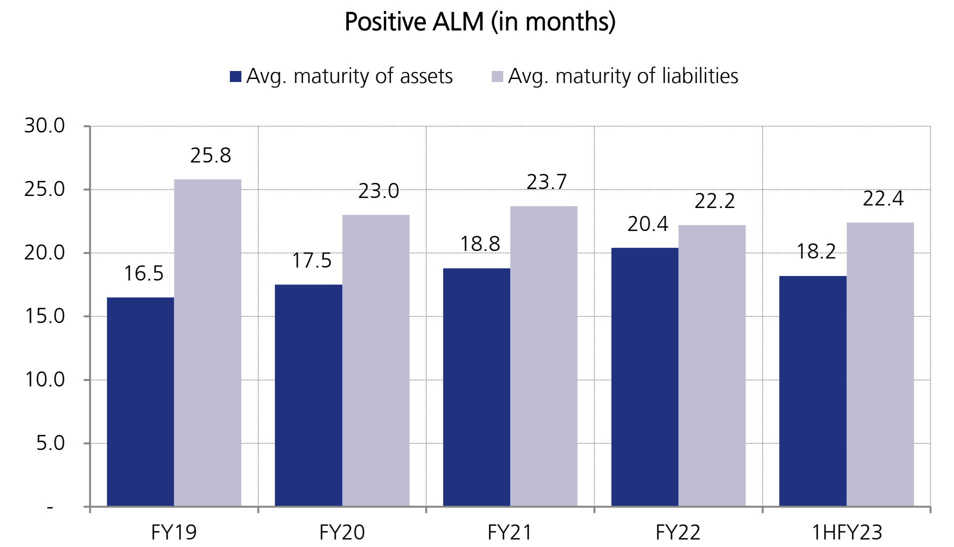
Exhibit 24. Long-term credit rating has improved

FY20	FY21	FY22	Latest
CRISIL A-/Stable	CRISIL A-/Stable	CRISIL A-/Stable	CRISIL A/Stable
ICRA A-/Stable	ICRA A-/Stable	ICRA A-/Stable	ICRA A/Stable
CARE A-/Positive	CARE A-/Stable	CARE A-/Stable	CARE A/Stable

Source: Company, JM Financial

Fusion has a judicious ALM policy that carefully monitors the contractual maturity periods of all assets and liabilities. In addition, it generally seeks to ensure that average maturity of liabilities are higher than average maturity of assets by sourcing funding with larger repayment cycles than the loans it provides. As a result of prudent ALM standards, Fusion had a favorable asset-liability position across all categories cumulatively and positive interest rate gaps across all time buckets as of June 30, 2022.

Exhibit 25. Positive Asset Liability Management



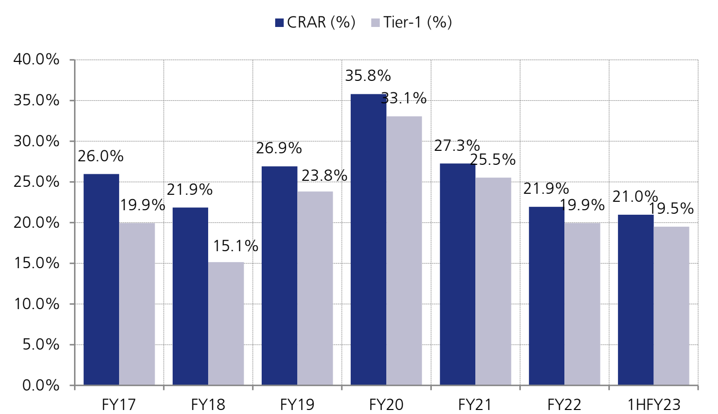
Source: Company, JM Financial

Comfortable capital position

As of 1HFY23, Fusion had a capital to risk weighted assets ratio (CRAR) of 21% (doesn't include the capital raise of INR 6bn in Nov'22) and post the infusion of capital CRAR is expected to be in the range of 27-30%. If we were to look at the last 7 years of the company, its CRAR has never gone below the 20% mark and Fusion intends to maintain a CRAR >20% going ahead, much above the regulatory requirement of 15%. Further, Fusion also benefits from support of marquee investors (who are also Fusion's promoters), including Warburg Pincus, LLC (currently holds 39.4% stake and is a leading private equity firm) and Creation Investments Fusion, LLC (currently holds 23.7% and is a leading alternative investment management company).

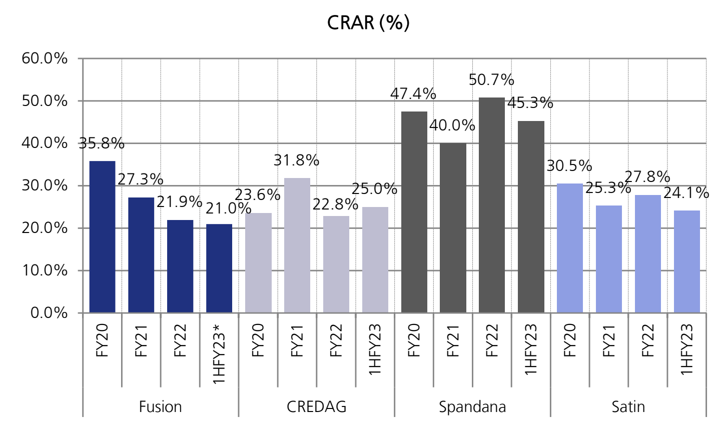
We believe Fusion has a strong capitalisation profile (further abetted by the recent capital raise) which should support its growth plans and provide sufficient cushion to absorb future losses (if any).

Exhibit 26. Strong capitalisation profile



Source: Company, JM Financial

Exhibit 27. Comparison of capital adequacy with peers



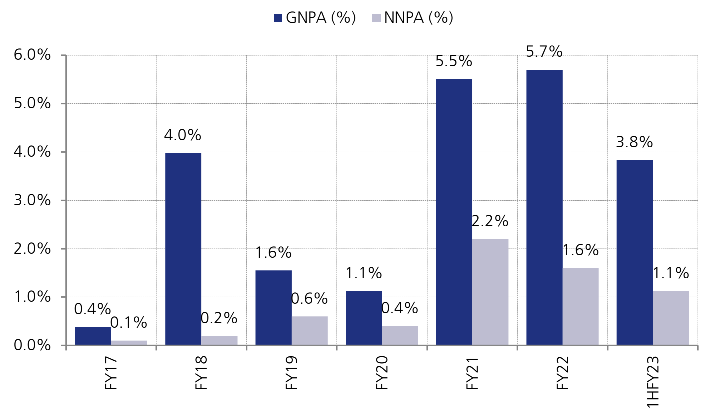
Source: Company, JM Financial, *excluding capital raise of INR6bn

Asset quality is improving steadily

Fusion's well diversified geographic portfolio, credit assessment policies and effective risk management policies have resulted in healthy asset quality performance. As per provisioning policy of the company, 90+ DPD are 100% provided.

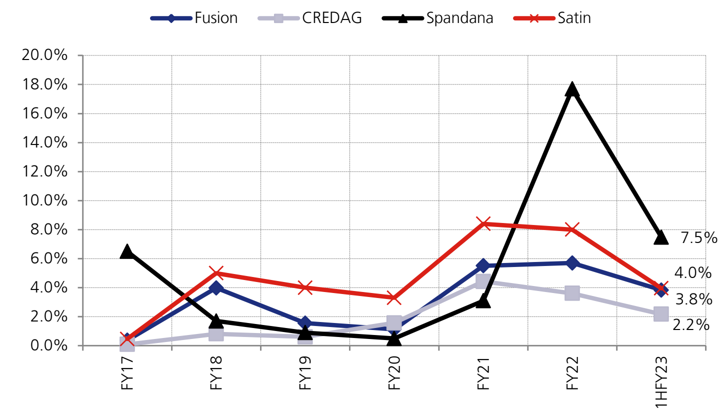
Impacted by Covid-19, we did see GNPAs/NNPAs increase to 5.7%/1.6% in FY22 from 1.1%/0.4% in FY20 and collection efficiency decreased to 92.3% in FY22 from 98.4% in FY20. In 2QFY23, we have seen GNPAs/NNPAs improve to 3.8%/1.1%. The improvement in asset quality has been partly aided by write-offs, however, post Covid-19 (Apr'20 to Sep'22) write-offs for Fusion has been lower at 13.4% (of FY20 AUM) vs. peers (Exhibit 30 and 31). Further, total restructuring for Fusion has come down to 0.5% as of 2QFY23 (vs. 1.6% in FY22).

