

# Fusion Micro Finance Ltd (FUSION IN)

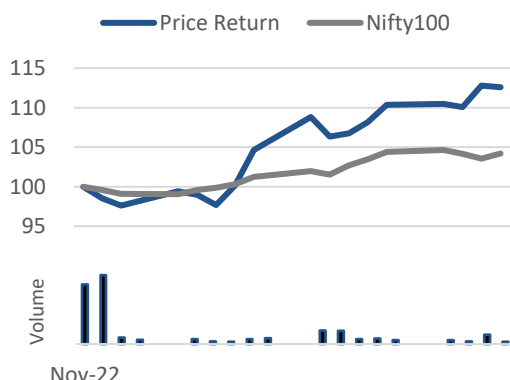
Diversification + Growth + RoAA = Rerating Imminent : Initiation

## Investment Focus

### Initiate with OUTPERFORM

Rating	OUTPERFORM
Current Price	Rs376.80
Target Price	Rs578.00
Market cap	Rs39.10bn / US\$0.47bn
Daily traded value (3mth)	US\$0.69mn
Shares in issue	100.63mn
Free float (%)	30%
1 yr high - low	Rs 403.0-321.40

Note: Current Price Rs376.8 is the close price on 9 Dec 2022



Source: Factset

		1mth	3mth	12mth
Absolute				
Absolute USD				
Relative to MSCI China				
(Rs mn)	Mar-22A	Mar-23E	Mar-24E	Mar-25E
NII	6,292	9,357	12,538	15,926
PPOP	3,931	6,370	8,458	10,825
PBT	244	4,692	6,557	8,649
PAT	218	3,519	4,918	6,487
ROAE (%)	1.7	19.9	20.6	23.1
ROAA (%)	0.3	4.1	4.4	4.6
Diluted EPS (Rs)	2.6	35.5	49.6	65.5
ABV (Rs)	149.2	214.4	252.0	300.4
P/ABV (x)	2.5	1.8	1.5	1.3

Source: Company data, HTI Estimates

FUSION microfinance is the 2<sup>nd</sup> largest and one of the fastest growing NBFC-MFIs having registered ~55% AUM CAGR over the last five years. During the same period, FUSION has reported a healthy 32% CAGR in borrowers; where-as its avg. disbursal ticket size (FY19-22) has grown at a mere 11% CAGR (Rs 35.7k - remains one of the lowest in the industry). The co. has a well-diversified presence across regions (focus on rural area: 93% of the AUMs) with no state/district contributing >20/>3% of AUMs. Further, given its transparent approach, it has access to diversified sources of capital (relationship with 57 institutions; 2<sup>nd</sup> highest amongst the NBFC MFIs). Along with this, it has a stable and experienced management team along with marquee investors (promoters). With a stringent under-writing processes, its asset quality (restructured book at 0.5%) has been relatively better.

Over FY23-25E we have factored healthy AUM CAGR of ~29% and NIMs of ~11.8%, driving NII by ~36% CAGR. Further with improvement asset quality (thus LLPs; even after factoring cushions), we expect FUSION to report superior return ratios – ROAAs/RoAEs of 4.6/23.1% (FY25E). At CMP, FUSION trades at 1.5x FY24E ABV, which we believe is attractive given the potential to deliver strong growth along with healthy return ratios. Further, it trades at ~34% discount to comparable peer (CREDAG). We initiate coverage with an OUTPERFORM rating and target price of Rs 578 implying 2.0x Dec-24E ABV of Rs 288. Risk: (i) Higher than expected stress, (ii) Slower growth, (iii) Steep rise in funding cost and (iv) Political intervention and natural calamities.

**Well diversified presence:** FUSION, since inception, has focused on geographic diversification to reduce the state concentration risk through expansion in new states and expanding into underpenetrated rural areas. As on Sep-22, it has presence in 19 states through its 1,031 branches with no state/district contributing >20/3% respectively. FUSION, also, has one of the lowest AUM/district and 2<sup>nd</sup> lowest ticket size/borrower amongst the top 10 NBFC-MFIs, as per CRISIL. We note that FUSION has a strong presence in states like UP, BR, OR, MP etc, which have relatively lower contribution in overall industry loans and has relatively lower penetration.

**Access to diversified sources of funds:** In the current liquidity environment, we believe FUSION is set to benefit from its calibrated approach towards diversifying the fund raising sources. FUSION has large and diversified lenders mix (relationship with 57 lenders; 2<sup>nd</sup> highest amongst the top 10 NBFC-MFIs) which ranges across PVT, PSBs, FBs and FI. Further, with the recent rating upgrade (by CRISIL), FUSION incrementally stands to benefit on containing the cost of funds.

**Return ratios set to improve:** Led by healthy growth, superior NIMs, marginal improvement in oplev and decline in provisions (even as cushions are created), FUSION is well placed to deliver a superior avg. RoAA/RoAE of 4.3%/21.2% over FY23-25E. The dip in LLPs will be the biggest driver for RoAA improvement during the same period.

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## FOCUS CHARTS

Figure 1: State wise AUM: Top 5 states contribute 66.1%

AUM Statewise	FY19	FY20	FY21	FY22	Q1FY23
Bihar	19.8%	18.9%	18.3%	18.7%	19.2%
Uttar Pradesh	17.8%	16.7%	16.9%	18.1%	19.2%
Odisha	14.0%	13.7%	13.5%	11.6%	11.4%
Madhya Pradesh	12.4%	10.2%	9.5%	9.3%	9.1%
Tamil Nadu	2.1%	5.1%	6.4%	7.7%	7.2%
Punjab	7.7%	8.5%	7.8%	6.8%	6.5%
Rajasthan	4.0%	4.3%	5.6%	6.8%	6.7%
Haryana	8.3%	7.6%	6.7%	5.7%	5.3%
Jharkhand	4.5%	4.5%	4.6%	4.7%	4.8%
Uttarakhand	3.4%	3.0%	2.9%	2.7%	2.6%
Gujarat	0.6%	1.5%	1.8%	2.3%	2.3%
Chhattishgarh	1.6%	1.6%	1.8%	1.9%	2.0%
West Bengal	1.8%	2.0%	1.8%	1.6%	1.5%
others	2.1%	2.4%	2.5%	2.2%	2.1%

Source: RHP, Company data, HTI Research

Figure 2: State wise branches: higher presence in low penetrated states

Branches state wise	FY19	FY20	FY21	FY22	Q1FY23	Q2FY23
Bihar	15.1%	13.5%	14.2%	14.0%	14.0%	13.8%
Uttar Pradesh	14.3%	13.5%	13.1%	18.6%	18.7%	19.9%
Odisha	14.5%	14.1%	11.6%	9.7%	9.7%	10.2%
Madhya Pradesh	14.5%	13.1%	12.3%	10.2%	10.5%	10.3%
Tamil Nadu	4.0%	7.6%	8.7%	8.9%	9.1%	8.6%
Punjab	5.4%	5.2%	4.7%	4.6%	4.5%	4.4%
Rajasthan	6.0%	6.2%	8.8%	9.9%	9.6%	9.2%
Haryana	5.2%	5.0%	5.0%	4.5%	4.4%	4.1%
Jharkhand	5.2%	4.7%	4.8%	4.4%	4.2%	4.6%
Uttarakhand	2.6%	2.4%	2.2%	2.0%	2.1%	1.9%
Gujarat	2.2%	2.7%	3.5%	3.6%	3.7%	3.6%
Chhattishgarh	3.0%	3.7%	3.9%	3.2%	3.1%	3.1%
West Bengal	2.8%	2.5%	2.1%	1.6%	1.6%	1.6%
Assam	3.2%	3.5%	2.8%	2.1%	2.1%	1.9%
others	2.4%	2.4%	2.5%	2.6%	2.8%	2.9%

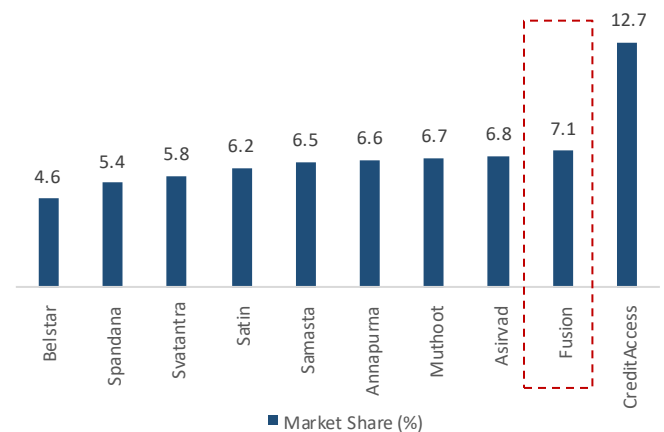
Source: RHP, Company data, HTI Research

Figure 3: AUM: faster growth vs. peers

AUM (Rs bn)	FY19	FY20	FY21	FY22	Q1FY23	Q2FY23	CAGR % (FY19-22)
CreditAccess Grameen Ltd.	71.6	99.0	113.4	137.3	129.9	137.7	24.2%
Fusion Microfinance Pvt. Ltd.	26.4	36.6	46.4	66.5	72.3	80.5	36.1%
Asirvad Microfinance Ltd.	38.4	55.0	59.9	70.0	70.1	76.6	22.2%
Muthoot Microfin Ltd.	43.5	49.3	49.8	65.7	68.6	74.0	14.7%
Annapurna Finance Pvt. Ltd.	30.2	36.9	41.0	53.3	50.6	58.1	20.8%
Samasta Microfinance Ltd.	22.9	34.0	47.4	61.6	66.9	67.2	39.0%
Satin Creditcare Network Ltd.	63.7	72.2	72.8	64.1	63.9	64.2	0.2%
Svatantra Microfin Pvt. Ltd.	12.3	26.0	35.6	54.5	59.0	56.8	64.2%
Spandana Sphoorty Financial	43.7	68.3	81.4	61.5	55.2	57.8	12.1%
Belstar Microfinance Ltd.	18.4	23.6	33.0	43.7	47.0	51.4	33.3%
Bandhan Bank	386.2	461.9	583.5	624.0	581.3	539.2	10.1%
Equitas Small Finance Bank	30.7	36.2	32.4	39.1	40.1	41.4	4.9%
Ujjivan Small Finance Bank	62.2	70.0	93.5	107.6	133.4	145.0	11.6%
Utkarsh Small Finance Bank	40.8	58.6	69.0	80.0	NA	NA	14.4%
Suryoday Small Finance Bank	24.2	28.1	29.2	33.9	33.8	34.6	7.0%

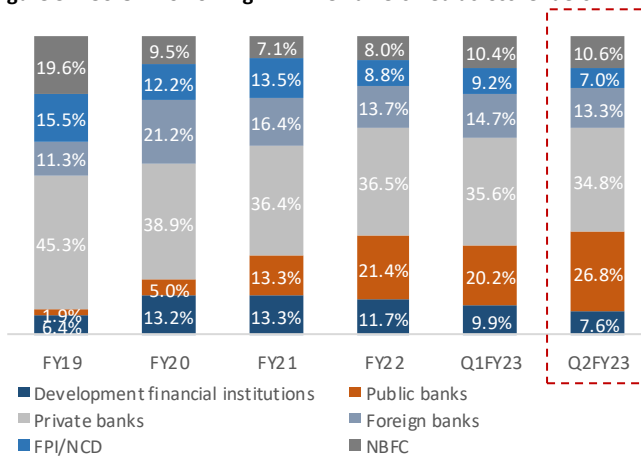
Source: RHP, Company data, HTI Research; Note: CREDAG AUM denotes standalone no.

Figure 4: Market Share amongst NBFC-MFI: At a mere 7%, despite faster growth



Source: RHP, Company data, HTI Research; As on June-22

Figure 5: FUSION Borrowing Mix: Well diversified across lenders



Source: Company data, HTI Research

Figure 6: Cost Efficiency : In-line with comparable peers

Cost to Income	FY18	FY19	FY20	FY21	FY22	H1FY23
CreditAccess Grameen Ltd.	39.2%	35.1%	38.0%	38.1%	39.0%	38.9%
Fusion Microfinance Pvt. Ltd.	68.7%	63.2%	50.8%	44.3%	44.3%	40.0%
Asirvad Microfinance Ltd.	57.2%	47.8%	33.9%	46.7%	49.7%	51.5%
Muthoot Microfin Ltd.	62.5%	62.2%	50.0%	58.5%	61.5%	53.7%
Annapurna Finance Pvt. Ltd.	66.9%	56.3%	62.0%	50.3%	63.1%	55.7%
Samasta Microfinance Ltd.	42.5%	47.6%	49.8%	62.2%	52.6%	51.7%
Satin Creditcare Network Ltd.	61.6%	51.3%	51.2%	58.5%	64.4%	32.2%
Svatantra Microfin Pvt. Ltd.	81.3%	71.5%	60.3%	59.1%	54.3%	40.2%
Spandana Sphoorty Financial Ltd.	30.4%	24.6%	19.9%	21.6%	32.8%	29.0%
Belstar Microfinance Ltd.	52.5%	44.2%	51.0%	52.7%	48.4%	55.0%
Bandhan Bank	35.4%	32.8%	31.3%	30.4%	31.2%	38.8%
Equitas Small Finance Bank	66.4%	80.0%	70.3%	66.4%	60.0%	65.2%
Ujjivan Small Finance Bank	95.3%	67.1%	76.5%	67.4%	60.6%	55.3%
Utkarsh Small Finance Bank	79.2%	57.1%	57.6%	56.5%	59.1%	52.5%
Suryoday Small Finance Bank	64.4%	46.8%	47.1%	67.5%	60.9%	55.9%

Source: RHP, Company data, HTI Research

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### FUSION Product Offerings

FUSION's focus customer segment is women in rural areas with an annual household income of up to Rs 3L. FUSION follows a joint liability group (JLG) lending model, wherein a small number of women form a group (typically comprising five to seven members) and guarantee one another's loans. This ensures credit discipline through peer support within the group, making their customers prudent in conducting their financial affairs and prompt in repaying their loans.

**Income generating loans:** Income-generating loans are FUSION's core loan product for women in rural areas and are intended to provide capital for their small businesses.

FUSION provides income-generating loans ranging from Rs 10k to Rs 40k for the first loan cycle (with loans of up to Rs 40k being available to customers with a track record of at least 14 months with their existing financier) and Rs 10k to Rs 80k for subsequent cycles. The co. charges ~1.25% of non-refundable fees on these loans and the interest rate of ~22.65% for the first cycle and 22.25% for the subsequent cycles. FUSION provides these loans for the tenure of 11-24mths with a fortnightly or monthly repayment option.

Under this segment, the company gives loans to sector such as Agriculture and allied activities (AUM of Rs 56.9bn; 77%), Manufacturing and production (Rs 7.39bn; 10%), Trade and retail (Rs 3.58bn; 4.8%), services (Rs 3.22bn; 4.4%) and other segments (Rs 624.3mn; 0.8%). As on June '22, total AUM under this product stood at Rs 71.7bn (97.1% of total AUM) to 2.88mn number of loans.

#### Other Income generating loans:

**Top-up loans:** These loans are granted to existing customers to manage their interim working capital requirements for their business. To be eligible for top-up loans, a customer must have paid a minimum of six monthly instalments, a minimum attendance rate of 60% at the scheduled center meetings and a satisfactory track record on her previous or ongoing loans with the company or any other lender.

The company provides top-up loans for amount ranging from Rs 5k to Rs 12k. Similar to income generating loans, it charges loan processing fees of 1.25% and interest rates of 22.25% with tenure of upto 12 months. Despite the strong momentum in borrower's acquisition, >50% having borrowers have 1yr+ vintage, the mgmt., has remained selective towards increasing the top-up loans. As of Jun'22, FUSION has disbursed a mere Rs 125.7mn and has an o/s AUM of Rs 286.7mn (0.4% of total AUM) to 56,353 number of loans, under this segment. Further, as on Sept-22, the no. of loans has dipped < 48000 borrowers, showings mgmts. conservative approach.

**Cross-sell loans:** FUSION also leverages their existing customer base to provide cross-sell loans that are utilized for livelihood and productivity enhancing purposes. For the same, FUSION has entered into agreements with (i) smartphone brands, (ii) bicycle manufacturers, (iii) kitchen appliances manufacturers, and (iv) agriculture solutions providers.

The prices of these products range from ~Rs1k to Rs 11.5k. FUSION charges fees of ~1% and interest rate of 22.25% and extends these loans for max. of eight months. As of Jun'22, FUSION disbursed Rs 119.7mn and AUM of Rs 194.1mn (0.3% of total AUM) to 27,805 number of loans.