Exhibit 28. Gradual improvement in asset quality



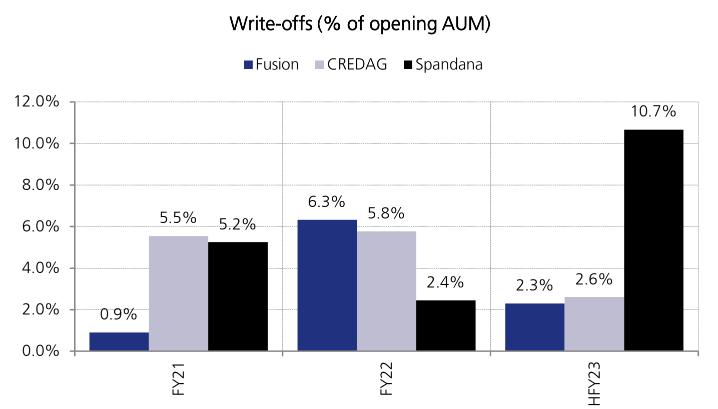
Source: Company, JM Financial

Exhibit 29. Comparison of GNPA (%) with peers



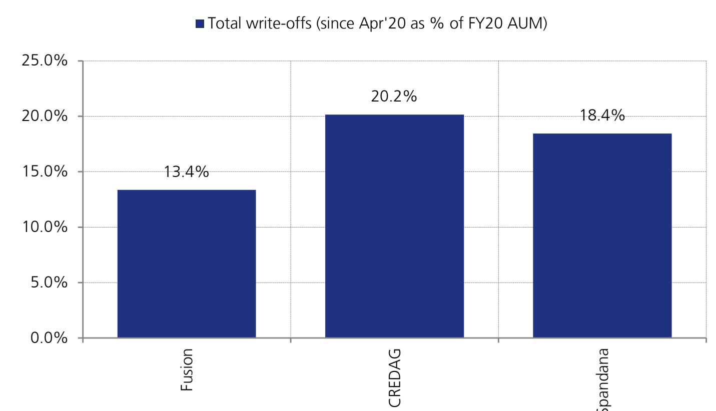
Source: Company, JM Financial

Exhibit 30. Comparison of write-offs with peers



Source: Company, JM Financial

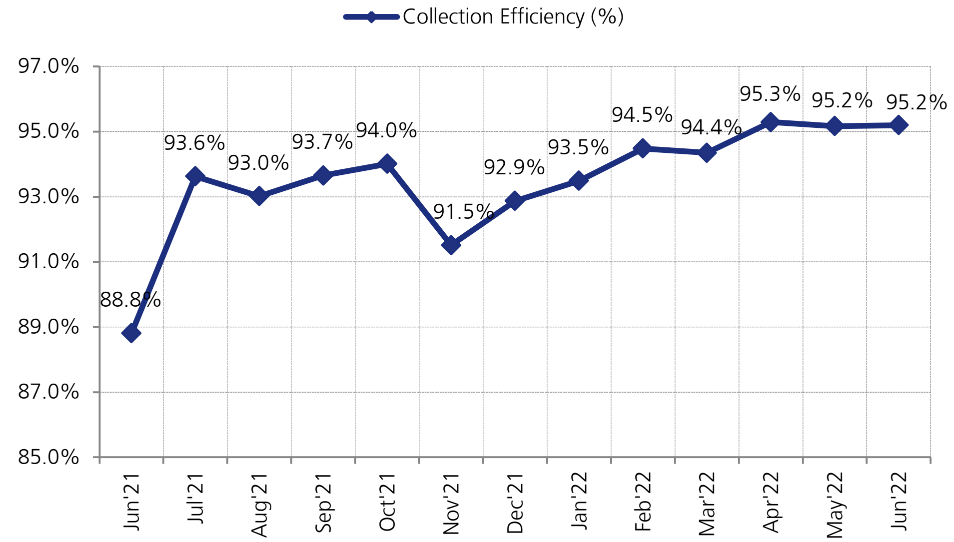
Exhibit 31. Total write-offs post Covid-19 has been lower for Fusion



Source: Company, JM Financial

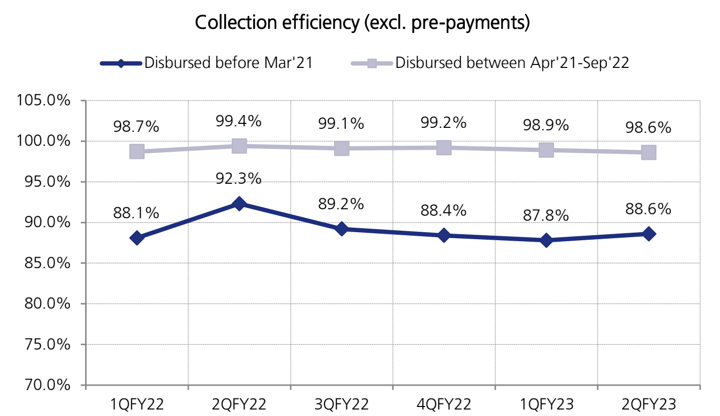
Fusion follows a fortnightly/monthly collection model. Collection efficiency has gradually improved to 95.2% as of Jun'22 (vs. 88.8% in Jun'21) as the company increased its focus on collections during the pandemic and worked with the customers to discuss and assess the impact on their cash flows on account of Covid-19 and their loan repayment capability. Further in 2QFY23, Fusion reported its collection efficiency separately for post-Mar'21 (93.5% of MFI AUM) and pre-Mar'21 portfolio (6.5% of MFI AUM), it can be seen that collections (ex-prepayments) for post-Mar'21 portfolio has been at normalised levels of 98.6% while collections for pre-Mar'21 portfolio is lagging at 88.6%. Total collection efficiency (incl. prepayments) for post-Mar'21 and pre-Mar'21 stood at 108.8% and 105.9% respectively (vs. 105.3% and 100.2% in 2QFY22).

Exhibit 32. Monthly collection efficiency has gradually improved



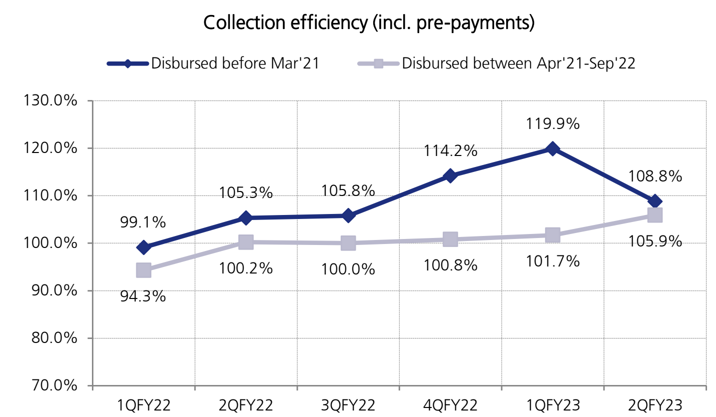
Source: Company, JM Financial

Exhibit 33. Collection efficiency for post-Mar'21 portfolio at normalised level



Source: Company, JM Financial

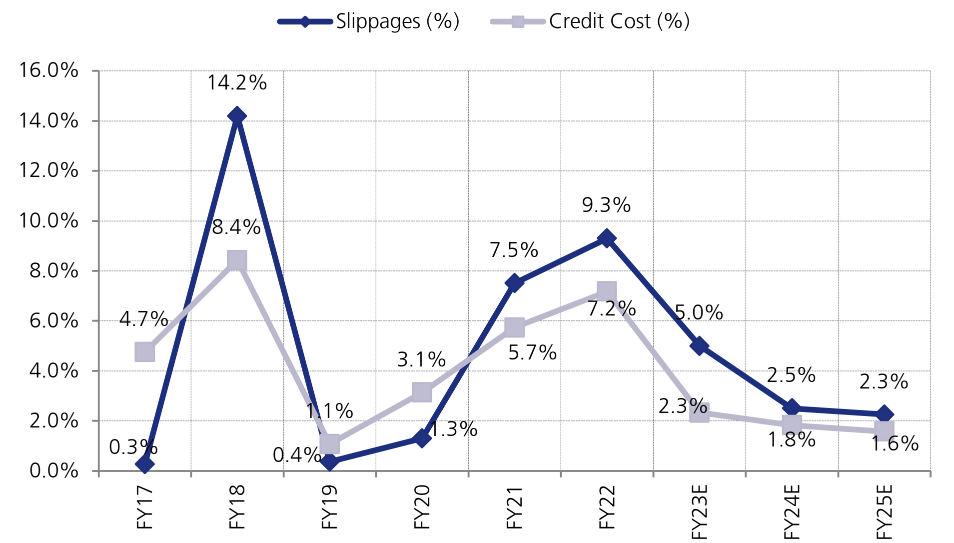
Exhibit 34. Collection efficiency including pre-payments



Source: Company, JM Financial

Credit costs were elevated at 7.2% in FY22 on account of residual impact of Covid-19 and it has moderated to 2.6% (annualised) in 1HFY23. We expect credit cost to settle at 1.5-2% on a steady state basis. Fusion plans to build a provision buffer of 2.5-3% over the next 2 to 3 years to further strengthen their balance sheet. We build in credit costs of 2.3%/1.8%/1.6% in FY23E/FY24E/FY25E.

Exhibit 35. Slippages and credit cost to moderate going ahead



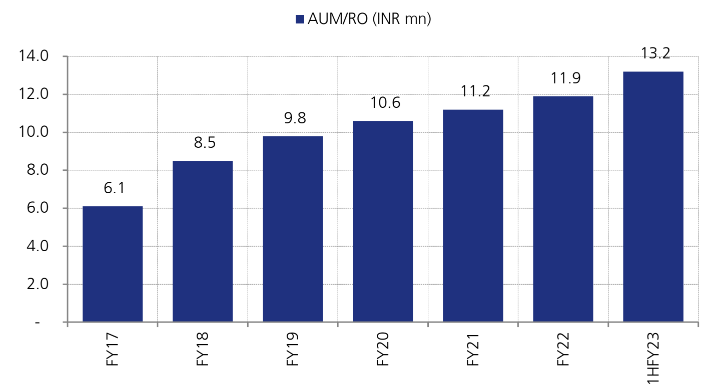
Source: Company, JM Financial

Operational efficiency to improve albeit marginally

Fusion's network distribution has expanded from 12 states and 264 branches in FY17 to 18 states and 934 branches in FY22 (19 states and 1,031 branches in 1HFY23). Similarly, employee base has grown to 8,700+ in FY22 (vs. 2,150 in FY17). However, operating expenses during FY17-22 has grown at a CAGR of 35% while AUM has grown at a CAGR of 52% during the same period. Thus, we see that cost-to-income and cost-to-AUM have improved to 44% and 5.5% respectively in FY22 (vs. 66% and 9.7% in FY17).