**Emergency loans:** FUSION grants emergency loans to existing customers and to be eligible for this loans, a borrower must have completed at least one cycle of income-generation loans with no delinquency and a minimum attendance rate of 60% at scheduled center meetings. The company grants emergency loans for amount ranging from Rs 3k to Rs 7k. Unlike the income generating loans, the company doesn't charge any fees and charges relatively lower rates i.e. ~19%. These loans are given at max for 8 months.

**MSME loans:** To cater the continued rising demand for higher ticket size loans from the MFI borrowers and its, un-willingness to underwrite higher ticket unsecured MFI loans, FUSION has ventured into the secured, higher ticket size MSME loans in FY21.

FUSION provides MSME loans to manufacturer, trader or service provider, having investment limits of Rs 15L. The co. grants MSME loans upto Rs 15L at interest rate of ~27% and charges fees of ~3% for the same. These loans are given for max of 10yrs with monthly repayments.

MSME segment is now spread in 7 states (43 branches) and the mgmt. intends to increase its presence gradually across states. As per the mgmt., the MSME segment was under the pilot for three years and there were no major targets for the segment. However, over the next couple of years, the mgmt. expects, MSME portfolio to relatively have as higher share of the overall portfolio.

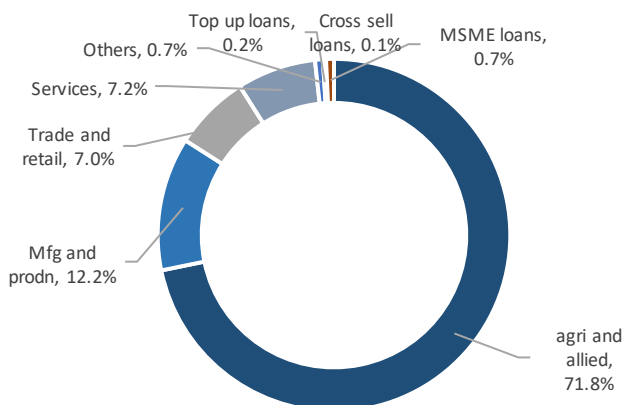
As of Jun'22, AUM stood at Rs 1.98bn (2.45% of AUM vs. 2.2% QoQ) to 7,284 borrowers vs. 6,028 borrowers QoQ and has disbursed Rs 353.7mn. As on June-22, ~26% of the MSME loans are secured in nature; where-as the rest are unsecured. The mgmt. intends to increase the share of secured loans to ~31% by FY23E and further to 35%.

**Figure 7: FUSION's products at a glance**

Product Name	Ticket size		Interest rate		Fees	Tenure	Repayment period
	1st Cycle	Subsequent Cycle	1st Cycle	Subsequent Cycle			
Income generating loans	10-40k	10-80k	22.65%	22.3%	1.3%	11 to 24 mths	Fortnight and monthly
Top up loans	5-12k	NA	22.25%	NA	1.3%	12 mths	Fortnight and monthly
Cross sell loans	1-11.5K	NA	22.25%	NA	1.0%	8 mths	Fortnight and monthly
Emergency loans	3-7k	NA	19.00%	NA	NA	8 mths	Fortnight and monthly
MSME loans	1.5 mn	NA	27.00%	NA	3.0%	10 yrs	monthly

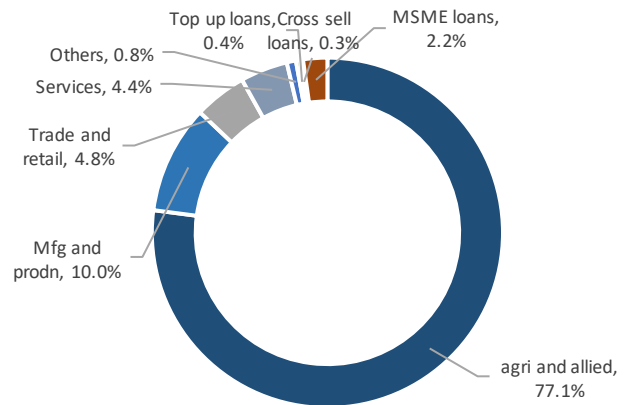
Source: RHP, Company data, HTI Research

**Figure 8: AUM break up FY21: MSME has lower share at 0.7%**



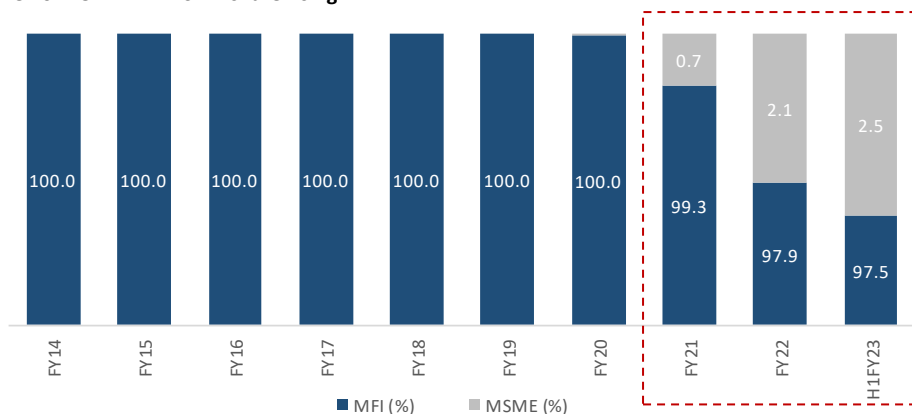
Source: RHP, Company data, HTI Research

**Figure 9: AUM break up Q1FY23: MSME rises to 2.2% in Q1FY23**



Source: RHP, Company data, HTI Research

Figure 10: AUM mix: MSME share rising



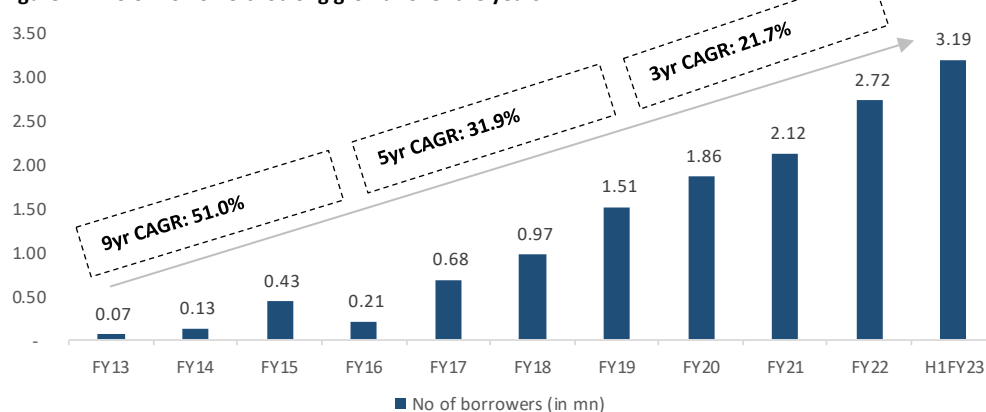
Source: RHP, Company data, HTI Research

**AUM and Disbursement: Healthy Business momentum; to continue hereon as well****Borrowers:**

Over the years, FUSION has increased its presence from a mere 62 branches in 5 states in FY15 to 934 branches in 18 states in FY22 and further has increased its presence to 19 branches with 1,031 branches as on Sept-22.

The continued branch expansion and entering into newer states has enabled FUSION to grow its active borrowers at healthy ~51% CAGR over the last 9 years (FY13-22) and 32% CAGR over the last 5 years (FY17-22) to 2.72mn. This has further increased to 3.2mn borrowers as on Sept-22, registering a growth of 42% YoY and 17% FYTD. Further, as per the mgmt., ~41% of these borrowers are unique to FUSION and ~25-26% borrowers are new to credit customers who has no formal loans.

Figure 11: No of Borrowers: Strong growth over the years



Source: RHP, Company data, HTI Research; Note: 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

With the continued branch expansion and further penetrating in the existing states, FUSION has a well-diversified state wise borrower mix as well. Similar to its branch presence, FUSION has a higher share of its borrowers in the states like BR, UP, OR and MP.

**Figure 12: Active Borrowers State-wise: Top 3 states contribute ~49.4% of total borrowers**

Active borrower state wise	FY19	FY20	FY21	FY22	Q1FY23
Bihar	21.0%	19.5%	18.2%	19.0%	19.2%
Uttar Pradesh	17.1%	16.3%	16.4%	17.3%	18.3%
Odisha	14.9%	14.6%	13.9%	12.0%	11.9%
Madhya Pradesh	13.6%	11.2%	10.0%	9.3%	9.0%
Tamil Nadu	1.3%	4.3%	6.5%	7.9%	7.7%
Punjab	6.5%	7.2%	7.5%	6.9%	6.7%
Rajasthan	4.3%	4.3%	5.5%	6.6%	6.7%
Haryana	7.3%	6.6%	6.4%	5.4%	5.0%
Jharkhand	4.6%	4.9%	4.8%	5.1%	5.1%
Uttarakhand	3.1%	2.6%	2.7%	2.5%	2.4%
Gujarat	0.5%	1.5%	1.9%	2.4%	2.4%
Chhattishgarh	1.6%	1.7%	1.8%	2.0%	2.0%
West Bengal	2.1%	2.3%	2.0%	1.8%	1.8%
others	2.1%	3.0%	2.6%	1.8%	1.7%

Source: RHP, Company data, HTI Research

Over the last three years i.e. FY19-22, FUSION has reported a healthy ~22% CAGR, which is significantly higher vs. the industry CAGR of a mere 5.5%. Similarly, FUSION has reported higher CAGR vs. comparable peers, which are in the range of -7.4 to 42.3%.

**Figure 13: Player-wise Borrowers : FUSION has grown at 21.7% CAGR vs Industry at 5.5%**

Client player wise	FY19	FY20	FY21	FY22	Q1FY23	Q2FY23	CAGR % (FY19-22)
Industry client (mn)	52.0	63.0	60.0	61.0	62.0	NA	5.5%
CreditAccess Grameen	2.5	2.9	2.9	2.9	2.8	3.8	5.5%
Fusion Microfinance Pvt. Ltd.	1.5	1.9	2.1	2.7	2.9	3.2	21.7%
Asirvad Microfinance	1.8	2.4	2.4	2.6	2.6	2.7	12.8%
Muthoot Microfin Ltd.	1.6	1.9	1.9	2.1	2.2	NA	9.7%
Annapurna Finance Pvt. Ltd.	1.5	1.8	1.9	2.3	2.3	NA	15.1%
Samasta Microfinance Ltd.	1.0	1.5	1.6	1.8	2.3	1.9	21.2%
Satin Creditcare Network Ltd.	3.2	3.1	2.7	2.5	2.4	2.3	-7.4%
Svatantra Microfin Pvt. Ltd.	0.6	1.0	1.3	1.7	1.8	NA	42.3%
Spandana Sphoorty Financial Ltd.	2.5	2.6	2.5	2.3	2.0	2.2	-2.2%
Belstar Microfinance Ltd.	0.7	1.2	1.4	1.8	1.8	NA	38.3%
Bandhan Bank	13.1	15.4	17.5	19.8	20.2	20.7	14.8%
Equitas Small Finance Bank	NA	2.4	3.9	5.7	NA	NA	NA
Ujjivan Small Finance Bank	4.6	5.3	5.9	6.5	6.6	6.9	12.0%
Utkarsh Small Finance Bank	2.0	2.8	2.9	3.1	NA	NA	16.2%
Suryoday Small Finance Bank	1.2	1.5	1.5	1.9	2.0	2.1	18.6%

Source: RHP, Company data, HTI Research

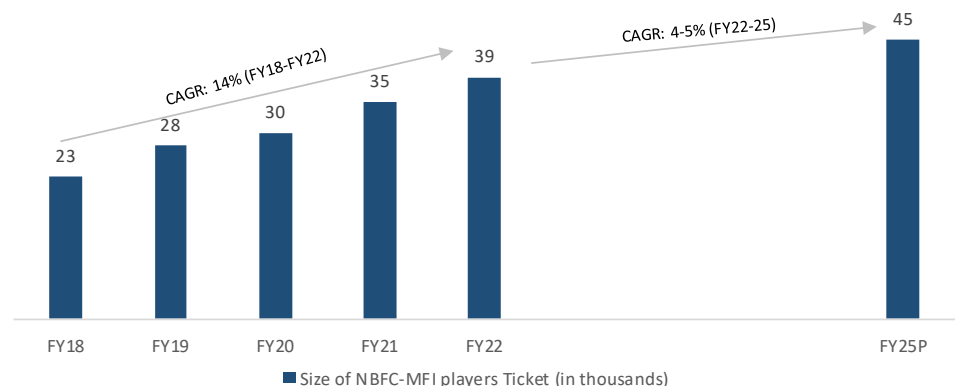
**Disbursals & ticket size:**

As per CRIF, over FY19-22, the microfinance industry has reported a mere 5.5% CAGR in disbursals ticket size to Rs 40.3k as on Mar-22. The muted growth in disbursals ticket size was on the back of a continued decline in ticket sizes by banks (-4% CAGR) to Rs 40.5k. However, SFBs and NBFC-MFIs reported a CAGR of 14.7% and ~12% to Rs 45.9k and Rs 38.2k respectively. As on June-22, the industry disbursal ticket size has remained stable at Rs ~40k with banks reporting a further decline to Rs 37.9k; where-as SFBs ticket size further inching up to Rs 46.4k. NBFC-MFIs ticket size was stable at Rs 38.5k. As per CRISIL, the NBFC-MFI segment is expected to report a mere ~4-5% CAGR in disbursals ticket size over FY22-25E to Rs 45k.

**Figure 14: 45% of loans disbursed to ticket size Rs30-50k while ~78% loans disbursed to ticket size Rs 25-75k**

Disbursals ticket size (vol in lakh)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<=15K	12.3	11.5	6.8	14.8	48.3	31.3	14.5	31.1	19.6	21.4	10.1
15K-25K	19.5	18.6	7.0	15.8	21.7	24.9	8.8	22.5	14.8	19.1	12.3
25-30K	68.6	68.9	1.8	17.7	36.5	49.3	14.2	37.3	38.6	41.7	22.0
30-50K	44.5	44.9	4.4	36.9	63.0	84.5	24.6	68.2	63.1	81.9	56.2
50-75K	32.1	38.4	1.3	7.5	16.6	26.5	8.9	19.8	22.2	26.7	18.9
75K-1L	10.9	14.6	-	2.8	6.2	12.0	28.3	6.0	7.8	10.7	5.3
1L+	-	-	-	0.7	1.3	3.6	0.6	0.7	1.3	1.9	-
<b>Disbursals ticket size (%)</b>											
<=15K	6.6	5.8	30.5	15.4	24.9	13.5	19.5	16.7	11.7	10.5	8.1
15K-25K	10.4	9.4	31.0	16.4	11.2	10.7	11.8	12.1	8.8	9.4	9.8
25-30K	36.5	35.0	7.9	18.4	18.8	21.2	19.1	20.1	23.1	20.5	17.6
30-50K	23.7	22.8	19.8	38.3	32.6	36.4	33.1	36.8	37.7	40.3	45.0
50-75K	17.1	19.5	6.0	7.8	8.6	11.4	12.0	10.7	13.2	13.1	15.2
75K-1L	5.8	7.4	-	2.9	3.2	5.2	3.8	3.3	4.7	5.3	4.2
1L+	-	-	-	0.7	0.7	1.5	0.8	0.4	0.8	0.9	-

Source: CRIF, HTI Research

**Figure 15: NBFC MFI player Disbursement ticket to see 4-5% CAGR growth (FY22-25)**

Source: RHP, Company data, HTI Research

FUSION has remained conservative and has gradually increased the disbursal ticket size over the last several years. The co's avg. disbursals ticket size over FY19-22 has grown at ~11% CAGR to Rs 35.7k vs. the other NBFC-MFI peers growing in the range of 3-24% CAGR (Rs 34.2k to Rs 45k) and industry growing at 11.7% CAGR to Rs 39k.



As on June-22, the avg. disbursements ticket size has increased a mere ~2% QoQ to Rs 36.3k vs. peers reporting a growth of -13.4 to 38.4% QoQ to be in the range of Rs 28.9k-54.0k. Despite the increase, the avg. disbursements remain below the industry avg of Rs 40k. Further, as on Sept-22, the avg. disbursements ticket size for FUSION has remained flat QoQ at Rs 36.2k.