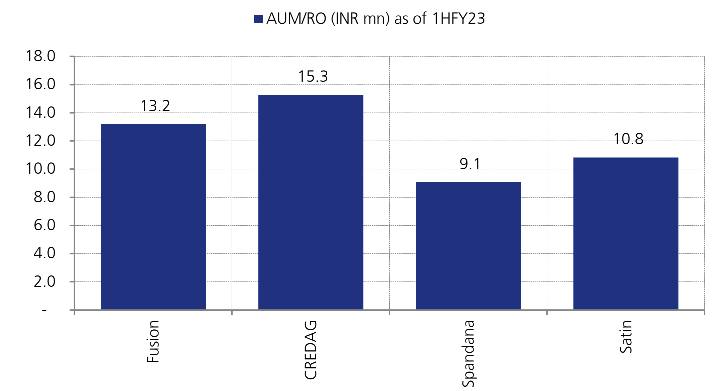
If we were to compare basis productivity metrics, Fusion is well placed when compared to its peers. Exhibit 36 to 41 summarises the same.

Exhibit 36. Fusion: AUM per loan officer has improved



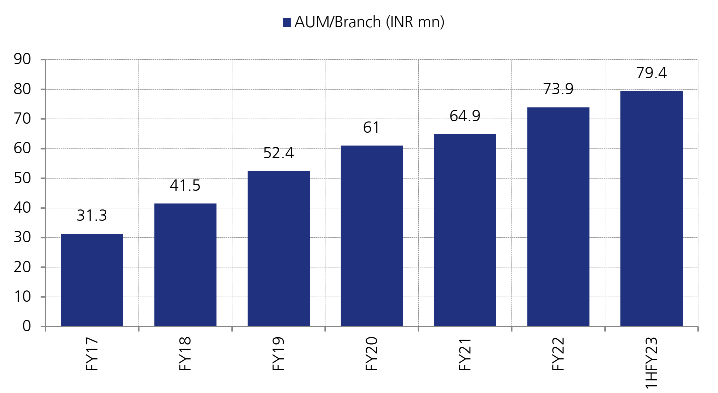
Source: Company, JM Financial

Exhibit 37. Comparison of AUM/loan officer with peers



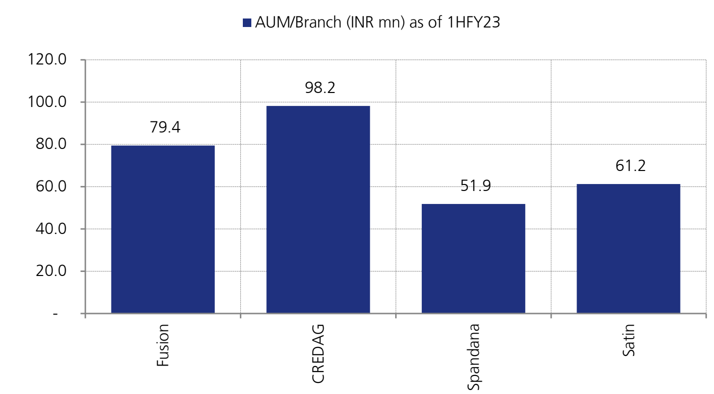
Source: Company, JM Financial

Exhibit 38. Fusion: AUM/Branch stands at INR 79.4mn as of 1HFY23



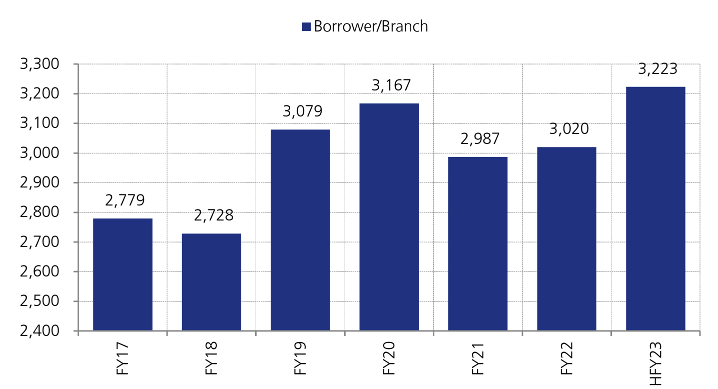
Source: Company, JM Financial

Exhibit 39. Comparison of AUM/Branch with peers



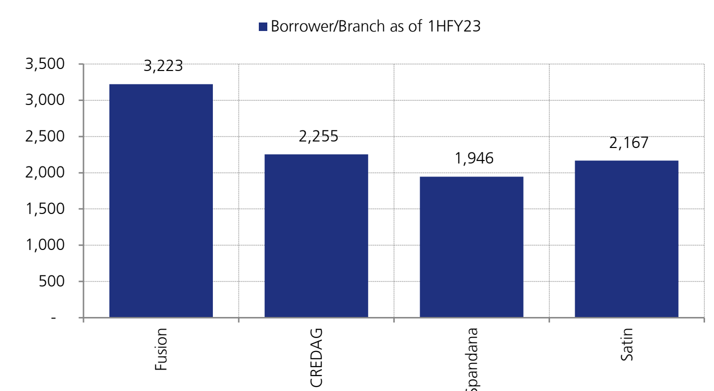
Source: Company, JM Financial

Exhibit 40. Fusion: Borrower/Branch trend over the years



Source: Company, JM Financial

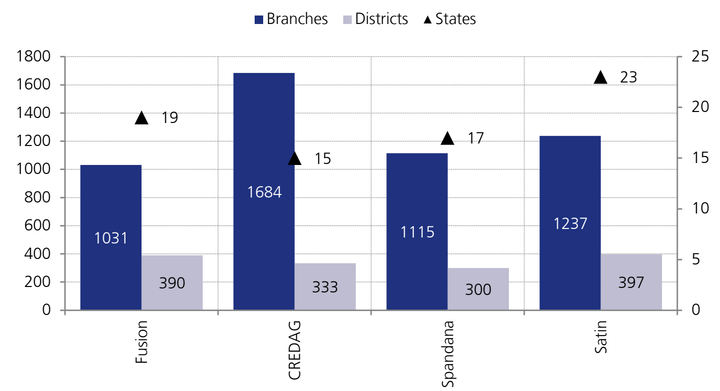
Exhibit 41. Comparison of Borrower/Branch vs. peers



Source: Company, JM Financial

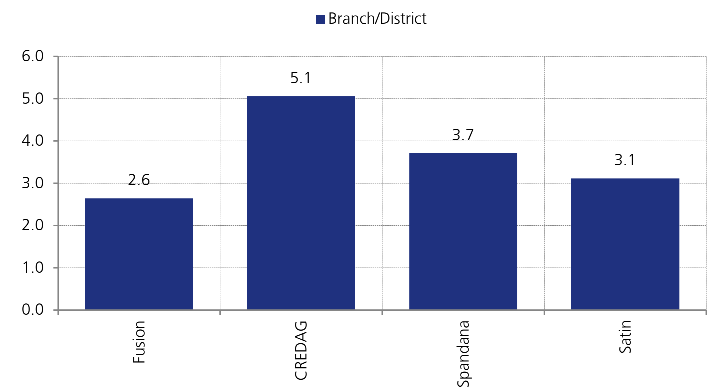
As, Fusion has established its presence in several states where penetration remains low indicating that there is a large potential to mine deeper into its existing states and thus we believe Fusion may not venture into more than 1-2 new states in the near-medium term since the existing opportunity is large enough. Further, branches per district for Fusion remains lower when compared to peers and we believe that focusing on increasing customer penetration in these relatively untapped markets will enable it to grow its presence and at the same time benefit from substantial operational efficiencies and lower expansion costs.

Exhibit 42. Branches/states/districts (Fusion vs. peers)



Source: Company, JM Financial, as of 1HFY23

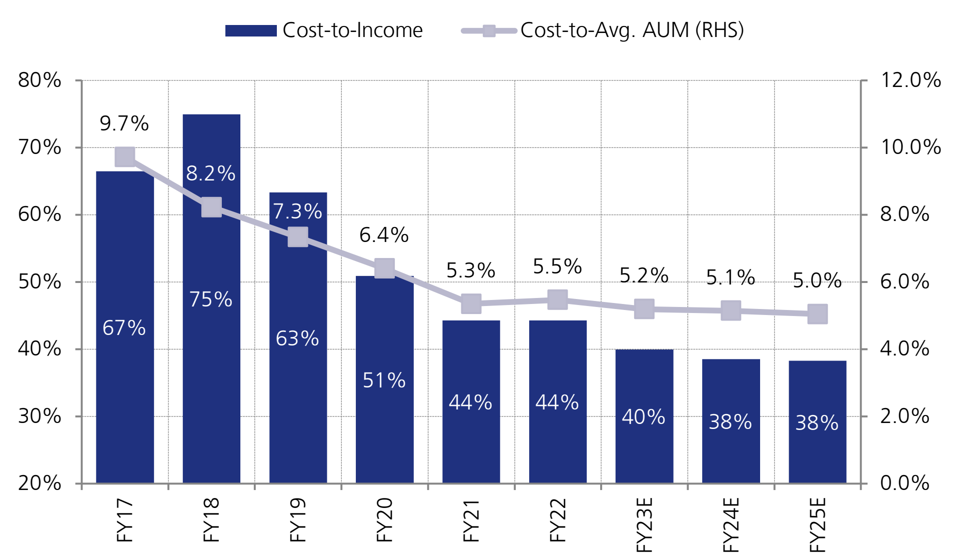
Exhibit 43. Branch/District is lower for Fusion vs. peers



Source: Company, JM Financial, as of 1HFY23

We believe as Fusion increases its loan portfolio and expand operations; it is expected to derive benefits from economies of scale, which will assist in optimizing operating expenses. Further, it also continues to invest in technology platform and technology-enabled operating procedures to increase operational and management efficiencies. In FY22, all of Fusion's customers were on-boarded digitally and 94% of the overall disbursements were cashless. Average turnaround time for loan approvals has improved 5.2 days (vs. 11.7 days in FY17). We expect cost/AUM and cost/income to improve to 5.0%/38.3% in FY25E vs. 5.5%/44.3% in FY22.

Exhibit 44. Cost/Income and cost/AUM to trend downwards



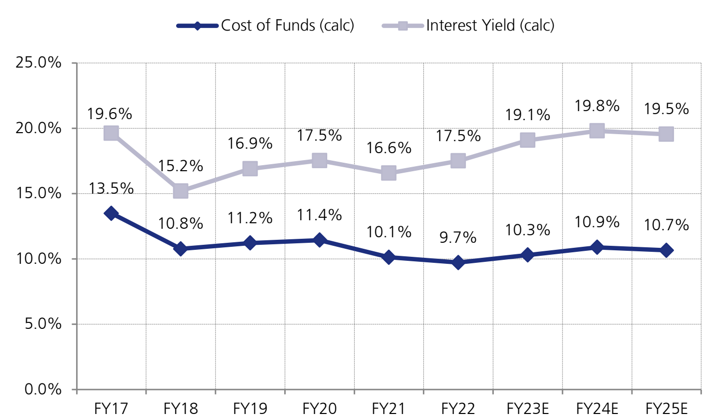
Source: Company, JM Financial

Return metrics to expand driven by lower credit costs and better NIMs

Over FY17-22, we have seen NIMs for Fusion improve from by 130bps to 9.9% driven by reduction of 380bps in cost of funds while interest yield declined by 210bps (impacted by interest reversals). Now as RBI has lifted the margin cap applicable to NBFC-MFIs, we expect Fusion to benefit as it allows the lender to undertake risk-based pricing. Thus, Fusion will be in a better position to increase yields to counter higher credit costs in select geographies. Further, increase in cost of funds going ahead is expected to be limited on account of recent rating upgrades while yield on loans is expected to increase by 150bps over the next 4 quarters (as per management).

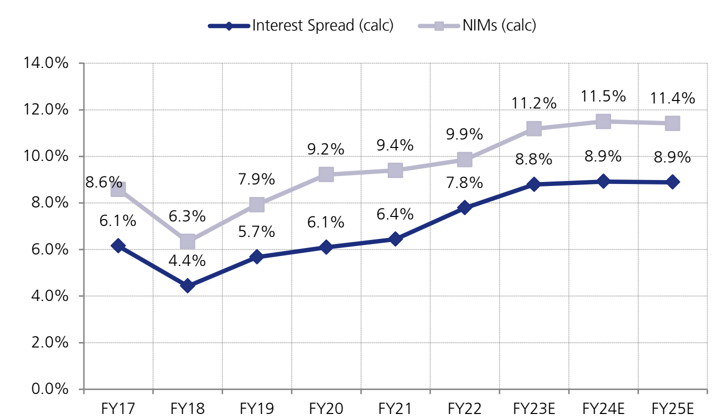
We expect NIMs to improve driven by a) ability to offer risk-based pricing, which should also aid in managing credit costs, b) controlled increase in cost of funds in the prevailing interest rate environment and c) deployment of excess liquidity. As a result, we build in NIMs of 11.2%/11.5%/11.4% by FY23E/24E/25E (vs. 9.4%/9.9% in FY21/FY22).

Exhibit 45. Trends in cost of funds and yields



Source: Company, JM Financial

Exhibit 46. Trends in spreads and NIMs



Source: Company, JM Financial

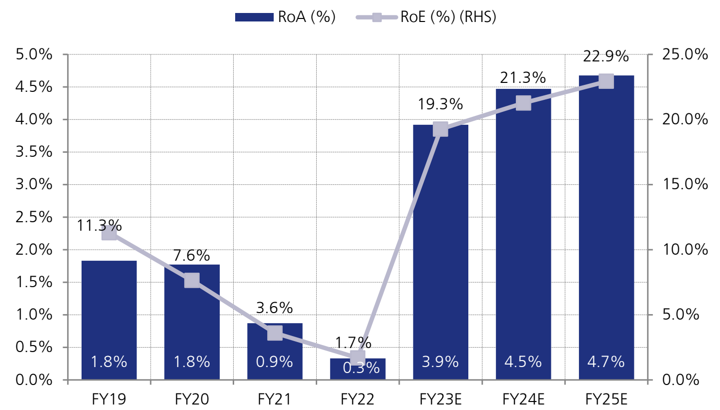
In FY21/FY22, profitability was impacted due to higher credit costs (5.7%/7.2% in FY21/22) on account of pandemic-led disruption resulting in RoA and RoE of 0.9%/0.3% and 3.6%/1.7% in FY21 and FY22. We expect the return metrics to improve from here on driven by a) NIMs expansion, b) credit costs normalisation and c) strong credit growth. Management expects RoA to be in the range of 4.5%-4.75% over the medium term. We build in RoA of 3.9%/4.5%/4.7% for FY23E/24E/25E and RoE of 19.3%/21.3%/22.9% for FY23E/24E/25E.

Exhibit 47. Fusion – RoA tree

Du-pont Analysis (%)	FY21	FY22	FY23E	FY24E	FY25E
NII / Assets (%)	9.2%	9.6%	10.9%	11.2%	11.3%
Core other income / Assets (%)	0.3%	0.7%	0.6%	0.6%	0.6%
Other income / Assets (%)	0.7%	1.2%	1.1%	1.1%	1.1%
Total Income / Assets (%)	**9.9%**	**10.7%**	**12.0%**	**12.3%**	**12.4%**
Employee Cost to Assets (%)	3.3%	3.6%	3.5%	3.4%	3.4%
Other Cost to Assets (%)	1.0%	1.2%	1.3%	1.3%	1.4%
Cost to Assets (%)	4.4%	4.8%	4.8%	4.7%	4.7%
PPP / Assets (%)	**5.5%**	**6.0%**	**7.2%**	**7.6%**	**7.7%**
Provisions / Assets (%)	4.4%	5.6%	1.9%	1.5%	1.4%
PBT / Assets (%)	1.1%	0.4%	5.3%	6.0%	6.3%
ROA (%)	**0.9%**	**0.3%**	**3.9%**	**4.5%**	**4.7%**

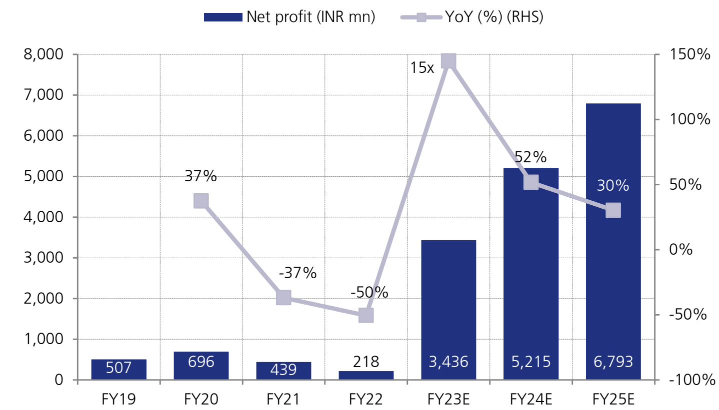
Source: Company, JM Financial

Exhibit 48. Return trajectory to improve



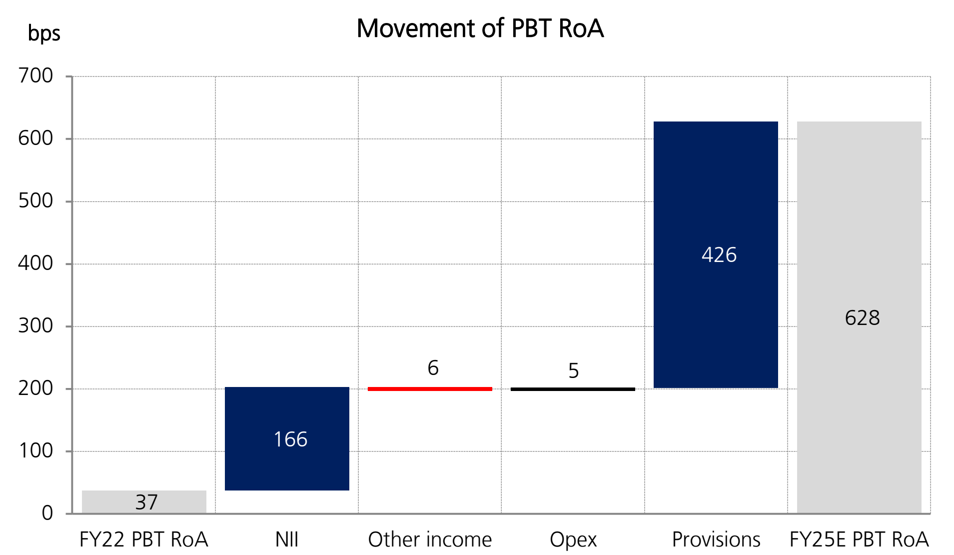
Source: Company, JM Financial

Exhibit 49. Trend in net profit and growth (% YoY)



Source: Company, JM Financial

Exhibit 50. Contribution towards RoA expansion over FY22-25E



Source: Company, JM Financial

Experienced management team

Fusion's senior management team comprises experts and professionals heading various functions with an average of 17 years of leadership experience in their respective fields. Several key members of senior management team have been with Fusion for over four years, have a diverse mix of domain expertise in banking, financial services and insurance and large corporates, as well as experience in building scale and managing various business cycles. Further, its operations in almost all states are headed by individuals who began their careers at Fusion and have risen from rank and file to achieve leadership roles.