**Figure 16: FUSION vs. peers Avg. disbursements ticket size (Rs)**

Top 10 NBFC-MFIs	FY19	FY20	FY21	FY22	Q1FY23	CAGR (FY19-22)
CreditAccess Grameen Ltd.	21,379	20,000	35,938	37,576	32,546	20.7%
Fusion Microfinance Pvt. Ltd.	26,427	29,801	32,113	35,668	36,365	10.5%
Asirvad Microfinance Ltd.	20,466	22,628	29,268	39,070	54,063	24.1%
Muthoot Microfin Ltd.	31,161	33,164	33,855	34,252	28,948	3.2%
Annapurna Finance Pvt. Ltd.	31,338	35,207	35,989	40,198	52,251	8.7%
Samasta Microfinance Ltd.	27,072	27,279	33,900	39,294	39,116	13.2%
Satin Creditcare Network Ltd.	26,723	31,486	33,113	42,110	41,252	16.4%
Svatantra Microfin Pvt. Ltd.	29,995	36,252	36,517	37,399	35,959	7.6%
Spandana Sphoorty Financial	26,279	34,308	45,318	45,025	40,458	19.7%
Belstar Microfinance Ltd.	29,355	30,747	34,430	35,025	37,816	6.1%

Source: RHP, Company data, HTI Research

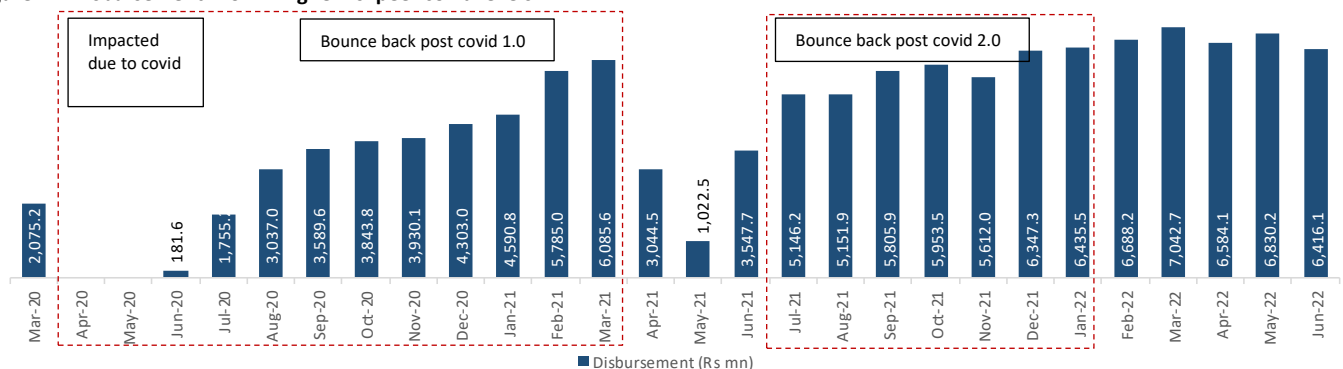
With a strong borrower addition and a mere 12/10% growth in avg. disbursements per borrowers, FUSION reported a healthy disbursements CAGR of ~50% and 67% over FY17-22 and FY13-22 respectively to Rs 61.8bn. The large proportion of disbursements (~98%) is towards the microfinance loans (MFI), where-as a mere 2% of disbursements are contributed by MSME (started in FY21).

As per the mgmt., the large proportion of disbursements are towards the income generating loans (w/w agri and allied segments has a higher share). Where-as the other product segments i.e. top-up and cross sell loans has a very small contribution.

As on June-22, the majority of disbursement were towards income generating Agri and Allied (Rs 15.71bn; 78% of total disbursement) segment.

However, the disbursements per borrowers has grown at a mere 3% YoY (flat FYTD), which has led a 27% YoY rise in overall disbursements to Rs 20.5bn. However, the disbursements have grown ~70% YoY for 1HFY23 to Rs 40.4bn. The strong disbursements growth for FUSION (esp. in 1Q) was despite impact due to implementation of RBI's revised guidelines.

**Figure 17: Disbursement MoM : Higher vs. peer covid levels**



Source: RHP, Company data, HTI Research

Figure 18: Disbursement : healthy growth over the last three years

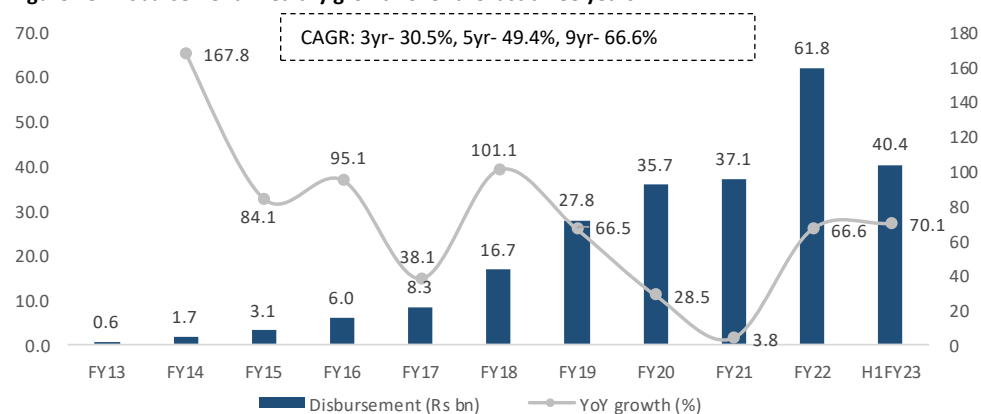


Figure 19: Industry Disbursements: NBFC-MFI continues to gain M-share

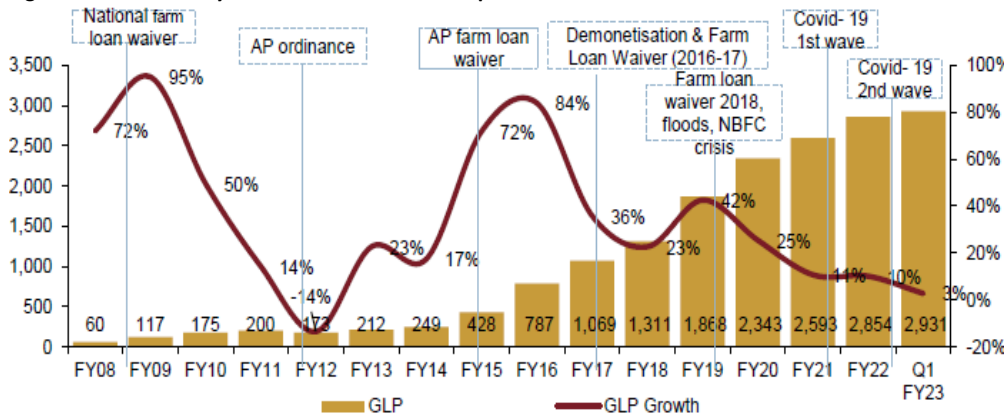
Disbursals Lender Type Mix (Rs bn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Banks	332.8	243.8	263.4	291.5	354.5	42.9	167.0	299.6	455.6	145.3	260.3	257.5	322.9	171.2
NBFC MFI	203.5	160.4	179.1	188.8	202.1	5.7	98.6	194.6	245.7	61.6	214.2	208.3	263.5	175.9
SFBs	98.4	78.1	93.1	101.8	106.0	12.8	40.4	76.1	116.1	34.5	121.2	111.7	127.4	84.4
Others	56.2	45.6	51.5	51.9	58.3	2.5	29.5	52.7	85.6	22.3	58.2	82.0	105.2	66.4
Total	690.9	527.9	587.0	633.9	720.9	63.9	335.6	623.0	903.0	263.6	653.8	659.4	819.0	497.9
M-share (%)														
Banks	48.2	46.2	44.9	46.0	49.2	67.1	49.8	48.1	50.5	55.1	39.8	39.1	39.4	34.4
NBFC MFI	29.5	30.4	30.5	29.8	28.0	8.9	29.4	31.2	27.2	23.4	32.8	31.6	32.2	35.3
SFBs	14.2	14.8	15.9	16.1	14.7	20.1	12.0	12.2	12.9	13.1	18.5	16.9	15.6	17.0
Others	8.1	8.6	8.8	8.2	8.1	4.0	8.8	8.5	9.5	8.4	8.9	12.4	12.8	13.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CRIF, HTI Research

### AUM: Growth to remain robust

Despite the challenging times (AP crises, loan waivers, Demonetisation, NBFC liquidity issues, regional floods and COVID) over the last 13yrs, the microfinance industry has remained resilient and delivered 34.6% AUM CAGR to Rs 2,854bn and has 61mn live customer base with 119mn active loans as on Mar-22.

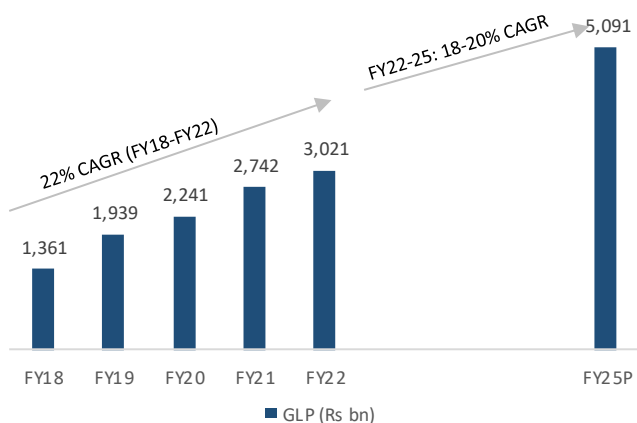
Figure 20: MFI industry shown resilience over the past decade



Source: RHP, HTI Research

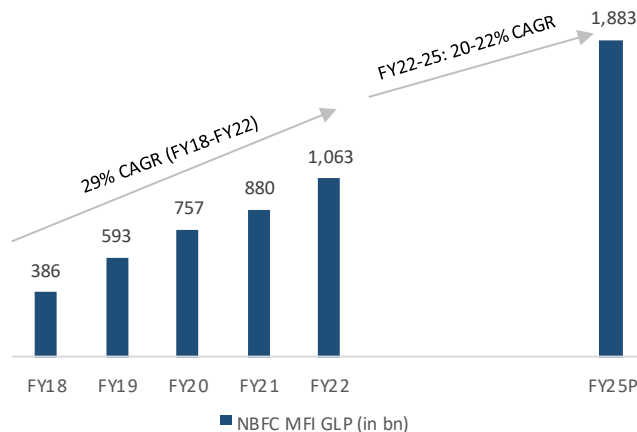
As per CRISIL, the MFI Industry is expected to grow at 18-20% CAGR over FY22-25, led by faster growth of ~20-22% CAGR in the NBFC-MFI segment. Further, the key drivers behind superior growth include increasing penetration into the hinterland and expansion into newer states, faster growth in rural segment, expansion in average ticket size, and support systems like credit bureaus.

Figure 21: MFI GLP is expected to grow at 18-20% CAGR (FY22-25)



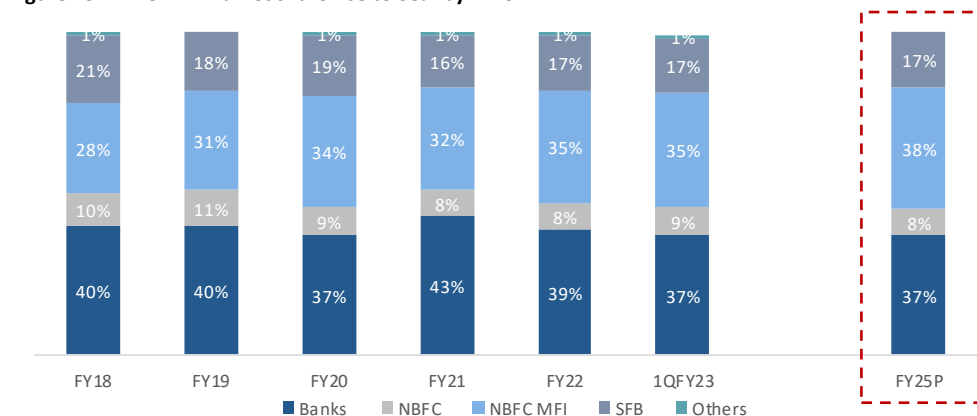
Source: RHP, Company data, HTI Research

Figure 22: NBFC MFI is expected to grow at 20-22% CAGR (FY22-25)



Source: RHP, Company data, HTI Research

Figure 23: NBFC MFI market share rise to 38% by FY25P



With a continued branch expansion, addition in new borrowers and healthy disbursements trends, FUSION has reported AUM CAGR of 55% and 70% over FY17-22 and FY13-22 respectively to Rs 67.9bn. Further, the AUM has inched up to ~Rs 80.5bn as on Sept-22 i.e. 55% YoY, ~9% QoQ and 19% FYTD.

As seen in disbursements, the large proportion of loans is towards the microfinance segment i.e. ~98% and MSME contributes a mere 2% of total AUM. Within the microfinance segment, ~96% of AUM comprises of four major income generating loans products i.e. towards Agri., Mfg., Trade and Services. The other loan products i.e. top-up and cross sell loans form sub 0.4% each for the co.

#### CREDITACCESS CAGR growth (%)

3 yr- 22.6%

5 yr- 40.1%

9 yr- 46.8%

Note: on consol basis; 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

Figure 24: FUSION: Strong AUM CAGR

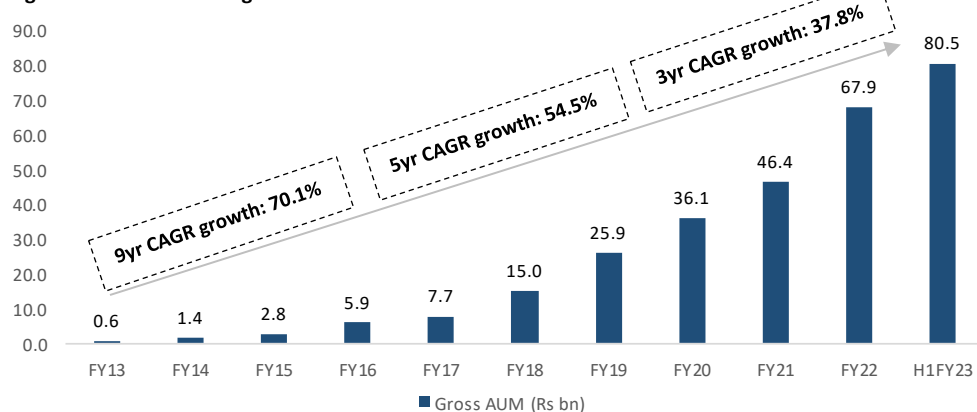
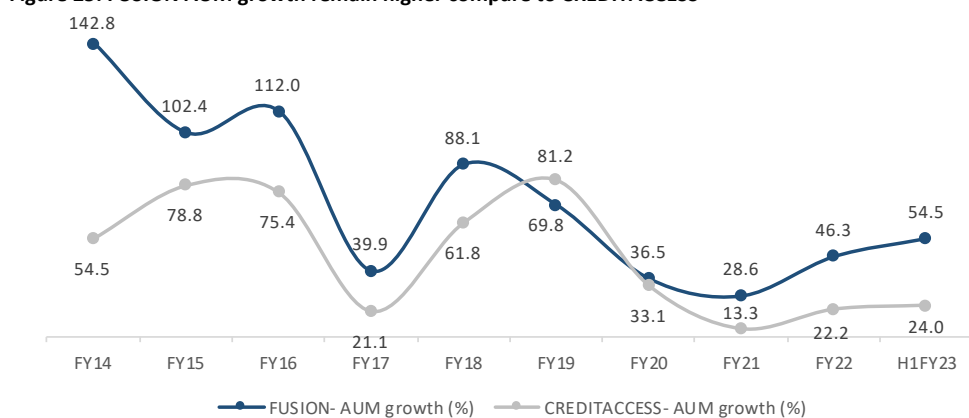
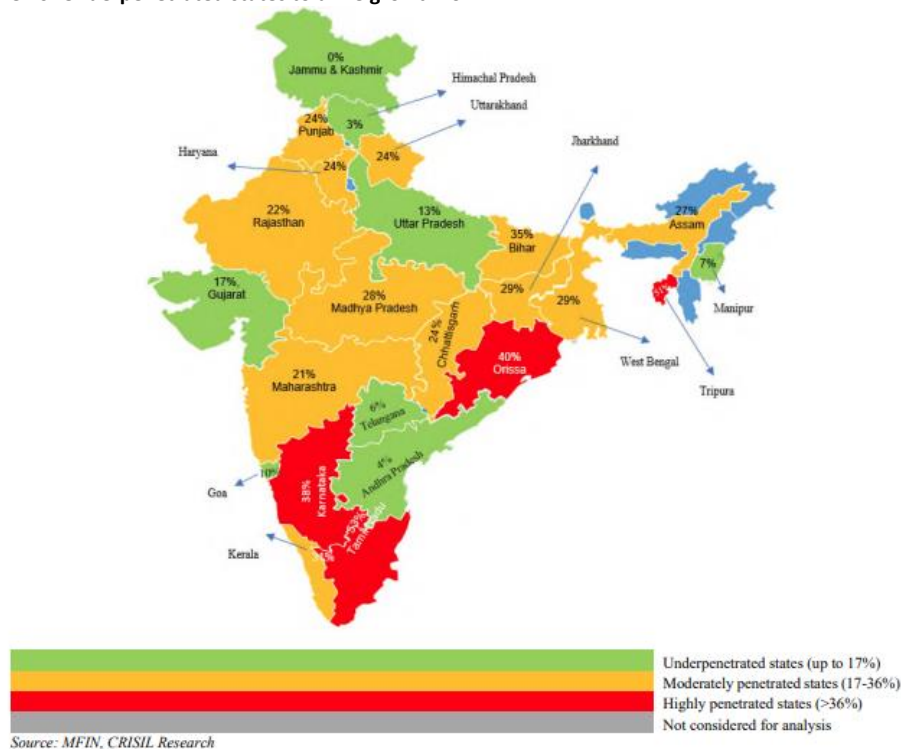