Exhibit 51. Key management profile

Name	Designation	Profile
Devesh Sachdev	Managing Director and CEO	He completed his post-graduate certificate in Logistics and Supply Chain Management from XLRI, Jamshedpur and completed the HBS Accion Program on Strategic Leadership in Inclusive Finance from Harvard Business School, USA. He has over 25 years of experience in service industry sector and has in the past held various positions with Citicorp Credit Services India Limited, Samarth Financial Consultancy Private Limited, BSA Logistics Private Limited. He is also the Chairperson of the governing board of the Microfinance Institutions Network, an industry association.
Ken Vander Weele	Nominee Director	He is a director in Creation Investments Social Ventures Fund (I, II, II and IV). He has a PhD in international economics from Oxford University, and a BBA in Business Administration from the University of Wisconsin. He has also passed the National Uniform Certified Public Accountant Examination (CPA).
Narendra Ostawal	Nominee Director	He is based in Mumbai, joined Warburg Pincus in 2007 and since then has been working with the firm's Indian affiliate. He is involved in the firm's Investment Advisory activities in India and focuses on Financial Services and Healthcare sectors in India. He currently serves as a Managing Director of Warburg Pincus India Private Limited. Prior to joining Warburg Pincus, he was an Associate with 3i India and McKinsey & Company. He is a Director of Fusion Micro Finance Limited. He holds a Chartered Accountancy degree from The Institute of Chartered Accountants of India and an M.B.A. from Indian Institute of Management, Bangalore.
Ratna Vishwanathan	Independent Director	She has been the CEO of MFIN for the last three years. She has built a strong Self Regulating Organisation in line with the sector supervision mandate of the RBI and has brought in a strong sense of credibility for the sector as far as the external world is concerned. She has put in place a very valuable property in terms of the international microfinance conclave which is now an annual feature and has enhanced the visibility of the sector. In the development sector she has served at very senior levels in well-known international NGOs such as Oxfam and VSO. She steered these entities through critical change management processes as they transitioned from international liaison offices to 'full-fledged Indian entities'.
Namrata Kaul	Independent Director	She is a career banker with extensive experience of over 33 years across Treasury, Corporate Banking, Debt Capital markets and Corporate finance in India and UK. As Managing Director at Deutsche Bank AG, she led the Corporate Bank practice as its India Head. She currently serves as Independent Director on several Boards including Vivriti Capital, Schneider Electric, Bhopal Smart City Development Corporation and Prime Securities Ltd. She is a Chevening scholar from the London School of Economics, she holds a Bachelor of Commerce degree from Lady Shri Ram College, Delhi University, and is a Management Postgraduate from IIM Ahmedabad.
Pankaj Vaish	Independent Director	He is an Independent Director in the company. He holds a bachelor of technology degree in mechanical engineering from the Indian Institute of Technology – Banaras Hindu University (IIT – BHU), Varanasi and had also pursued a master of business administration (MBA) from the University of Minnesota, U.S.A. He is currently working as a professor of Practice of Management at the Amrut Mody School of Management, Ahmedabad University, and is an advisor to INSORCE Operational Optimizers Private Ltd., and Unlax Consumer Solutions Private Limited. In the past, he has served on the boards of Lakshmi Vilas Bank and Aptus Value Housing Finance India Limited and is currently on the board of directors of IIFL Wealth Management Limited, Krishna Institute of Medical Sciences Limited and Indium Software (India) Limited.

Source: Company, JM Financial

Exhibit 52. Key management profile

Name	Designation	Profile
Gaurav Maheshwari	Chief Financial Officer	He joined Fusion on February 3, 2016. He is a chartered accountant, he has several years of experience and in the past he has worked with Essel Mining (Aditya Birla Group) and Avantha Holdings Limited.
Deepak Madaan	Company Secretary and Compliance Officer	He joined Fusion on June 1, 2013. He is a qualified company secretary from the Institute of Company Secretaries of India and he holds a bachelors' degree in law from CH. Charan Singh University, Meerut. He has several years of experience and has previously worked with Almondz Capital and Management Services Limited as well as Megha Technical Engineers Private Limited.
Tarun Mehndiratta	Chief Operating Officer – MFI	He joined Fusion on June 19, 2017. He has a Post Graduate Diploma in Management Science from Institute of Marketing and Management, New Delhi and also an Export Marketing certification from Indian Institute of Foreign Trade, New Delhi. He has several years of experience in the BFSI sector and has previously worked with GE India, SBI Cards & Payments Services Limited, Citicorp Finance (India) Limited and SRF Finance Limited.
Kamal Kumar Kaushik	Chief Operating Officer – MSME	He joined Fusion on July 22, 2019. He is a chartered accountant. He has completed course on "Merger & Acquisitions, Buyouts, Divestitures and Restructuring – Indian Institute of Management, Bangalore and the certified export consultant program from Indian Institute of Foreign Trade, Delhi. He has several years of experience in housing and SME finance and has worked in companies such as Religare Housing Development Finance Corporation, Religare Finvest Limited, ICICI Bank Limited, HDFC Bank Limited, Fullerton India Credit Company, GE Money, Birla Home Finance Limited in the past.
Ankush Ahluwalia	Senior Vice President – Business Operations	He joined Fusion on August 3, 2015. He completed his master's in business economics from Kurukshetra University and he was chosen for a Program on Strategic Leadership in Inclusive Finance from Harvard Business School, USA. He has completed Executive Education Program on Challenges of Managing Inclusive Finance in India from Indian Institute of Management Bangalore. He has several years of experience in business operations and has worked with Magma Fincorp Limited, Development Credit Bank Limited, Kotak Mahindra Bank Limited and Religare Enterprises Limited in the past.
Naveen Kumar Mangle	Chief Technology Officer	He joined Fusion on September 17, 2019. He has completed his bachelor's in engineering from Delhi University and his master's in business administration in International Business from Indian Institute of Foreign Trade. He also attained Project Management Professional certification from Project Management Institute USA in 2007. He has several years of experience and in the past he has worked with Tata Consultancy Services, GE Capital, Birasoft Limited Mahindra Satyam, Location Labs, Polaris Consulting & Services Limited and Aviva Life Insurance Company India Limited.
Satish Mani	Senior Vice President – Audit	He joined Fusion on April 8, 2015. He has completed his bachelor's degree in Commerce from University of Delhi and completed the HBS Accion Program on Strategic Leadership in Inclusive Finance from Harvard Business School, USA. In addition he has participated in the Risk Management for Banks and Financial Institutions as well as the Challenges of Managing Inclusive Finance, executive educational programs conducted by Indian Institute of Management, Bangalore. He has several years of experience and has previously worked with GE Capital, ICICI Bank Ltd, Kotak Mahindra Bank Ltd, Sundaram Finance Limited in the past.
Sanjay Vishwanath Choudhary	Chief Risk Officer	He joined Fusion on September 2, 2020. He is a qualified chartered accountant and has completed his bachelor's degree in Commerce from University of Mumbai and post graduate diploma in Treasury and Forex Management from the Institute of Chartered Financial Analysts of India University, Tripura. In addition, he has also completed his Financial Risk Manager (FRM) certification from Global Association of Risk Professionals (GARP), USA and Certified Information Security Auditor (CISA) certification from ISACA, USA. He has several years of experience and has previously worked with Axis Bank Limited, Tata Consultancy Services, Satin Creditcare Network Limited, WIMCO Limited and ICICI Bank Limited.

Source: Company, JM Financial

Valuation and view

Fusion currently trades at 1.4x FY24E BVPS, which we believe is undemanding given sectoral tailwinds, strong growth outlook and potential to deliver superior return metrics. We expect Fusion to deliver a RoE of 22.9% by FY25E and value it at 1.75x Dec'24E BVPS to arrive at our target price of INR 550.

We value Fusion on a two-stage Gordon growth model. Our assumptions are as follows:

Exhibit 53. Valuation Summary

Initial no of years	10
Growth rate for the first 10 years (%)	14.5%
Pay-out ratio for the first 10 years (%)	20.0%
Perpetual growth rate (%)	4%
Perpetual pay-out ratio (%)	80.0%
K1	2.0
K2	7.7
Dec'24E BVPS (INR)	314
Target P / BV (x)	1.75
Fair Value (INR)	**550**

Source: Company, JM Financial

Exhibit 54. Sensitivity of EPS and BVPS on AUM growth and credit cost assumptions

	FY24E EPS sensitivity					
	AUM growth (%)					
Credit Cost (%)	FY24E EPS	24%	26%	28%	30%	32%
	0.8%	57	59	60	61	63
	1.3%	54	55	56	58	59
	1.8%	50	51	**53**	54	55
	2.3%	46	48	49	50	51
	2.8%	43	44	45	46	48

	FY24E BVPS sensitivity					
	AUM growth (%)					
Credit Cost (%)	FY24E BVPS	24%	26%	28%	30%	32%
	0.8%	274	275	276	277	278
	1.3%	271	272	273	274	275
	1.8%	268	269	**270**	271	272
	2.3%	265	266	267	268	269
	2.8%	261	263	264	265	266

	FY25E EPS sensitivity					
	AUM growth (%)					
Credit Cost (%)	FY25E EPS	22%	24%	26%	28%	30%
	0.6%	75	76	78	80	81
	1.1%	70	72	73	75	77
	1.6%	65	67	**69**	70	72
	2.1%	61	62	64	65	67
	2.6%	56	58	59	61	62

	FY25E BVPS sensitivity					
	AUM growth (%)					
Credit Cost (%)	FY25E BVPS	22%	24%	26%	28%	30%
	0.6%	333	335	336	338	339
	1.1%	329	331	332	334	335
	1.6%	325	327	**328**	330	331
	2.1%	322	323	324	326	327
	2.6%	318	319	320	322	323

Source: Company, JM Financial

Key Risks

- **Inherent risks associated with microfinance business:** In the past, MFIs have demonstrated vulnerability to force majeure events, and regulatory and legislative risks, which adversely impacted their business models by impairing growth, asset quality, profitability and solvency. Furthermore, since the business of these institutions entails lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, especially those related to interest rates and, consequently, to tighter regulations and legislation.

- **Political risk:** While NBFC-MFIs are currently regulated by the RBI, the respective governments of the states where Fusion operates may pass laws either suo moto, or in response to any legal action, which would impact the business of NBFC-MFIs. The micro-lending business is vulnerable to changes in laws/political instigation that may affect customer discipline and increase delinquencies (e.g., loan waivers). This has the potential to significantly impair business activity.

- **Resurgence of Covid:** Increased focus on collections by strengthening the collections infrastructure and gradual opening up of the economy has helped MFIs to significantly improve their collections, with collections efficiency reaching pre-Covid levels. However, the possibility of resurgence of Covid cases and any future lockdown remains a key risk for the performance of Fusion and our estimates. Thus, it remains at a risk of seeing higher NPAs due to possible deterioration in the credit quality of its customers.

- **Competitive intensity:** Fusion faces most significant organized competition from other MFIs, banks and state-sponsored social programs in India. Traditional commercial banks as well as regional and cooperative banks may continue to increase their participation in microfinance. Further, most small finance banks (SFBs) are focused on low and middle income individuals and micro, small and medium enterprises. Further, some commercial banks are also beginning to directly compete with for-profit MFIs, including through the business correspondent operating model, for lower income segment customers in certain geographies. In addition, as competition amongst microfinance players increases, borrowers may take more than one loan from different microfinance players, which may adversely affect Fusion's asset quality or the asset quality of the industry as a whole.

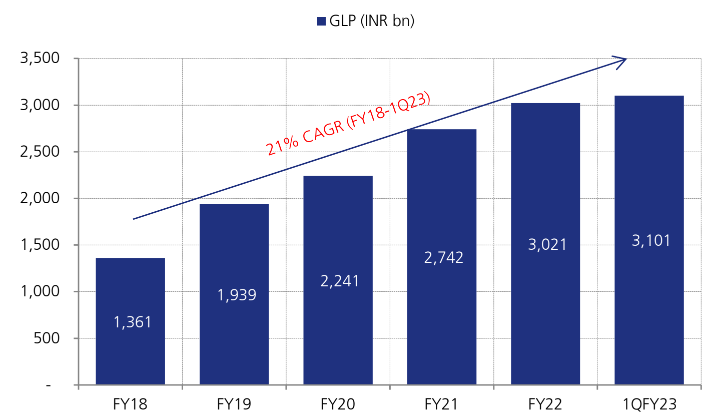
Appendix: Microfinance Industry

Industry grew at 21% CAGR over FY18-1QFY23

The microfinance sector in India grew at 21% CAGR during FY18-1QFY23 to reach INR 3.1trn as of Jun'22. In FY21, the industry was adversely impacted due to the onset of the Covid-19 pandemic. While disbursements came to a standstill in 1QFY21, they have picked up subsequently. Disbursements reached pre-Covid levels for NBFC-MFI in the third and fourth quarter of the FY21. In FY22, the second wave of Covid-19 led to a slow start in disbursements. However, with decline in the number of Covid cases and faster recovery of the industry, the situation started improving from the second half with gross loan portfolio registering 10% YoY growth in FY22.

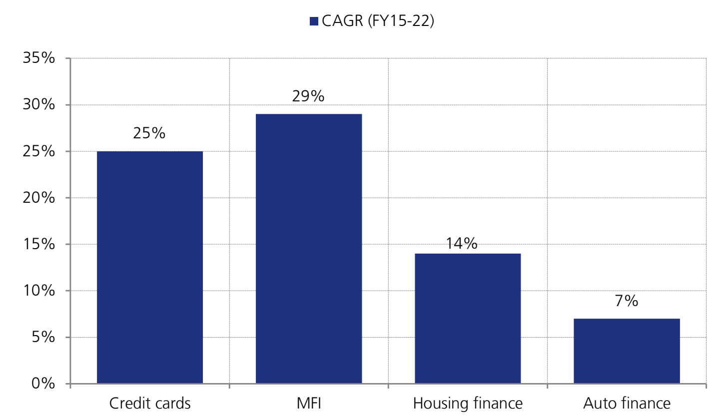
Microfinance industry has grown at a faster pace over FY15-22 compared to other retail loan segments. The microfinance industry growth has been relatively higher despite the impact of various events like demonetisation, farm loan waivers, natural calamities, IL&FS crisis and outbreak of the Covid-19 crisis.

Exhibit 55. MFI Industry has grown at 21% CAGR (FY18-1Q23)



Source: Company, JM Financial

Exhibit 56. MFI industry has grown at a faster pace

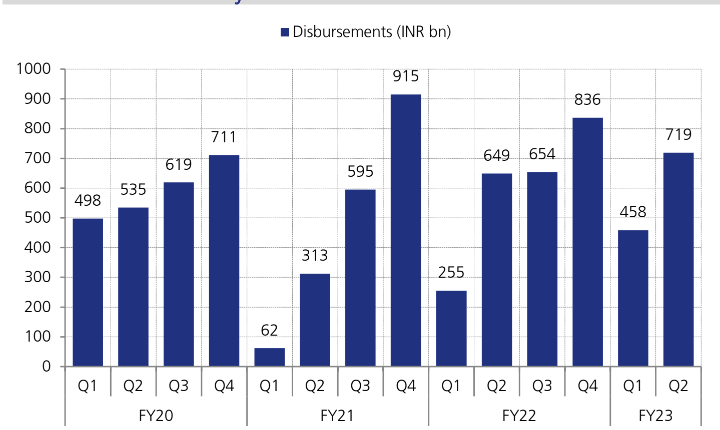


Source: Company, JM Financial

MFI loan disbursements have surpassed pre-Covid levels

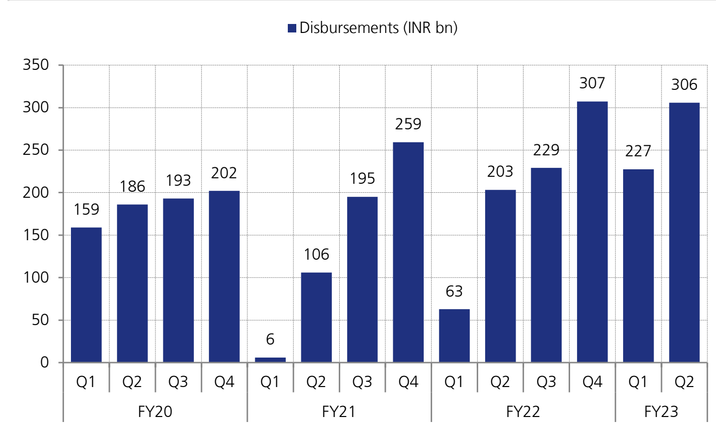
MFI loan disbursements dropped significantly in 1QFY21 on account of negligible collections and focus of players on preserving liquidity. However, as borrowers were made aware about the impact of moratorium on their outflows and as lockdowns were eased, collections started picking up, giving comfort to the lenders towards the sector. Disbursements started to increase towards 2HFY21 before getting adversely impacted by the second wave of Covid-19. However, with a recovery in economy from Jul'21, collections started to improve and disbursements picked up. In 1QFY23, overall disbursements slowed down as lenders took time to adjust to new MFI guidelines.