Figure 25: FUSION AUM growth remain higher compare to CREDITACCESS



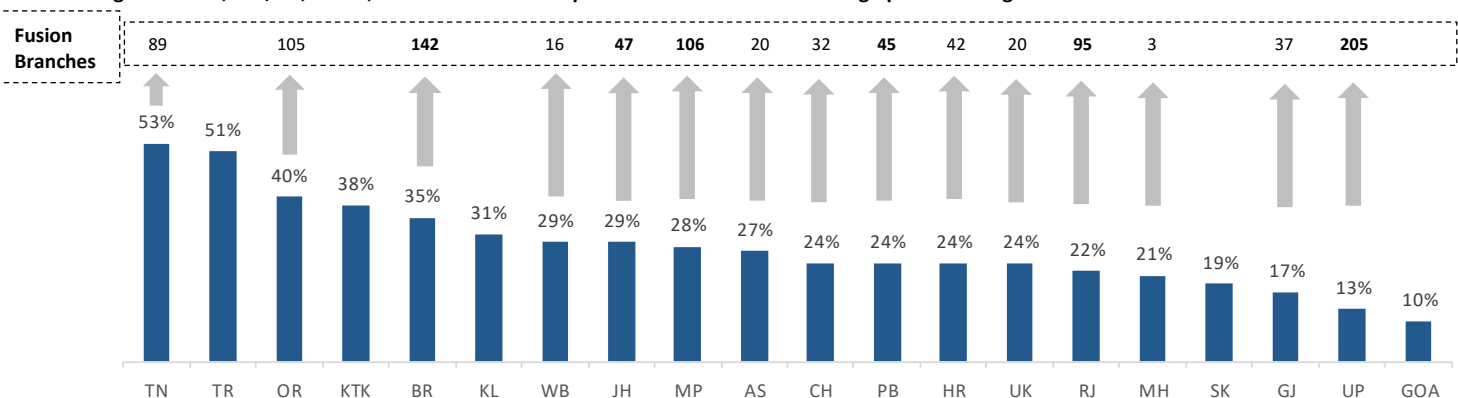
FUSION has a strong presence in states like BR, UP, OR, MP etc which have relatively lower contribution in the overall industry loans and significantly under-penetrated. As per MFIN and CRISIL, these states are penetrated in the range of a mere 13-28%.

Figure 26: Underpenetrated states to drive growth for MFI



Source: RHP, Company data, HTI Research; Note: Penetration has been computed by dividing number of unique active MFI borrowers by estimated number of households in March 2022

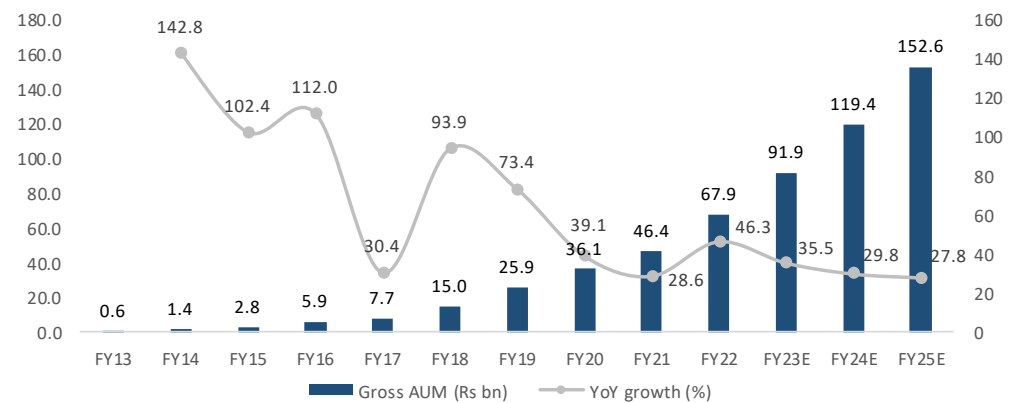
Figure 27: UP, MP, BR, OR GJ, and RJ remain underpenetrated market and has huge potential to grow



Source: RHP, Company data, HTI Research

Given the lower penetration in key states, further deepening in various geographies and a marginal rise in ticket sizes, we have factored AUM CAGR of ~29% over FY23-25E. As per the mgmt., FUSION will not be adding any other products and will continue to focus on MFI and MSME in the near term. However, by FY25E, the MSME segment will relatively have a higher share in the overall AUMs.

Figure 28: AUM: Healthy growth to continue



FUSION's avg. ticket size on o/s AUM has grown at ~12.5% over FY13-22 and ~15% CAGR over FY17-22 to Rs 24.4k. Over FY19-22, FUSION's avg ticket size has grown at 12.5% vs. NBFC-MFI peers reporting a CAGR of 4-21%. FUSION's average ticket on o/s AUM as on June-22 is the fourth lowest (Rs 24.3k) amongst the top 10 NBFC-MFI peers.

We like FUSION's conservative approach of having lower ticket size loans and not focusing on increasing market share (at the cost of quality). With this we believe FUSION is a perfect blend between risk and growth.

Figure 29: FUSION vs. peers avg portfolio outstanding per a/c

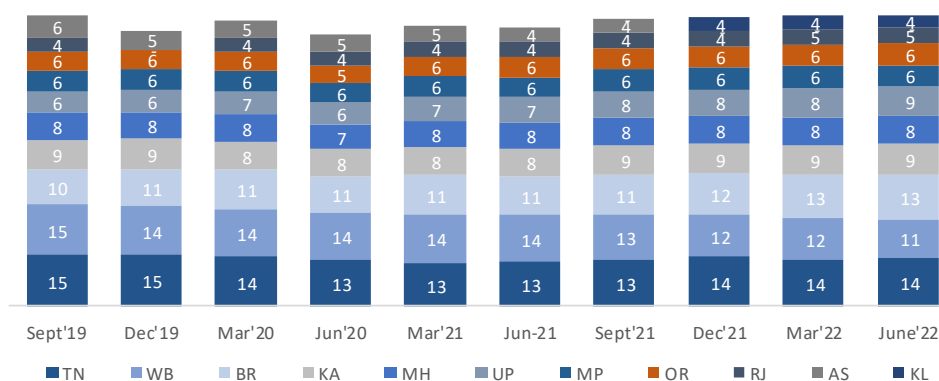
Top 10 NBFC-MFIs	FY19	FY20	FY21	FY22	Q1FY23	CAGR (FY19-22)
CreditAccess Grameen Ltd.	17,288	17,920	26,884	30,223	31,399	20.5%
Fusion Microfinance Pvt. Ltd.	16,771	19,539	21,550	23,873	24,309	12.5%
Asirvad Microfinance Ltd.	13,146	14,570	15,866	19,749	20,408	14.5%
Muthoot Microfin Ltd.	23,150	21,833	21,840	22,889	22,143	-0.4%
Annapurna Finance Pvt. Ltd.	19,776	22,672	23,537	26,469	27,201	10.2%
Samasta Microfinance Ltd.	20,458	18,653	23,734	29,770	29,244	13.3%
Satin Creditcare Network Ltd.	17,682	19,974	24,419	24,246	25,135	11.1%
Svatantra Microfin Pvt. Ltd.	21,011	10,661	13,114	26,581	25,739	8.2%
Spandana Sphoorty Financial	14,723	22,300	31,012	24,753	24,697	18.9%
Belstar Microfinance Ltd.	21,283	13,723	18,635	23,686	23,639	3.6%

Source: RHP, Company data, HTI Research

### Diversified AUM Mix

At the industry level, the MFI portfolio remains concentrated with top 10 states having ~83.8% share in the overall GLP as on Q1FY23 vs. 80.4% in Q1FY22 with TN (14.0%, +140bps), BR (12.7%, +150bps) and WB (11.0%, -260bps) being the largest contributor. MFI sector as a whole is dominated by eastern region with 32.6% vs. 33.1% QoQ (where-in Banks have 43.2% share and NBFC-MFI have 28.2%) followed by southern region with 26.7% (where SFBs have ~36.3% share).

Figure 30: Industry Portfolio mix state wise (%) - top 10 states contribute ~84%



Source: CRIF, HTI Research; Note- CRIF has stopped providing data for AS from Dec'21, instead it provides data for KL

With the diversified regional presence, FUSION has very well spread AUM mix, with no state contributing more than 20% of the total AUM (max limit for each state, as a risk practice) and no district contributing 3% of total loans. Further, the share of top 5 states (AUM wise) have gradually reduced to 66.1% as on Q1FY23 from 75% in FY18 and 94.6% in FY16. However, we note that the share of top 5 states has marginally increased to ~67% as on Sept-22 with the top two states i.e. BR and UP contribute ~19.5-19.8% each of the total AUMs.

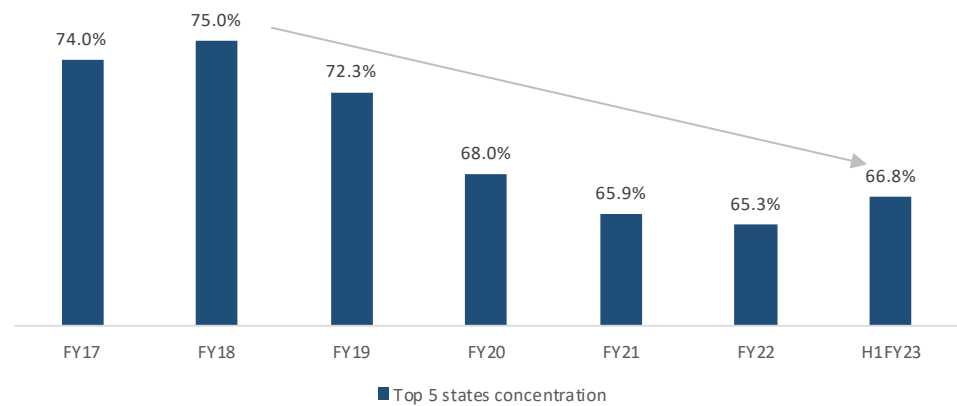
While the top states are near the threshold limits of ~20%, they are expected to continue their growth momentum and relatively newer states like RJ/GJ/PB are expected to report a faster growth. As per the mgmt., the new branches added over the last three years, contribute a mere 25% of the total business, where-as the vintage branches contribute the remaining 75%, thus having enough headroom for future growth.

Figure 31: Top 5 states forms 66.1% as on Q1FY23 and ~67% in 2QFY23

AUM statewise	FY19	FY20	FY21	FY22	Q1FY23
Bihar	19.8%	18.9%	18.3%	18.7%	19.2%
Uttar Pradesh	17.8%	16.7%	16.9%	18.1%	19.2%
Odisha	14.0%	13.7%	13.5%	11.6%	11.4%
Madhya Pradesh	12.4%	10.2%	9.5%	9.3%	9.1%
Tamil Nadu	2.1%	5.1%	6.4%	7.7%	7.2%
Punjab	7.7%	8.5%	7.8%	6.8%	6.5%
Rajasthan	4.0%	4.3%	5.6%	6.8%	6.7%
Haryana	8.3%	7.6%	6.7%	5.7%	5.3%
Jharkhand	4.5%	4.5%	4.6%	4.7%	4.8%
Uttarakhand	3.4%	3.0%	2.9%	2.7%	2.6%
Gujarat	0.6%	1.5%	1.8%	2.3%	2.3%
Chhattishgarh	1.6%	1.6%	1.8%	1.9%	2.0%
West Bengal	1.8%	2.0%	1.8%	1.6%	1.5%
others	2.1%	2.4%	2.5%	2.2%	2.1%

Source: RHP, Company data, HTI Research

Figure 32: Top 5 states concentration



Source: RHP, Company data, HTI Research

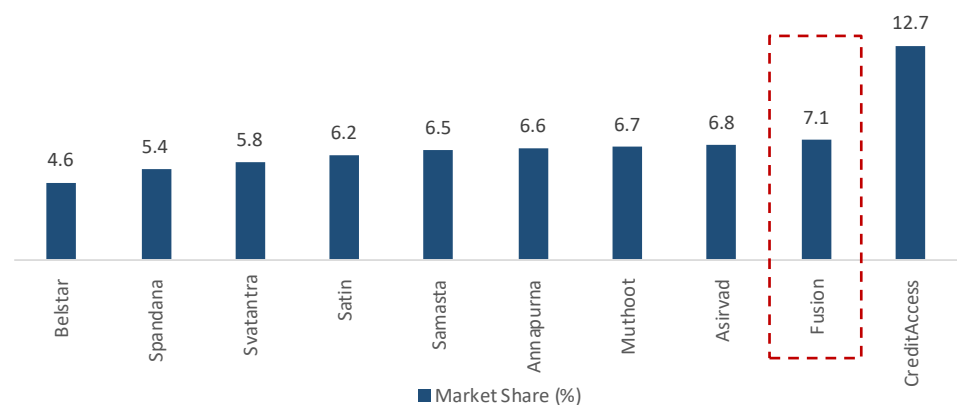
Figure 33: AUM contribution state wise (%): CREDITACCESS largely has south based exposure; FUSION well diversified

State mix (%)	FUSION	CREDITACCESS	UJJIVAN	SURYODAY	UTKARSH
Tamil Nadu	7.2	20.9	15.5	22.0	0.3
West Bengal	1.5	-	12.1	-	0.8
Bihar	19.2	-	-	-	34.3
Maharashtra	-	21.1	9.3	26.0	9.5
Uttar Pradesh	19.2	-	5.9	-	26.5
Madhya Pradesh	9.1	6.7	1.5	7.0	3.8
Odisha	11.4	-	2.5	18.0	2.7
Karnataka	-	35.2	14.1	8.0	0.5
Gujarat	2.3	-	8.2	11.0	1.2
Haryana	5.3	-	5.6	-	5.3
Jharkhand	4.8	-	2.2	-	7.1

Source: Company data, HTI Research; Note: data as per Q2FY23 except UTKARSH which is as per FY22

Further, despite the faster AUM CAGR over the last couple of years, FUSION's Market-share in the NBFC-MFI space remains at a mere 7%.