Exhibit 57. MFI Industry – disbursements trend



Source: MFIN Micrometer, JM Financial

Exhibit 58. NBFC-MFIs – disbursements trend

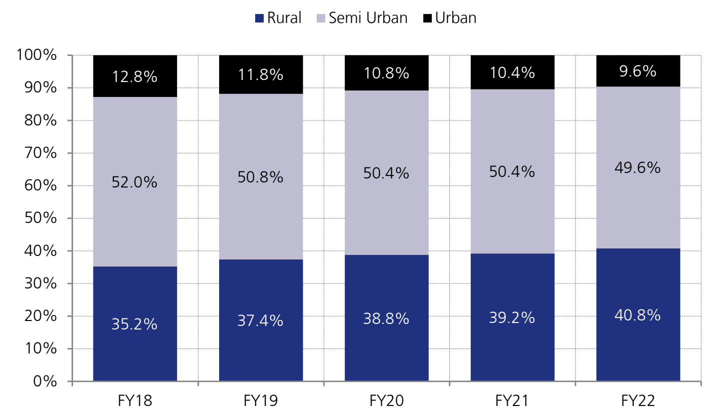


Source: MFIN Micrometer, JM Financial

Rising penetration to support continued growth of the industry

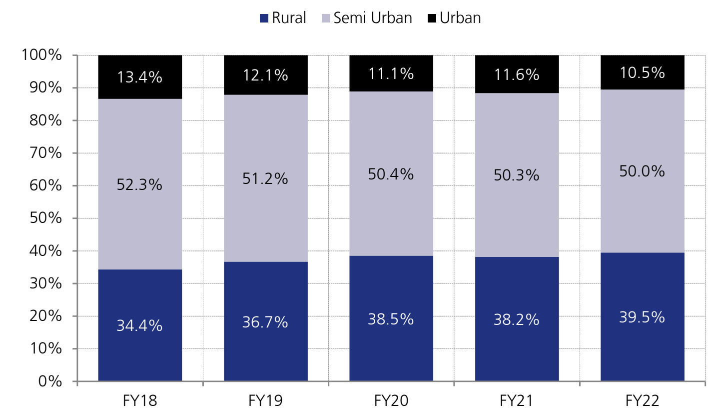
Although India's household credit penetration on MFI loans has increased to 33% in FY20 from 23% in FY17, penetration is still on the lower side as only 4 states have penetration higher than 40%. There is, thus, a huge untapped market available for MFI players. The industry grew at a CAGR of 22% over FY18-22. Further, the rural segment is expected to drive MFI business due to increasing demand from this segment. The significant under-penetration of credit in rural areas offers strong potential for improvement, and given the relatively deeper reach, existing client relationships and employee base, microfinance institutions are well placed to address this demand that is currently being met by informal sources such as local money lenders. As of 31 Mar'22, rural accounts for approximately 39.5% market share in microfinance lending.

Exhibit 59. Rural region continues to gain market share



Source: Equifax, CRISIL Research, JM Financial

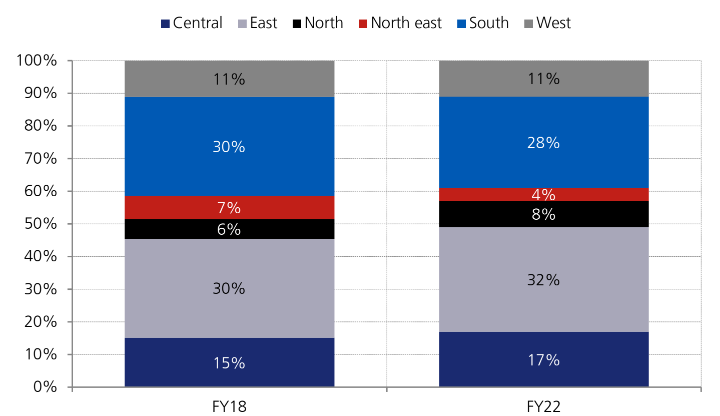
Exhibit 60. Rural accounts for c.39.5% share in overall MFI portfolio



Source: : Equifax, CRISIL Research, JM Financial

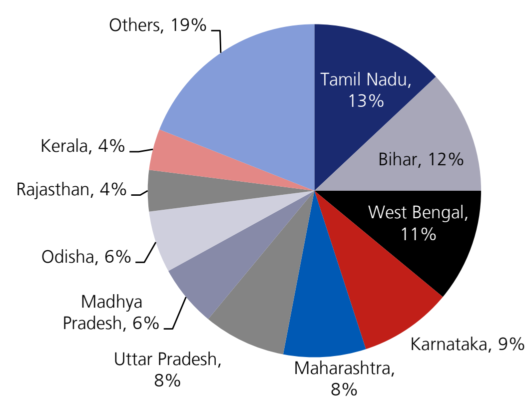
As of FY22, the region-wise distribution of MFI loans indicates that eastern and southern regions account for c. 60% of the MFI loans outstanding. Thus, potential for growth in other regions remains high.

Exhibit 61. Region-wise distribution of MFI loans (FY22)



Source: Equifax, CRISIL Research, JM Financial

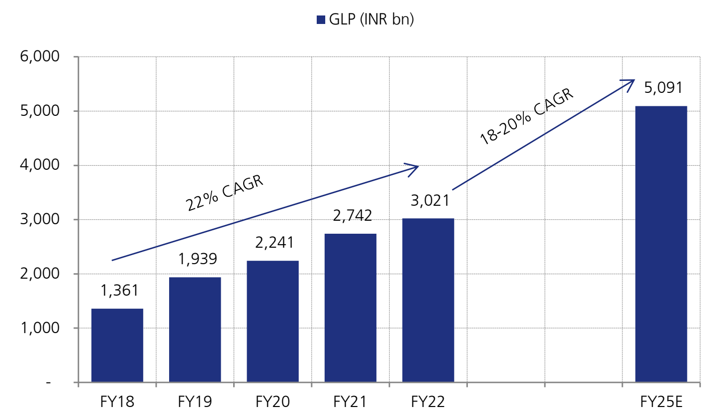
Exhibit 62. State-wise distribution of MFI loans o/s (Jun'22)



Source: Equifax, CRISIL Research, JM Financial

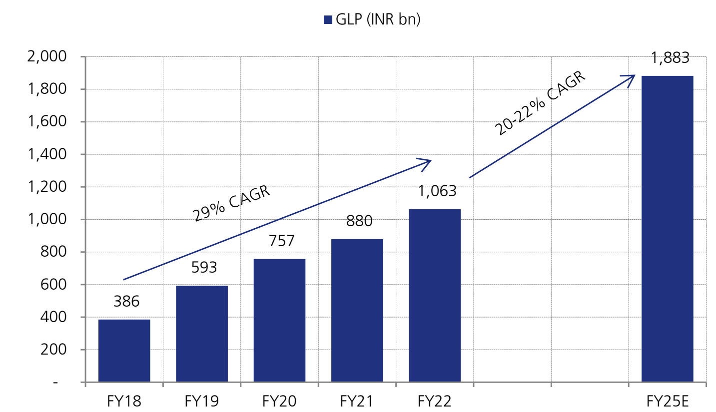
Between FY22-25E, CRISIL Research expects the MFI loan portfolio to clock 18-20% CAGR. Growth is expected to be driven by continuous expansion in the client base of MFIs and increased penetration in rural areas. CRISIL Research expects NBFC-MFIs to grow at a much faster rate vis-à-vis the MFI industry on account of increasing presence in newer states, expanding client base, and gradual increase in the ticket size. NBFC-MFIs are expected to grow faster than the industry, at a CAGR of 20-22% between FY22-25E. The share of NBFC-MFIs share is expected to increase to 38% by FY25E.

Exhibit 63. MFI Industry GLP to grow at 18-20% CAGR (FY22-25E)



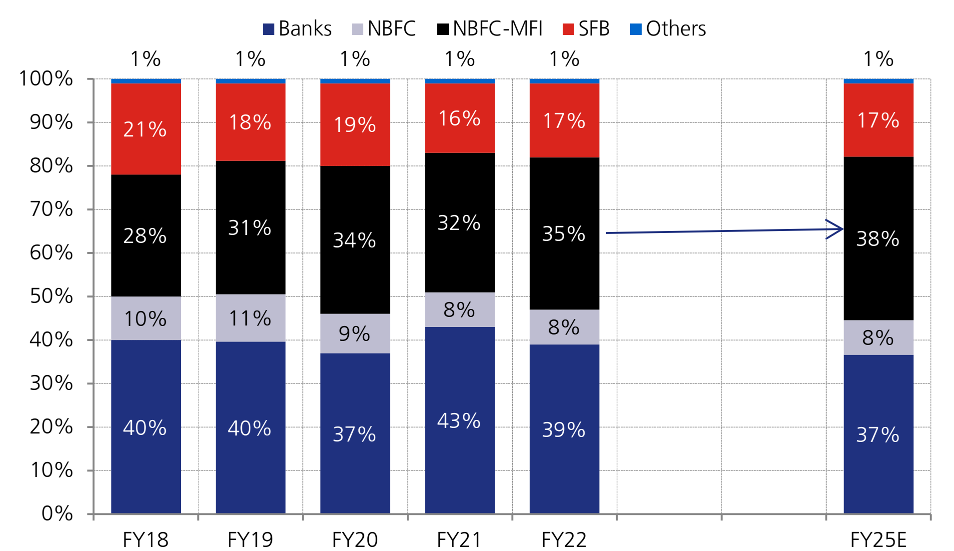
Source: CRISIL Research, RHP, JM Financial

Exhibit 64. NBFC-MFI GLP to grow at a faster rate than Industry



Source: CRISIL Research, RHP, JM Financial

Exhibit 65. NBFC-MFIs expected to gain market share



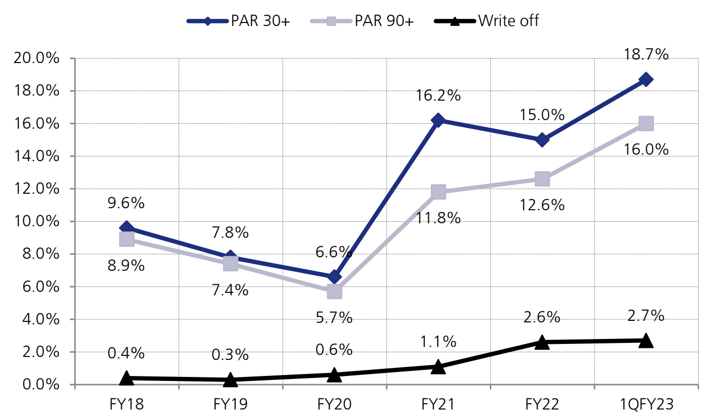
Source: CRISIL Research, RHP, JM Financial

Asset Quality

In FY21, the asset quality of the industry deteriorated quite sharply, reflecting the adverse impact of Covid-19 on the industry. The PAR>30 and PAR>90 for the industry shot up to 16.2% and 11.8%, respectively as of Mar'21. While portfolio quality deteriorated across the board for rural, semi-urban and urban areas in FY21, a closer analysis of long-term cycles indicates that asset quality tends to be much better in rural areas as compared to urban and semi-urban areas owing to strong farm income, good monsoon and resilience observed in the rural economy. Among peer groups, NBFC-MFIs asset quality improved to 5.2% in FY20 from 8.8% in FY18 but increased to 11.7% in FY21.