Figure 34: FUSION M-share (amongst NBFC-MFIs) at a mere 7%, despite the faster growth

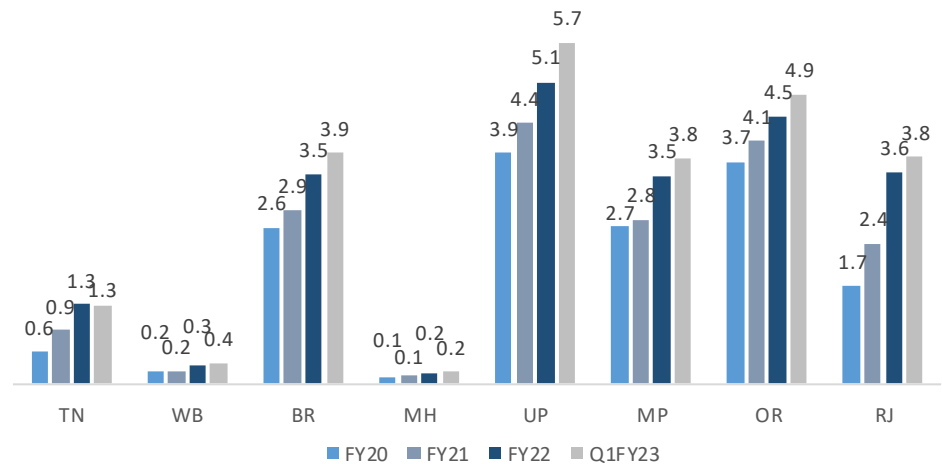


Source: RHP, Company data, HTI Research; Note: data as per Q1FY23



We also note that despite the perceived higher contribution of 20% in respective state, FUSION's overall market-share in its top states i.e. BR (3.9%), UP (5.7%), OR (4.9%), MP (3.8%), still remains on a relatively lower side. **Further the contribution from these states on overall microfinance portfolio still remains on the lower side, esp. for states like UP, MP and OR; which provides room for growth.**

Figure 35: State wise FUSION market share (%) continues to rise; but enough room to further increase



Source: RHP, Company data, HTI Research

Figure 36: State wise market share (%): FUSION has lower M-shares within states

Market share (%)	FUSION	CREDITACCESS	UJJIVAN	SURYODAY	UTKARSH
Tamil Nadu	1.3	8.1	4.4	1.9	-
West Bengal	0.4	-	4.4	-	-
Bihar	3.9	-	-	-	10.0
Maharashtra	0.2	14.4	4.6	3.9	4.4
Uttar Pradesh	5.7	-	-	-	11.4
Madhya Pradesh	3.8	6.3	-	1.3	-
Odisha	4.9	-	-	3.4	-
Karnataka	-	22.2	6.3	1.1	-

Source: CRIF, Company data, HTI Research; Note: data as per Q1FY23 and for UTKARSH as per FY22

### Geographical diversification and extensive pan India presence

FUSION is one of the few NBFC-MFIs that has started diversification from initial days' unlike peers, which started with concentration in couple of states. FUSION, choose north India and rural areas to start its business operations. Further, with a focus on diversification, FUSION moved from North India (UP/ BR) to South India (TN) and now is diversified across 19 states.

FUSION has strong focus on reducing state concentration risk through expansion into new states and deepening and widening reach into untapped markets in a strategically controlled manner.

With this strategy, over the years, FUSION has expanded its footprint from 21 branches in 4 states in FY13 to 934 branches in 18 states and UT in FY22 and further to 19 states/UTs and 1,031 branches as on Sept-22.

As a result of expansion efforts, as of Sept-22, no single state contributes more than 20% of total AUM and no district contributes more than 3%. FUSION is gradually reducing the dependence on 5 states with its share falling to 66.8% respectively from 75% in FY17. Further, the share of top 50 large districts has dipped to ~37.9% as on June-22 vs. 87.6% in Mar-16.

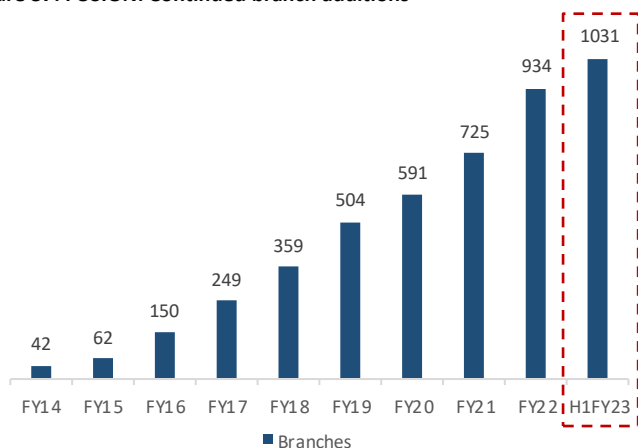
As per CRISIL, FUSION has the fourth lowest AUM per district and second lowest AUM per borrower amongst the top ten NBFC-MFIs, as on Mar-22.

As per the mgmt., from here-on the co. will further expand only in couple of additional states and look for further deeper penetration in the existing states i.e. have branches in the radius of 30-35km (similar what the co. currently has in BR – given its deep understanding about the state).

**We like the company's geographical diversification and deeper penetration strategy, which will enable the co to deliver superior growth without increasing the risk (i.e. increasing ticket sizes, significantly).**

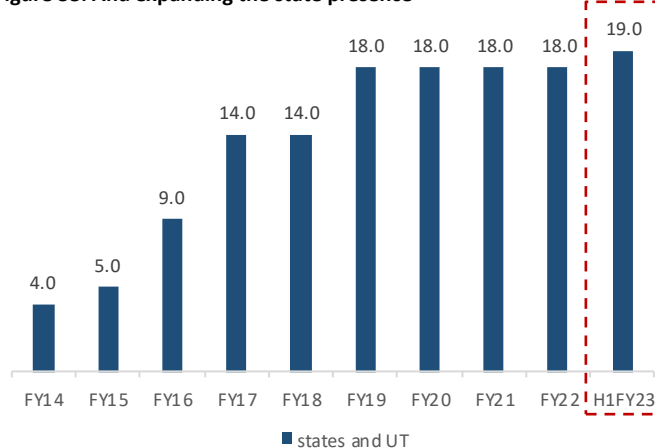
As mentioned earlier, FUSION has a relatively higher and strong branch network in states, which relatively have a lower contribution to the overall microfinance portfolio (at the industry level) and are significantly under-penetrated.

Figure 37: FUSION: Continued branch additions



Source: RHP, Company data, HTI Research

Figure 38: And expanding the state presence



Source: RHP, Company data, HTI Research

**Figure 39: Branches state wise: UP, RJ, TN and GJ saw higher branch addition over last 4 yrs**

Branches state wise	FY19	FY20	FY21	FY22	Q1FY23	Q2FY23
Bihar	15.1%	13.5%	14.2%	14.0%	14.0%	13.8%
Uttar Pradesh	14.3%	13.5%	13.1%	18.6%	18.7%	19.9%
Odisha	14.5%	14.1%	11.6%	9.7%	9.7%	10.2%
Madhya Pradesh	14.5%	13.1%	12.3%	10.2%	10.5%	10.3%
Tamil Nadu	4.0%	7.6%	8.7%	8.9%	9.1%	8.6%
Punjab	5.4%	5.2%	4.7%	4.6%	4.5%	4.4%
Rajasthan	6.0%	6.2%	8.8%	9.9%	9.6%	9.2%
Haryana	5.2%	5.0%	5.0%	4.5%	4.4%	4.1%
Jharkhand	5.2%	4.7%	4.8%	4.4%	4.2%	4.6%
Uttarakhand	2.6%	2.4%	2.2%	2.0%	2.1%	1.9%
Gujarat	2.2%	2.7%	3.5%	3.6%	3.7%	3.6%
Chhattishgarh	3.0%	3.7%	3.9%	3.2%	3.1%	3.1%
West Bengal	2.8%	2.5%	2.1%	1.6%	1.6%	1.6%
Assam	3.2%	3.5%	2.8%	2.1%	2.1%	1.9%
others	2.4%	2.4%	2.5%	2.6%	2.8%	2.9%

Source: RHP, Company data, HTI Research

**Figure 40: Branches vs. Peers**

No of branches	FY20	FY21	FY22	Q1FY23	Q2FY23	Addition since FY20
CreditAccess Grameen Ltd.	929	964	1,164	1,207	1,684	755
Fusion Microfinance Pvt. Ltd.	591	710	900	928	1,031	440
Asirvad Microfinance Ltd.	1,042	1,062	1,062	1,525	1,594	552
Muthoot Microfin Ltd.	692	755	905	957	1,027	335
Annapurna Finance Pvt. Ltd.	718	870	984	1,076	NA	358
Samasta Microfinance Ltd.	561	618	807	962	NA	401
Satin Creditcare Network Ltd.	1,140	1,011	1,029	1,031	1,039	(101)
Svatantra Microfin Pvt. Ltd.	446	512	692	761	NA	315
Spandana Sphoorty Financial Ltd.	1,010	1,052	1,120	1,117	1,115	105
Belstar Microfinance Ltd.	603	649	729	755	799	196
Bandhan Bank	1,018	1,147	1,189	1,190	1,190	172
Equitas Small Finance Bank	854	861	869	887	887	33
Ujjivan Small Finance Bank	575	575	575	590	590	15
Utkarsh Small Finance Bank	507	558	686	686	686	179
Suryoday Small Finance Bank	477	556	565	567	567	90

Source: RHP, Company data, HTI Research

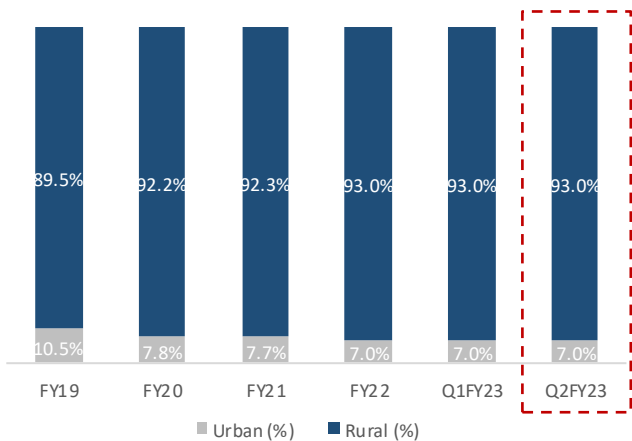
### Rural areas: Higher focus

FUSION, too, has a higher tilt towards the rural areas. As on Jun-22, FUSION's rural region has ~71% share in terms of number of customers, 72.1% share in the total branches. As on Sept-22, the share of rural areas is ~93% in total AUM.

Given the significant under-penetration in rural areas, it offers potential for healthy growth. Further, asset quality of rural region is better than urban and semi urban region since the FY17 due to better risk profile of customer and better credit discipline than the urban and semi-urban region.

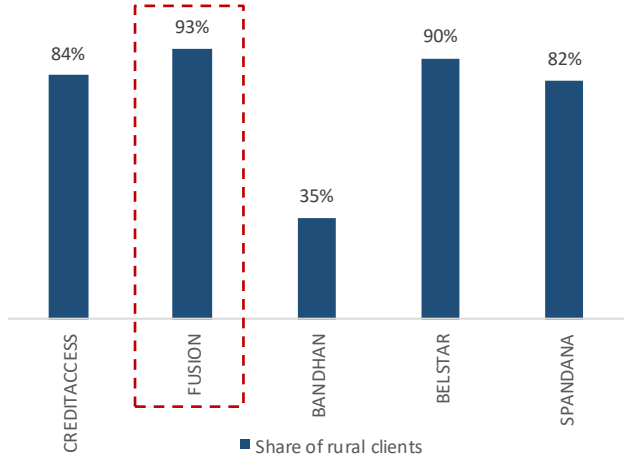
We believe with presence in the rural regions, deeper reach, existing client relationships and employee base, FUSION is relatively better placed.

Figure 41: FUSION AUM region wise: ~93% AUM comprise from rural areas



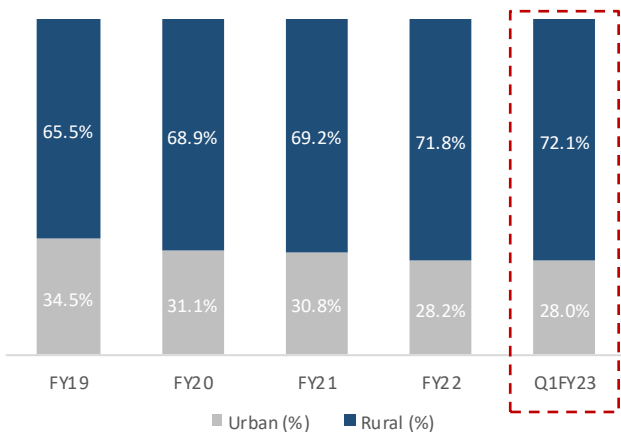
Source: RHP, Company data, HTI Research

Figure 42: Rural share: FUSION has higher share in rural (as on Q1FY23)



Source: RHP, Company data, HTI Research

Figure 43: FUSION's Branch mix: ~72% branches in rural areas



Source: RHP, Company data, HTI Research

### Access to diversified sources of capital

Similar to diversification of AUM across regions, FUSION has adopted a calibrated approach towards diversify the fund raising sources and minimizing costs of borrowings with prudent asset liability management.

We believe FUSION's USP has been to be consistent, providing granular details to all the lenders, and remaining transparent.

As per the mgmt., the top relations with banks (esp. large banks) is on the back of its transparency with these lenders during the period of disruption (Demonetisation and covid). Given this, the co. has never faced liquidity issues, even during the crisis period for NBFCs.

With this conservative approach, FUSION has been continuously widening its lender pool with the aim of adding different types of lender. Over the years, FUSION has formed a large and diversified mix of lenders which included 57 lenders as of June-22, comprising a range of public banks, private banks, foreign banks and financial institutions.

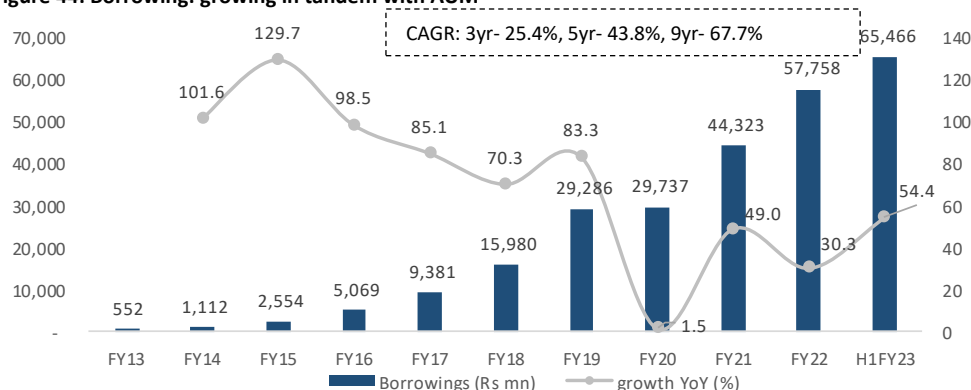
According to CRISIL, FUSION has the second highest number of lender relationships among the top 10 NBFC-MFIs in India as of March 31, 2022.

This is further evident with banks share in overall borrowings increasing to almost 80%+ vs. 30% in FY16 (w/w PSBs were at a mere 1%). As per the mgmt., FUSION despite being relatively smaller in size (AUM wise), it was amongst the top three of the list to receive the govt. grant during the covid period.

As on Sept-22, while the borrowing mix is tilted towards bank borrowing (~82.5%+ of the total borrowings), it is well diversified amongst PSBs (26.8%; incl. SBIN - largest lender, BOB), PVT Banks (34.8%; incl. HDFCB, ICICIBC), FB (13.3%, STANC) and FI (7.6%, incl. CDC group). Of the remaining 17.5%, NBFCs (incl. BAF and SUF) contribute ~10.6% and NCDs (from overseas investors) ~7.0%.

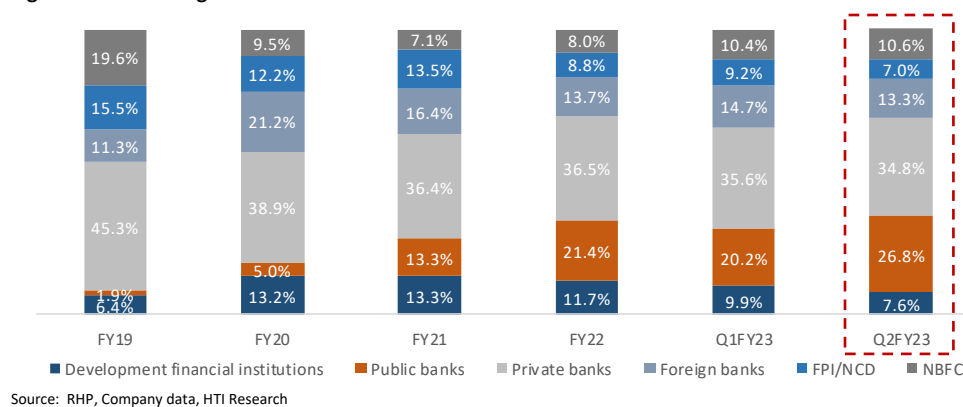
As of Sept-22, the company maintained a comfortable liquidity buffer of Rs 10.3bn and further, have Rs 32.5bn sanctions in hand and Rs 45.0bn of proposal in pipeline.

**Figure 44: Borrowing: growing in tandem with AUM**



Source: RHP, Company data, HTI Research; Note: 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

Figure 45: Borrowing mix: well diversified across lenders

Figure 46: Borrowing mix vs. peers: FUSION is well diversified with 57 lenders; 2<sup>nd</sup> highest amongst peers

Borrowing mix (FY22)	Bonds & Debentures	Loans from Banks & FI's	Bank Overdraft	ECB	Commercial Paper	Others	Number of lenders
CreditAccess Grameen Ltd.	13.1%	84.9%	-	2.0%	-	-	43.0
<b>Fusion Microfinance Pvt. Ltd.</b>	16.4%	82.2%	-	1.5%	-	-	57.0
Asirvad Microfinance Ltd.	30.7%	69.3%	-	-	-	-	60.0
Muthoot Microfin Ltd.	16.3%	72.2%	-	-	1.2%	10.3%	NA
Annapurna Finance Pvt. Ltd.	29.5%	60.9%	-	9.5%	-	0.1%	NA
Samasta Microfinance Ltd.	10.9%	88.5%	0.1%	-	0.5%	-	NA
Satin Creditcare Network Ltd.	25.3%	55.8%	3.6%	5.6%	0.5%	9.3%	56.0
Spandana Sphoorty Financial Ltd.	48.4%	51.6%	-	-	-	-	39.0
Belstar Microfinance Ltd.	29.5%	60.9%	-	9.5%	-	0.1%	44.0

Source: RHP, Company data, HTI Research

**Rating: Recently upgraded**

The company's long-term credit ratings have improved from a rating of "BBB" by CRISIL as of March 31, 2016 to a rating of "A-" by CRISIL. Further, recently, in Nov-22, CRISIL has upgraded its long term rating to A/ stable from A-/ stable and for Rs 500mn NCD to A/ stable (from A-/stable).

CARE has assigned a grading of "MFI 1" or "MFI One", which is the highest available grading on an eight-point scale. M-CRIL has awarded a score of 96.00% on the Code of Conduct Assessment for MFIs in India.

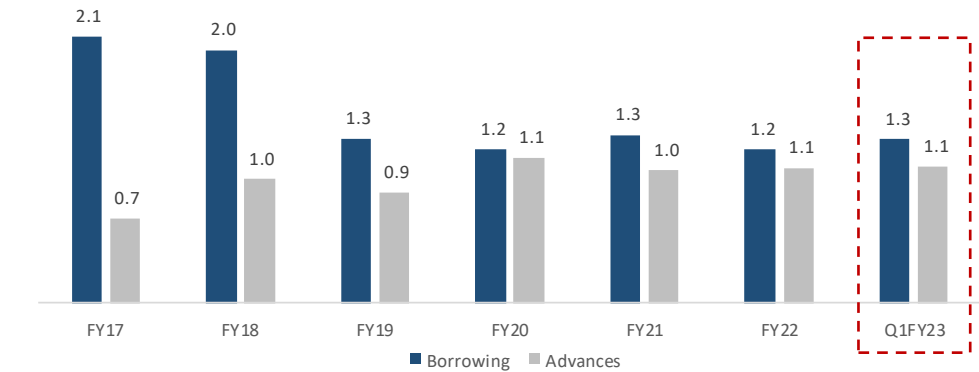
**Figure 47: Rating vs comparable peers**

Top 10 NBFC-MFIs	Date of incorporation	NBFC-MFI / SFB status date	Credit rating as of Aug 2022
CreditAccess Grameen Ltd.	1991	2013	CRISIL A+/Positive
Fusion Microfinance Pvt. Ltd.	2009	2014	CRISIL A (Stable) CARE A- (Stable) ICRA A- (Stable)
Asirvad Microfinance Ltd.	2007	2007	CRISIL AA- (Stable) BWR AA- (Stable) CRISIL A (Stable)
Muthoot Microfin Ltd.	1992	2015	IND A (Stable)
Annapurna Finance Pvt. Ltd.	1986	2009	CRISIL A- (Stable) CARE A- (Stable) ICRA A- (Stable)
Samasta Microfinance Ltd.	1995	2008	CRISIL AA- (Stable) CARE A+ (Stable) ICRA A+ (Stable)
Satin Creditcare Network Ltd.	1990	2013	CARE BBB+ (Stable) ICRA A-/ICRA A (CE) (Stable) CRISIL A+ (Stable)
Svatantra Microfin Pvt. Ltd.	2012	2013	CARE AA- (Stable) IND A+ (Stable) ICRA A- (Stable)
Spandana Sphoorty Financial Ltd.	2003	2015	ICRA A- (Stable) CRISIL A (Stable) PP-MLD [ICRA]A-(Stable)
Belstar Microfinance Ltd.	1988	2008	CRISIL AA- (Stable) CARE AA- (Stable) ICRA A+ (Stable)

Source: RHP, Company data, HTI Research

**ALM: Positive across buckets**

As of Sept-22, FUSION has favorable asset-liability positions and positive interest rate gaps across all time buckets.

**Figure 48: Duration (yrs) remain at 1.3/1.1 yrs for Borrowing and advances as of Q1FY23****Figure 49: ALM borrowing: 77% of borrowings between 3M-3Yrs**

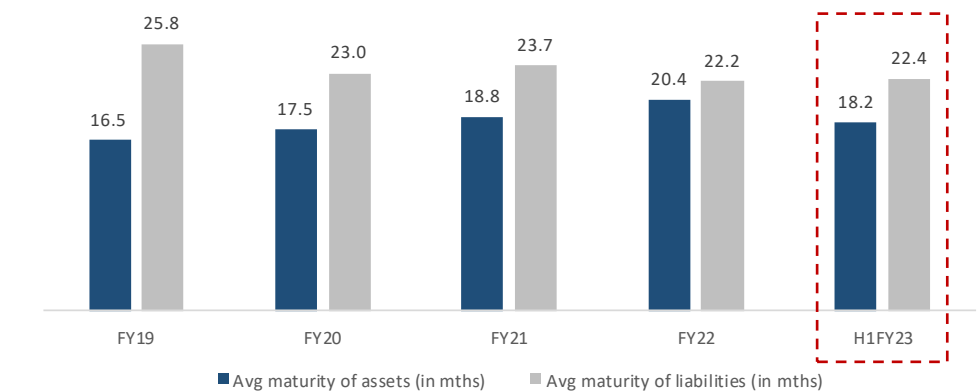
Borrowing (%)	FY17	FY18	FY19	FY20	FY21	FY22
1 to 7 days	-	-	-	-	1.2	0.3
8-14 days	-	-	-	-	1.4	1.7
15-30 days	2.7	3.1	5.3	2.1	2.5	2.8
31 dy-2 mnth	2.3	2.4	4.5	1.9	2.9	6.4
2-3 mnths	2.8	2.6	3.7	5.9	4.9	5.9
3-6 mnths	9.7	10.4	17.1	17.5	16.3	18.0
6-12 mnths	17.5	19.1	22.8	30.2	25.5	23.0
1-3 years	41.4	39.9	40.6	39.6	38.8	36.4
3-5 years	7.6	11.5	6.0	2.9	3.2	4.5
+5years	16.0	11.1	-	0.1	3.3	0.9

Source: RHP, Company data, HTI Research

**Figure 50: ALM: 82.9% of AUM between 3M to 3yrs**

Advances (%)	FY17	FY18	FY19	FY20	FY21	FY22
1 to 7 days	-	-	-	-	1.3	1.5
8-14 days	-	-	-	-	1.5	1.5
15-30 days	16.5	5.4	7.7	0.0	3.5	3.2
31 dy-2 mnth	9.1	6.0	7.3	0.0	5.3	5.3
2-3 mnths	8.5	5.6	6.3	7.6	5.6	5.4
3-6 mnths	21.7	17.7	19.9	18.6	16.4	16.0
6-12 mnths	26.2	33.1	32.3	32.8	29.0	28.7
1-3 years	18.0	32.2	26.6	40.9	37.4	38.2
3-5 years	-	-	-	0.0	0.0	0.1
+5years	-	-	-	-	0.0	0.1

Source: RHP, Company data, HTI Research

**Figure 51: Positive ALM**



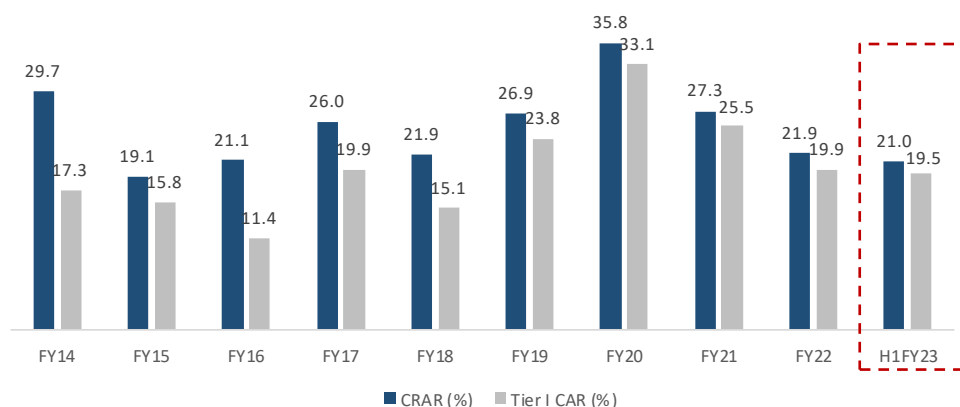
### Capital: Well-placed

Along with the large no of lending relationships, FUSION also benefits from support of marquee investors, including Warburg Pincus LLC (holds 39.4% stake), and Creation Investments Fusion, LLC (holds 23.7% stake). These both marquee investors are FUSION's promoters.

As on Sept-22, FUSION's CRAR stood at 21% (doesn't include the fund-raise). The co. has recently raised Rs 6bn through fresh issue which will further boost its CRAR/Tier I. **As per prudent policy, the mgmt. intends to maintain CRAR at >20% i.e. well above the regulatory requirement of 15%, at any given point.** We believe, FUSION is well placed with capital to capture the huge growth opportunity and absorb any asset quality related shocks.

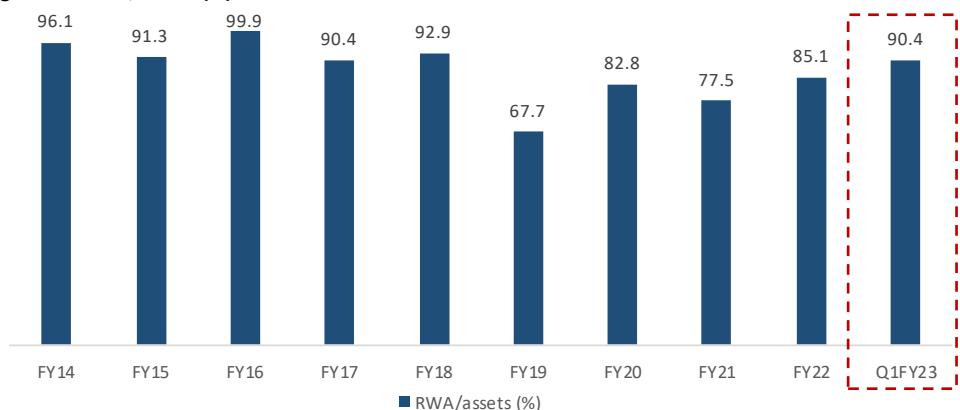
**We further believe despite the higher growth (30% CAGR), FUSION will be relatively better placed and won't require additional funds over the couple of years, given superior CRAR and return ratios.**

Figure 52: CRAR at 21% (1H no's doesn't include fund raise of Rs 6bn in Nov-22)



Source: RHP, Company data, HTI Research; Note: H1FY23 Tier I denotes Q1FY23 number

Figure 53: RWA/assets (%) rises to 90.4% in Q1FY23



Source: RHP, Company data, HTI Research

Figure 54: CRAR vs. comparable peers

Capital adequacy ratio	FY20	FY21	FY22	H1FY23
CreditAccess Grameen Ltd.	23.6%	31.8%	22.8%	29.0%
Fusion Microfinance Pvt. Ltd.	35.8%	27.3%	21.9%	21.0%
Asirvad Microfinance Ltd.	25.4%	23.3%	20.8%	NA
Muthoot Microfin Ltd.	29.1%	22.6%	28.8%	NA
Annapurna Finance Pvt. Ltd.	26.7%	27.7%	29.8%	NA
Samasta Microfinance Ltd.	25.9%	18.5%	17.8%	NA
Satin Creditcare Network Ltd.	30.5%	25.3%	27.8%	24.1%
Svatantra Microfin Pvt. Ltd.	20.2%	21.9%	24.0%	NA
Spandana Sphoorty Financial Ltd.	47.4%	40.0%	50.7%	45.3%
Belstar Microfinance Ltd.	25.7%	22.2%	24.1%	NA
Bandhan Bank	27.4%	23.5%	20.1%	19.4%
Equitas Small Finance Bank	23.6%	24.2%	25.2%	23.1%
Ujjivan Small Finance Bank	28.8%	26.4%	19.0%	26.7%
Utkarsh Small Finance Bank	22.2%	21.9%	21.6%	NA
Suryoday Small Finance Bank	35.4%	51.5%	37.9%	35.9%

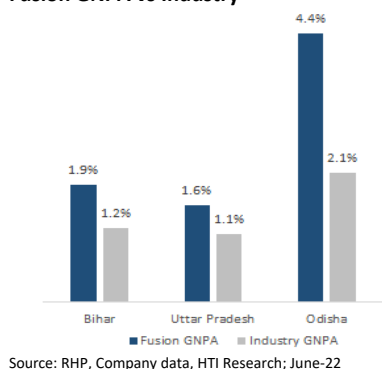
Source: RHP, Company data, HTI Research; Note: FUSION as on Sept-22, doesn't include the recent fund raise

Figure 55: FUSION: Historical Fund raise

Date	No of shares (in mn)	Reason	share premium (Rs)	Price (Rs)	Amount (Rs mn)
15-Nov-22	30.0	Public Issue	358.0	368.0	11039.9
20-Dec-19	18.1	Allotment of Equity To Others	280.5	290.5	5245.0
5-Dec-18	20.8	Allotment of Equity To Others	144.0	154.0	3208.3
15-Oct-18	0.6	Conversion of Preference Shares	42.3	52.3	32.7
16-Jul-18	0.6	Allotment of Equity To Others	100.0	110.0	71.2
8-Feb-18	1.8	Allotment of Equity To Others	100.0	110.0	193.0
30-Dec-17	6.1	Allotment of Equity To Others	100.0	110.0	675.5
12-Aug-16	9.9	Allotment of Equity To Others	90.0	100.0	991.6
5-Jul-16	0.7	Allotment of Equity To Others	17.1	27.1	19.9
11-May-16	5.3	Conversion of Debentures	70.0	80.0	424.0
19-Jun-15	2.0	Allotment of Equity To Others	42.7	52.7	106.0
29-Sep-14	4.3	Conversion of Debentures	28.0	38.0	162.5
24-Jun-14	0.3	Allotment of Equity To Others	0.0	10.0	3.0
7-Mar-13	3.1	Allotment of Equity To Others	18.5	28.5	87.5
7-Mar-13	2.0	Conversion of Preference Shares	15.6	25.6	50.0
12-Oct-11	0.2	Allotment of Equity To Others	0.0	10.0	2.0
28-May-10	2.2	Allotment of Equity To Others	10.1	20.1	45.0
14-May-10	0.3	Allotment of Equity To Others	0.0	10.0	2.9
10-May-10	1.3	Allotment of Equity To Others	0.0	10.0	12.9
31-Mar-10	0.4	Allotment of Equity To Others	0.0	10.0	3.9
23-Mar-10	0.1	Allotment of Equity To Others	0.0	10.0	1.1
12-Mar-10	0.3	Allotment of Equity To Others	0.0	10.0	2.8
18-Feb-10	0.2	Allotment of Equity To Others	0.0	10.0	2.4
16-Feb-10	0.2	Bonus	0.0	10.0	1.5

Source: ACE Equity, RHP, Company data, HTI Research; IPO includes OFS of Rs 5,040mn.

Fusion GNPA vs Industry



Asset quality: gradually Improving

Even as the microfinance sector faced various challenges over the last 10-12yrs and despite being an unsecured loan, the Microfinance sector has shown the resilience and bounced back sharply.