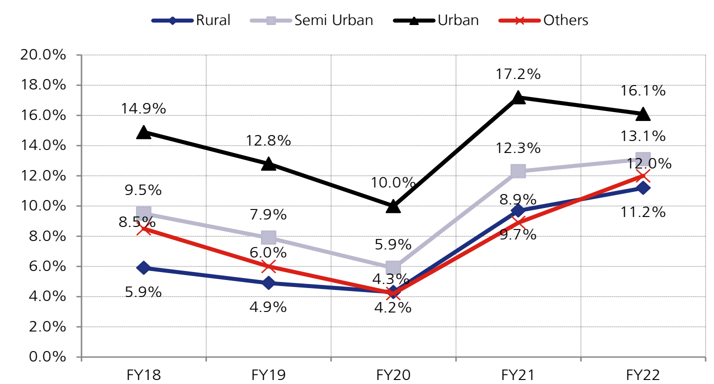
In FY22, the asset quality improved on account of higher collections and opening of economy. In 1QFY23, PAR>30 and PAR>90 for the industry deteriorated to 18.7% and 16.0% respectively, up from 15.0% and 12.6% in FY22. This could be attributed to slippages from the restructured book for various MFI players. Going forward, timely recoveries and controlling incremental slippages would be critical for MFIs to keep their asset quality under check.

Exhibit 66. Asset quality trend over the years



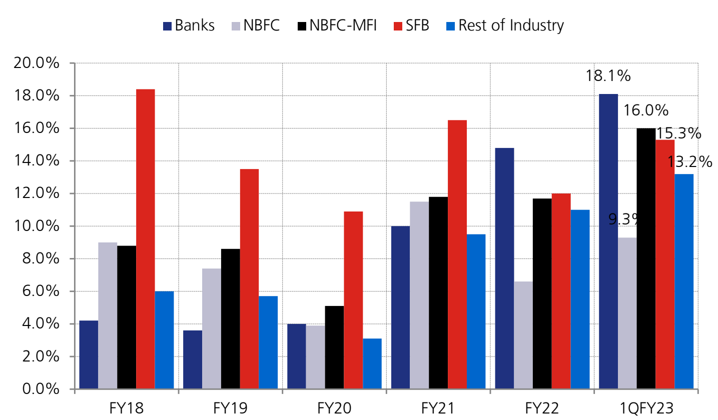
Source: Equifax, CRISIL Research, JM Financial

Exhibit 67. Asset quality of rural region is better than urban and semi urban regions (PAR 90+)



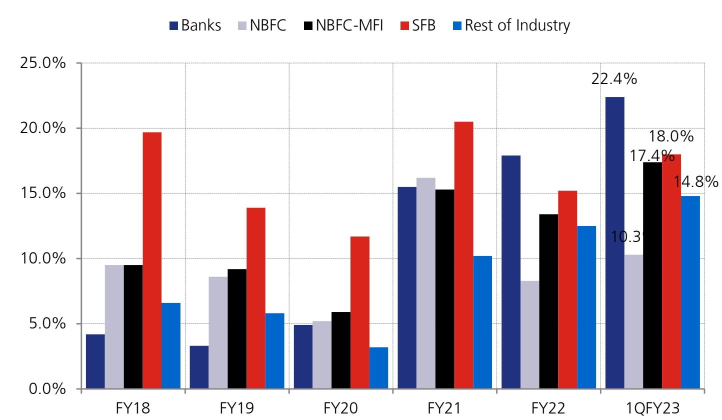
Source: Equifax, CRISIL Research, JM Financial

Exhibit 68. Asset quality of player groups in microfinance industry (PAR 90+ days)



Source: Equifax, CRISIL Research, JM Financial

Exhibit 69. Asset quality of player groups in microfinance industry (PAR 30+ days)



Source: Equifax, CRISIL Research, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Interest Income (NII)	4,632	6,292	9,555	13,083	16,327
Non Interest Income	347	762	949	1,231	1,600
Total Income	**4,980**	**7,054**	**10,504**	**14,313**	**17,927**
Operating Expenses	2,204	3,123	4,197	5,510	6,838
Pre-provisioning Profits	**2,776**	**3,931**	**6,307**	**8,803**	**11,089**
Loan-Loss Provisions	2,208	3,687	1,449	1,435	1,546
Others Provisions	0	0	245	368	424
Total Provisions	**2,208**	**3,687**	**1,694**	**1,803**	**1,970**
PBT	**568**	**244**	**4,613**	**7,000**	**9,119**
Tax	128	27	1,176	1,785	2,325
PAT (Pre-Extra ordinaries)	**439**	**218**	**3,436**	**5,215**	**6,793**
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**439**	**218**	**3,436**	**5,215**	**6,793**
Dividend	0	0	515	782	1,019
Retained Profits	**439**	**218**	**2,921**	**4,433**	**5,774**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Equity Capital	790	828	991	991	991
Reserves & Surplus	11,673	12,552	21,310	25,743	31,517
Stock option outstanding	0	0	0	0	0
Borrowed Funds	44,323	57,758	77,973	101,365	123,666
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	1,593	1,767	2,209	2,761	3,452
Total Liabilities	**58,379**	**72,905**	**102,483**	**130,860**	**159,625**
Net Advances	43,607	59,182	86,323	110,834	139,116
Investments	0	0	0	0	0
Cash & Bank Balances	13,353	11,536	13,812	16,625	19,476
Loans and Advances	0	0	0	0	0
Other Current Assets	471	1,127	880	1,800	389
Fixed Assets	183	192	249	292	324
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	765	868	1,220	1,309	319
Total Assets	**58,379**	**72,905**	**102,483**	**130,860**	**159,625**

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	49.0%	30.3%	35.0%	30.0%	22.0%
Advances	30.4%	35.7%	45.9%	28.4%	25.5%
Total Assets	37.7%	24.9%	40.6%	27.7%	22.0%
NII	30.1%	35.8%	51.9%	36.9%	24.8%
Non-interest Income	-5.3%	119.4%	24.4%	29.8%	30.0%
Operating Expenses	10.2%	41.7%	34.4%	31.3%	24.1%
Operating Profits	44.0%	41.6%	60.4%	39.6%	26.0%
Core Operating profit	55.0%	39.5%	63.6%	40.2%	25.7%
Provisions	138.2%	67.0%	-54.1%	6.4%	9.3%
Reported PAT	-36.9%	-50.5%	1,479.6%	51.8%	30.3%
Yields / Margins (%)					
Interest Spread	9.68%	9.85%	9.87%	10.15%	9.92%
NIM	9.40%	9.86%	11.19%	11.50%	11.42%
Profitability (%)					
ROA	0.87%	0.33%	3.92%	4.47%	4.68%
ROE	3.6%	1.7%	19.3%	21.3%	22.9%
Cost to Income	44.3%	44.3%	40.0%	38.5%	38.1%
Asset quality (%)					
Gross NPA	5.67%	5.81%	2.50%	1.81%	1.83%
LLP	5.73%	7.17%	2.33%	1.83%	1.58%
Capital Adequacy (%)					
Tier I	25.52%	19.93%	24.41%	23.09%	23.18%
CAR	27.26%	21.94%	25.84%	24.21%	24.10%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
NII / Assets	9.19%	9.58%	10.90%	11.21%	11.24%
Other Income / Assets	0.69%	1.16%	1.08%	1.06%	1.10%
Total Income / Assets	9.88%	10.75%	11.98%	12.27%	12.34%
Cost / Assets	4.37%	4.76%	4.79%	4.72%	4.71%
PPP / Assets	5.51%	5.99%	7.19%	7.55%	7.63%
Provisions / Assets	4.38%	5.62%	1.93%	1.55%	1.36%
PBT / Assets	1.13%	0.37%	5.26%	6.00%	6.28%
Tax rate	22.6%	10.9%	25.5%	25.5%	25.5%
ROA	0.87%	0.33%	3.92%	4.47%	4.68%
Leverage	4.7	5.4	4.6	4.9	4.9
ROE	3.6%	1.7%	19.3%	21.3%	22.9%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shares in Issue	79.0	82.8	99.1	99.1	99.1
EPS (INR)	5.6	2.6	34.7	52.6	68.6
EPS (YoY) (%)	-36.9%	-52.7%	1,219.6%	51.8%	30.3%
P/E (x)	69.8	147.6	11.2	7.4	5.7
BV (INR)	158	162	225	270	328
BV (YoY) (%)	3.8%	2.5%	39.2%	19.9%	21.6%
P/BV (x)	2.46	2.40	1.72	1.44	1.18
DPS (INR)	0.0	0.0	5.2	7.9	10.3
Div. yield (%)	0.0%	0.0%	1.3%	2.0%	2.7%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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