The sector reported a steep rise in PAR 30 and Par 90 during the covid period, with PAR touching peak of >15% in June-21 and PAR 90 touching 4.4% in Mar-21. Since then, the industry has sharply bounced back with PAR 30 declining to 5.8% and PAR 90 at ~2.2% as on June-22. We believe this has further improved in Sept-22 and the trend is expected to continue. We note that, **while the sector has seen a sharp improvement in PAR levels, it still remains higher vs. the pre-covid levels of ~2% and <1% for PAR 30 and PAR 90 respectively.**

However, we also note that the w/os for the sector has been relatively elevated at 4.5-5.7% over the last few quarters and remains significantly higher vs. pre-covid levels of avg. ~1.1%

Figure 56: Industry Value Delinquency 1-30 (%) - improves across states QoQ

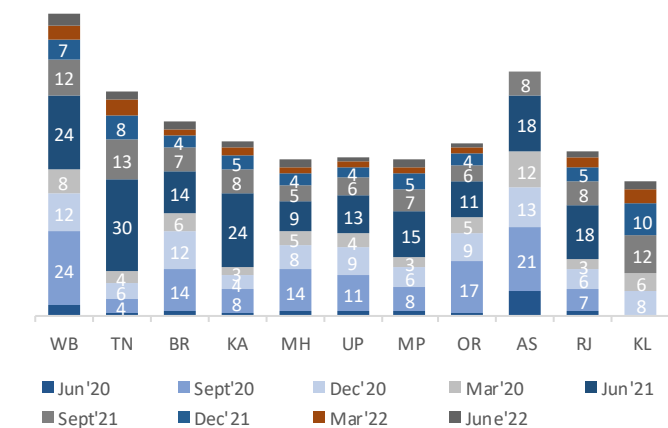


Figure 57: Industry Value Delinquency 30+ (%) - improves across states QoQ

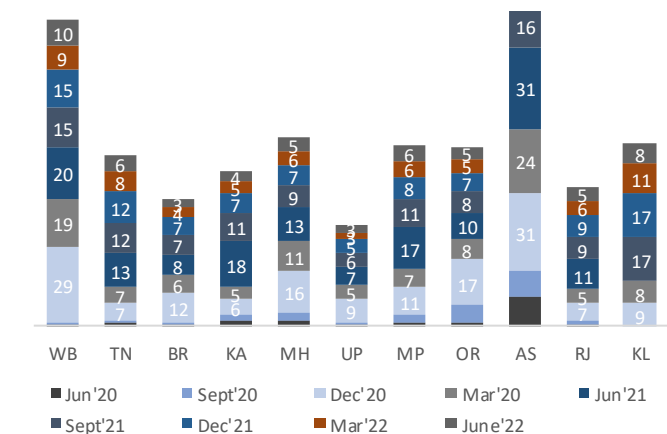


Figure 58: Industry Value Delinquency 90+ (%) - improves across states QoQ

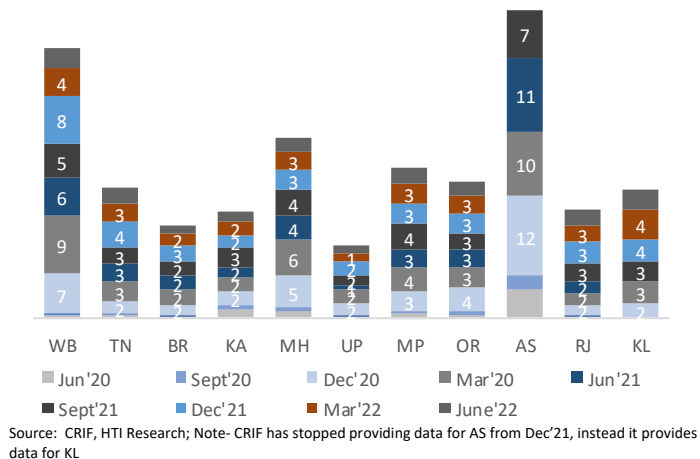


Figure 59: Industry Value Delinquency 180+ (%) - Worsens across all states, ex. BR and UP

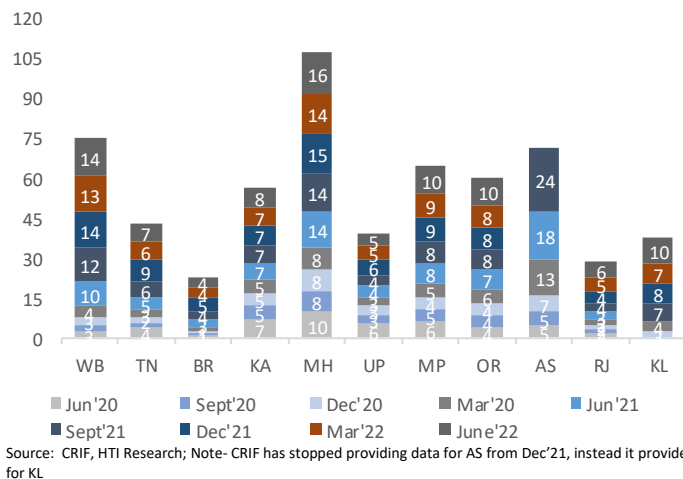
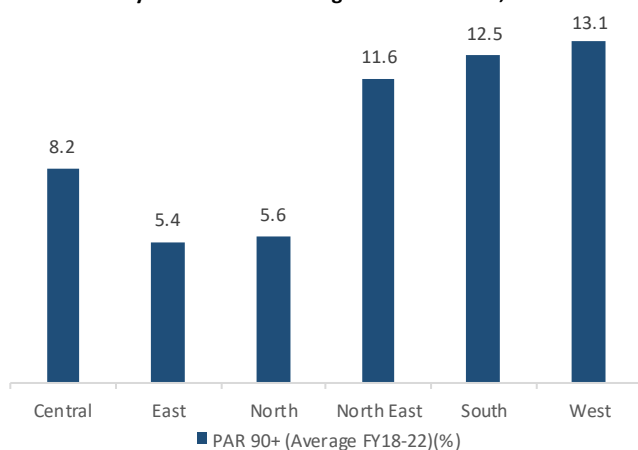


Figure 60: Industry Delinquency improves for 30/90+ DPDs; W/os rise QoQ

Delinquency Trends	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
30+%	2.9%	2.0%	2.8%	1.0%	1.3%	1.9%	2.3%	0.9%	2.4%	14.1%	9.5%	15.0%	10.4%	9.2%	6.0%	5.8%
90+%	NA	NA	NA	NA	NA	NA	0.8%	0.7%	0.5%	3.7%	4.4%	3.3%	3.3%	3.7%	2.7%	2.2%
180+%	5.5%	5.1%	4.6%	4.3%	4.5%	4.4%	4.1%	3.0%	3.2%	3.7%	4.4%	6.9%	8.0%	9.3%	8.4%	9.1%
Write-off(%)	1.1%	1.1%	1.1%	1.3%	1.3%	1.4%	1.6%	2.9%	3.2%	3.0%	3.1%	5.0%	5.1%	4.4%	4.8%	5.7%

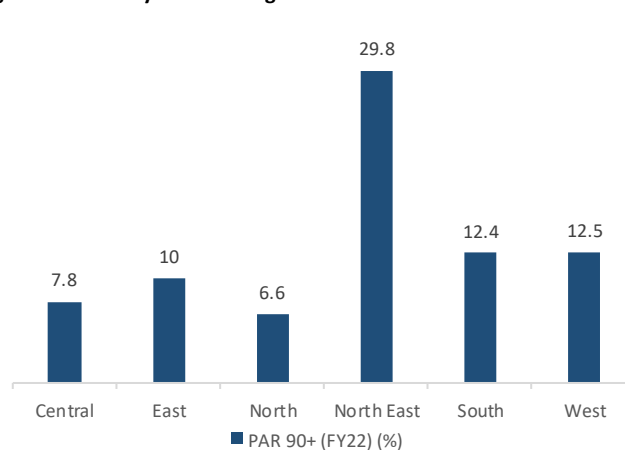
Source: CRIF, HTI Research

Figure 61: Industry PAR 90+ remains higher in north east, south and west



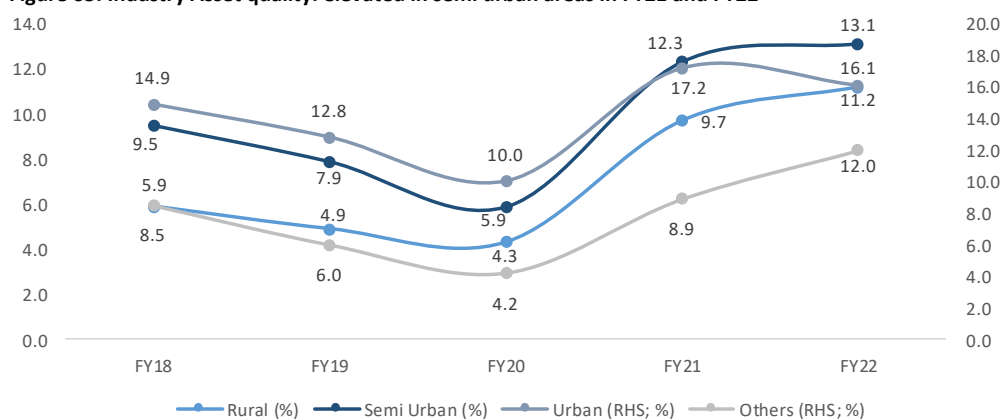
Source: RHP, Company data, HTI Research

Figure 62: Industry PAR 90+: higher in north east in FY22



Source: RHP, Company data, HTI Research

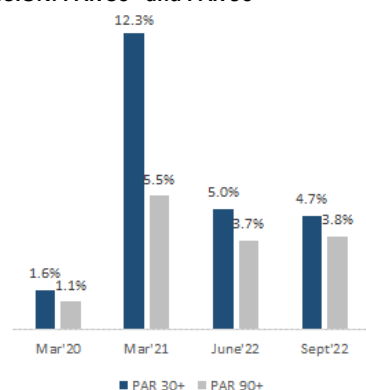
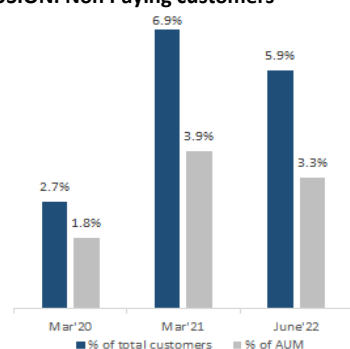
Figure 63: Industry Asset quality: elevated in semi urban areas in FY21 and FY22



Source: RHP, Company data, HTI Research

FUSION's robust risk management policies and underwriting processes, such as extensive customer assessment methodologies and monitoring systems, along with the diversified regional balance have resulted in healthy portfolio quality performance.

Its customer due diligence procedures encompass multiple levels of checks and controls designed to assess the quality of customers and to confirm that they meet our stringent selection criteria, and include comprehensive evaluation of repayment capacity and detailed cash flows analysis of the customer. Further, FUSION, utilizes credit bureau data to verify customer details and obtain information on past credit behavior. It employs proactive practices that involve frequent evaluations of portfolio risk levels on a periodic basis and rigorous monitoring and analysis of cash disbursements and collection, roll rates and customer retention at both branch and head office levels, which minimize the incidence of bad debts.

**FUSION: PAR 30+ and PAR 90+****FUSION: Non Paying customers**

Source: RHP, Company data, HTI Research

Incrementally, FUSION does loan utilization checks, where-in the relationship officers visits the borrowers' household or place of business to verify whether the loan funds received have been used for the purpose that the borrower stated in her loan application. Each relationship officer is required to conduct loan utilization checks for 100% of the loans sourced by him in the previous month, and branch managers are required to conduct loan utilization checks for a sample of 25% of loans sourced from within his designated area in the previous month.

In the initial days (2010), FUSION followed a weekly collection policy, similar to its comparable peers. However, post the various surveys with the then existing borrowers and the feedback received, FUSION has shifted to fortnightly or monthly collection methodology.

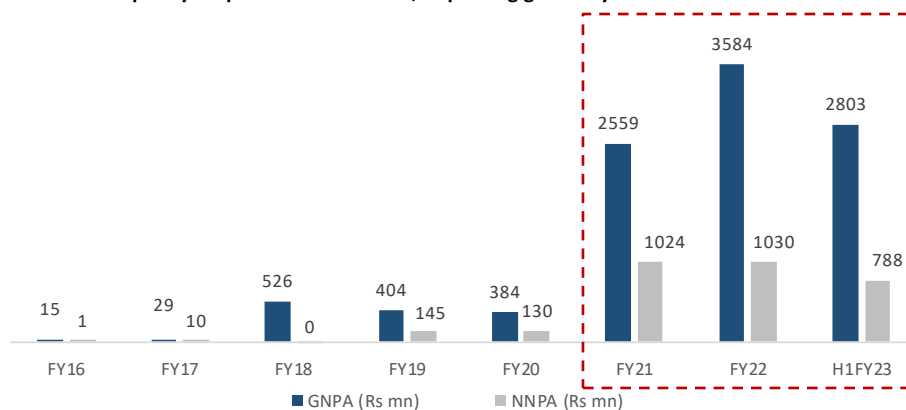
As per the mgmt., even after shift it has not impacted the overall collections nor it has impacted the asset quality performance. Further as per the mgmt., this was due to a continued interaction (being in-touch) with the borrowers.

With the stringent process, the FUSION's GNPA has remained well within the manageable levels, despite the disruptions like demonetisation and the pandemic. FUSION's avg. GNPA stood at 3% over FY17-22, which is-line with the avg. of NBFC-MFIs and lower vs. microfinance linked banks/SFBs avg. of 4.2%.

Despite the sectoral headwinds and destructions, FUSION has reported superior asset quality performance with highest GNPA's reported at ~5.7% in FY21 during the pandemic and sub 4% in FY18 post the demonitisation impact, which we believe is commendable. However, it is partially aided by higher w/os as well (as seen for the industry).

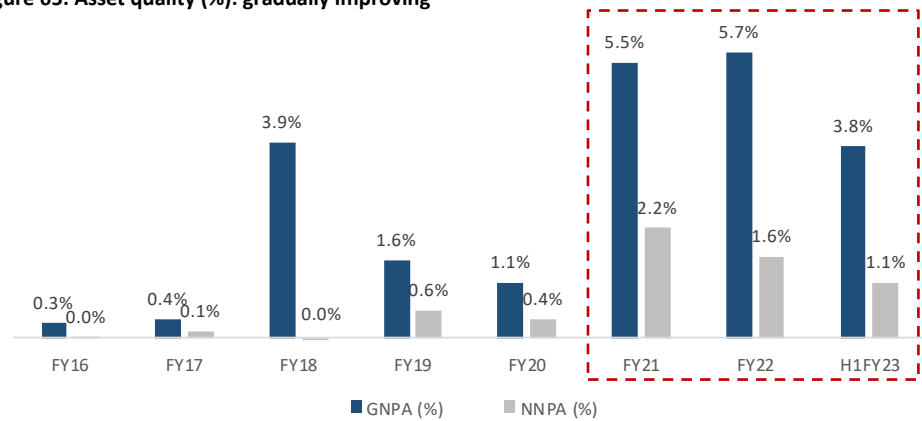
Further, if we compare the asset quality deterioration over the pandemic (FY21-22), FUSION is relatively better vs. many of the NBFC-MFIs and Banks /SFBs.

While the asset quality has improved, it is higher at 3.8% as on Sept'22 vs. the pre-covid levels. As of Sept-22, PAR 30+ stood at 4.7% (1.6% in FY20) and PAR 90+ were 3.83% (1.12% in FY20). Further, as of June-22, zero-paying customers accounted for 5.92% of total customers (2.66% in FY20) and 3.27% of total AUM (1.75% in FY20). State wise, GNPA in state of UP were 1.56%, BR- 1.9%, and OR- 4.36% as of June'22.

**Figure 64: Asset quality: impacted due to covid; improving gradually**

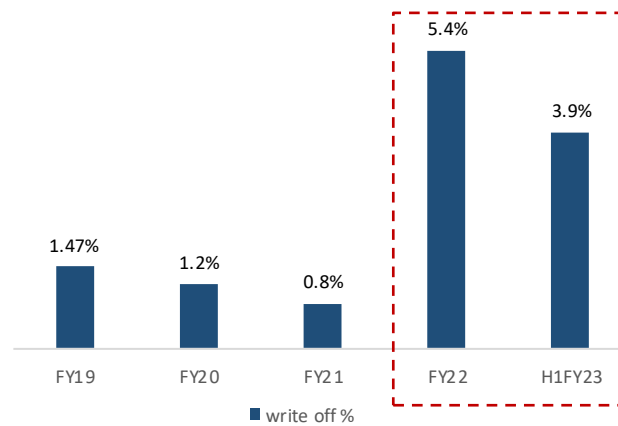
Source: RHP, Company data, HTI Research

Figure 65: Asset quality (%): gradually improving



Source: RHP, Company data, HTI Research

Figure 66: W/os higher in FY22 and H1FY23; similar to industry trends



Source: RHP, Company data, HTI Research

Figure 67: GNPA: rises during FY20-22 in line with industry peers

GNPA ratio	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
CreditAccess Grameen Ltd.	0.1%	0.8%	0.6%	1.6%	4.4%	3.1%	2.2%
Fusion Microfinance Pvt. Ltd.	0.4%	4.0%	1.6%	1.1%	5.5%	5.7%	3.8%
Asirvad Microfinance Ltd.	4.5%	1.7%	0.5%	1.6%	2.5%	3.5%	8.8%
Muthoot Microfin Ltd.	0.3%	3.4%	2.0%	5.7%	8.0%	6.8%	6.9%
Annapurna Finance Pvt. Ltd.	0.2%	2.1%	1.2%	1.4%	8.3%	10.0%	8.0%
Samasta Microfinance Ltd.	3.9%	1.0%	0.4%	1.5%	1.8%	3.0%	3.5%
Satin Creditcare Network Ltd.	0.5%	5.0%	4.0%	3.3%	8.4%	8.0%	4.0%
Svatantra Microfin Pvt. Ltd.	0.1%	3.7%	2.4%	1.3%	2.1%	3.8%	NA
Spandana Sphoorty Financial Ltd.	6.5%	1.7%	0.9%	0.5%	3.1%	17.7%	7.5%
Belstar Microfinance Ltd.	0.1%	0.8%	1.3%	1.1%	2.8%	6.0%	8.5%
Bandhan Bank	0.5%	1.3%	2.0%	1.5%	6.8%	6.5%	7.2%
Equitas Small Finance Bank	3.6%	2.8%	2.6%	2.7%	3.6%	4.2%	3.9%
Ujjivan Small Finance Bank	0.3%	3.8%	0.9%	1.0%	7.1%	7.3%	5.1%
Utkarsh Small Finance Bank	NA	1.9%	1.4%	0.7%	3.8%	6.1%	4.6%
Suryoday Small Finance Bank	6.2%	3.5%	1.8%	2.8%	9.4%	11.8%	9.9%

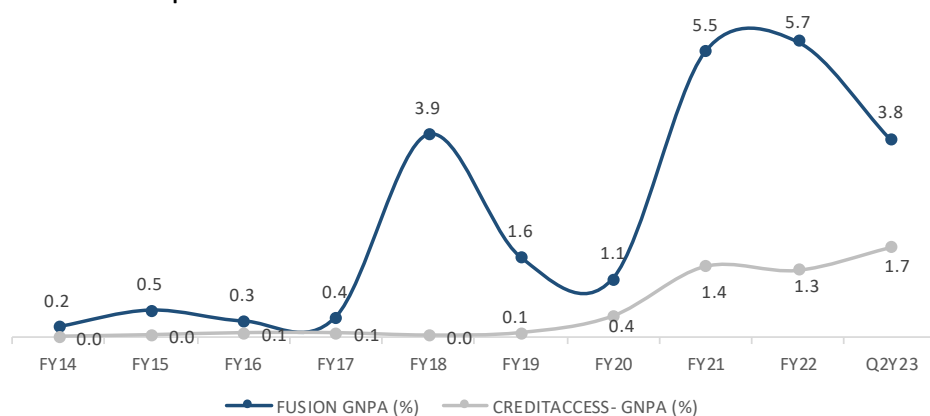
Source: RHP, Company data, HTI Research

Figure 68: FUSION NNPA remain lowers in line vs peers

NNPA ratio	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
CreditAccess Grameen Ltd.	0.0%	0.0%	0.2%	0.4%	1.3%	0.9%	0.8%
Fusion Microfinance Pvt. Ltd.	0.1%	0.2%	0.6%	0.4%	2.2%	1.6%	1.1%
Asirvad Microfinance Ltd.	1.3%	0.0%	0.0%	0.0%	0.0%	0.2%	1.7%
Muthoot Microfin Ltd.	0.3%	2.0%	1.2%	4.1%	NA	1.9%	NA
Annapurna Finance Pvt. Ltd.	0.0%	0.3%	0.7%	0.8%	4.2%	2.9%	NA
Samasta Microfinance Ltd.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NA
Satin Creditcare Network Ltd.	0.3%	4.9%	2.3%	-0.1%	3.3%	2.4%	1.0%
Svatantra Microfin Pvt. Ltd.	0.0%	0.7%	0.6%	0.7%	1.0%	1.6%	NA
Spandana Sphoorty Financial Ltd.	1.6%	0.1%	0.0%	0.1%	1.4%	9.7%	4.0%
Belstar Microfinance Ltd.	0.0%	0.3%	0.1%	0.1%	0.6%	1.5%	2.6%
Bandhan Bank	0.4%	0.6%	0.6%	0.6%	2.4%	1.7%	1.9%
Equitas Small Finance Bank	1.8%	1.7%	1.6%	1.5%	1.5%	2.5%	2.0%
Ujjivan Small Finance Bank	0.0%	0.7%	0.3%	0.2%	2.9%	0.6%	0.0%
Utkarsh Small Finance Bank	NA	1.1%	0.1%	0.2%	1.3%	2.3%	1.0%
Suryoday Small Finance Bank	3.8%	1.9%	0.4%	0.6%	4.7%	6.0%	4.8%

Source: RHP, Company data, HTI Research

Figure 69: FUSION impacted due to covid led to deterioration in FY21-22 vs CREDITACCESS

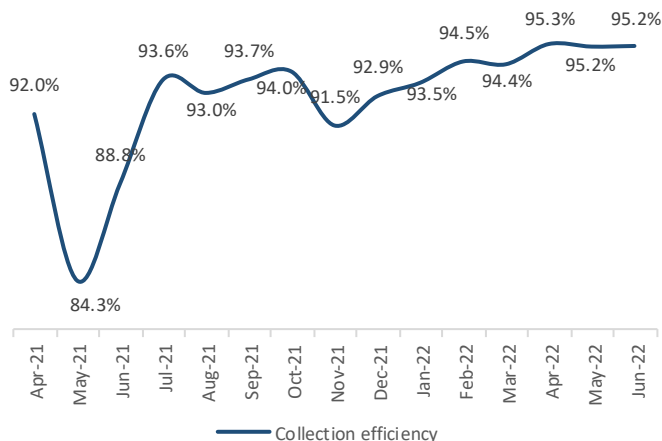


Source: RHP, Company data, HTI Research

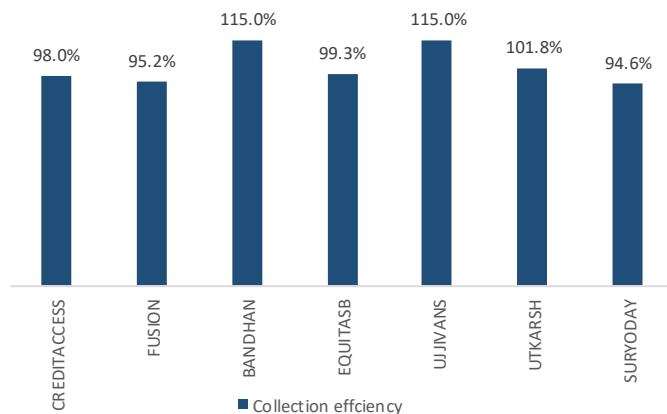
**Collection efficiency:**

FUSION's collection efficiency continues to gradually improve and stood at to 95.2% (June'22) vs 88.4% YoY vs 92.3% in FY22 with states like UP at 97.6%, BR at 98.1% reporting a relatively better collection efficiency. Collection efficiency remains lower in the range of 83-94% in other states like MP at 94%, OR at 93.8%, TN at 93.1%, as of June'22.

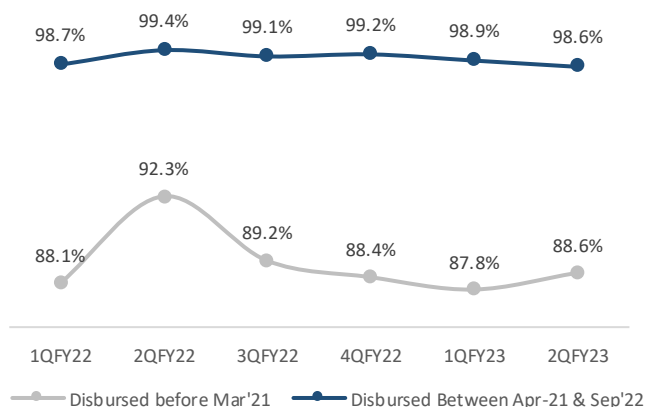
Further as of Q2FY23, Collection efficiency excl. prepayment for portfolio disbursed between Apr-21 and Sept-22 stands at 98.6% vs 88.6% for portfolio disbursed before Mar-21. However, collection efficiency incl. prepayments remain higher at 108.8% vs. 105.9% for portfolio disbursed before Mar-21.

**Figure 70: Overall Collection Efficiency remain stable as of June-22**

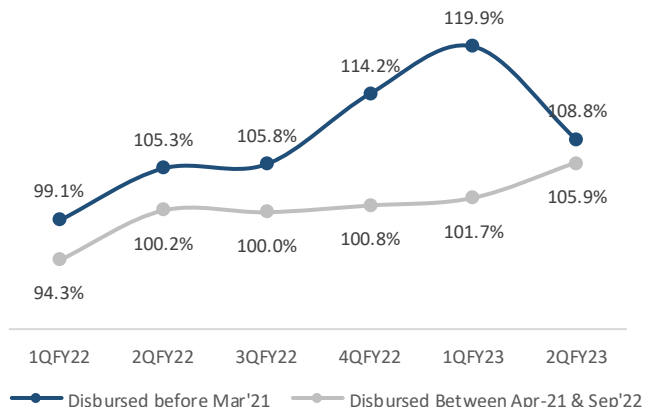
Source: RHP, Company data, HTI Research

**Figure 71: Overall Collection Efficiency peers**

Source: RHP, Company data, HTI Research

**Figure 72: Collection efficiency excluding Pre- payment**

Source: Company data, HTI Research

**Figure 73: Collection efficiency including Pre- payment**

Source: Company data, HTI Research



Figure 74: Collection efficiency on a monthly basis

State wise MoM CE	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Bihar	96.7%	91.5%	94.4%	97.5%	96.7%	96.9%	96.4%	94.7%	96.3%	96.7%	97.7%	97.5%	98.1%	98.1%	98.1%
Uttar Pradesh	95.1%	89.3%	94.2%	97.3%	96.0%	96.4%	96.8%	94.5%	95.9%	96.5%	97.2%	97.1%	97.6%	97.5%	97.7%
Odisha	92.4%	86.3%	87.5%	91.4%	90.8%	90.8%	91.5%	90.2%	90.8%	92.3%	92.8%	92.6%	93.9%	93.8%	93.6%
Madhya Pradesh	86.7%	73.3%	87.0%	93.6%	92.1%	92.1%	93.6%	89.4%	90.8%	91.7%	92.5%	92.9%	94.0%	93.8%	94.0%
Tamil Nadu	94.2%	73.0%	73.0%	94.7%	96.1%	94.6%	94.3%	90.0%	92.0%	92.0%	93.8%	94.3%	93.4%	92.9%	93.1%
Punjab	86.3%	83.9%	84.5%	86.0%	85.1%	89.6%	91.0%	88.6%	89.6%	90.2%	91.3%	91.2%	93.7%	93.9%	93.5%
Rajasthan	91.9%	84.5%	92.2%	95.3%	94.3%	94.0%	94.3%	91.1%	92.7%	93.5%	94.0%	93.8%	94.5%	94.1%	94.0%
Haryana	91.1%	81.4%	87.3%	90.2%	88.2%	90.6%	90.7%	86.6%	88.3%	87.5%	89.3%	87.9%	90.6%	90.2%	89.5%
Jharkhand	91.0%	83.3%	87.0%	90.9%	90.9%	91.8%	91.4%	89.1%	91.2%	92.0%	93.1%	93.1%	94.7%	94.5%	94.9%
Uttarakhand	95.6%	86.5%	93.8%	98.0%	96.5%	97.1%	96.7%	94.7%	96.2%	96.5%	96.8%	96.7%	96.8%	96.5%	96.5%
Gujarat	93.5%	91.9%	93.5%	94.9%	94.3%	94.6%	94.8%	93.0%	93.1%	93.9%	94.0%	93.7%	94.2%	94.1%	94.7%
Chhattisgarh	76.0%	66.1%	88.0%	92.3%	91.1%	91.5%	92.0%	88.6%	90.0%	91.7%	92.9%	92.8%	94.6%	94.1%	94.8%
West Bengal	94.0%	87.1%	85.9%	92.3%	92.5%	91.1%	90.9%	90.0%	91.2%	91.9%	93.7%	94.1%	94.7%	95.1%	94.8%
Delhi	98.8%	98.0%	101.5%	100.1%	99.9%	99.8%	99.8%	100.1%	100.0%	99.9%	100.0%	99.8%	99.8%	100.0%	100.0%
Maharashtra	87.5%	83.4%	89.3%	92.7%	92.4%	91.5%	93.9%	91.4%	92.0%	93.3%	94.4%	94.0%	94.7%	94.7%	95.3%
Himachal Pradesh	98.2%	96.1%	97.9%	97.7%	97.5%	98.0%	97.9%	96.7%	97.5%	97.7%	97.4%	97.7%	98.1%	98.1%	98.2%
Puducherry	93.6%	78.0%	77.2%	90.8%	94.7%	90.8%	92.8%	87.4%	89.8%	89.6%	92.8%	92.7%	91.9%	91.7%	92.2%
Assam	56.0%	45.4%	39.5%	46.3%	64.6%	69.6%	77.2%	82.0%	80.8%	76.7%	84.4%	79.8%	84.4%	86.0%	82.7%

Source: RHP, Company data, HTI Research

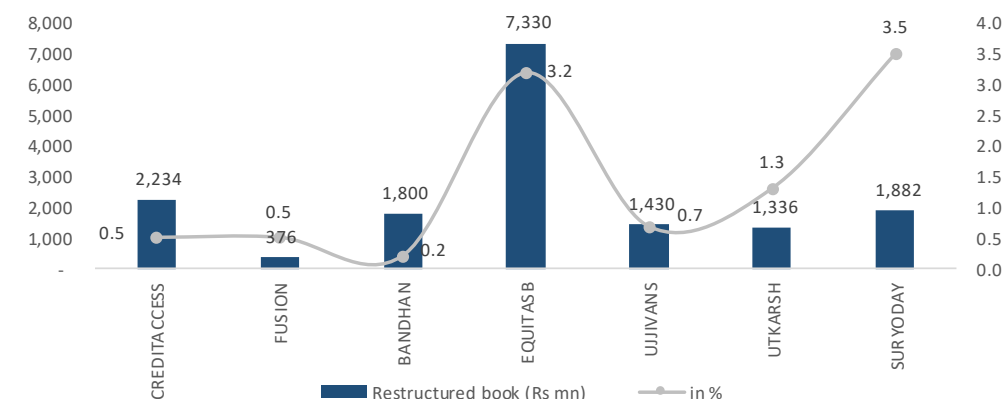
Figure 75: Collection Efficiency: State wise on yearly basis.

State wise YoY CE	FY19	FY20	FY21	FY22	Q1FY23
Bihar	99.7%	99.5%	98.4%	96.2%	98.1%
Uttar Pradesh	98.8%	98.2%	97.1%	95.6%	97.6%
Odisha	99.6%	98.4%	95.2%	90.8%	93.8%
Madhya Pradesh	97.6%	96.9%	95.8%	89.8%	93.9%
Tamil Nadu	100.0%	99.8%	95.9%	90.7%	93.1%
Punjab	99.1%	99.2%	95.5%	88.2%	93.7%
Rajasthan	99.6%	99.0%	98.0%	92.8%	94.2%
Haryana	98.7%	98.0%	97.3%	88.2%	90.1%
Jharkhand	98.4%	97.6%	96.0%	90.6%	94.7%
Uttarakhand	99.2%	98.5%	98.1%	95.5%	96.6%
Gujarat	100.0%	99.7%	98.0%	93.8%	94.4%
Chhattisgarh	99.2%	98.3%	95.1%	88.1%	94.5%
West Bengal	99.7%	98.9%	97.4%	91.3%	94.8%
Delhi	99.9%	99.7%	100.7%	99.8%	99.9%
Maharashtra	96.7%	98.0%	95.1%	91.4%	94.9%
Himachal Pradesh	99.7%	99.5%	99.3%	97.5%	98.1%
Puducherry	99.8%	99.7%	95.1%	89.4%	91.9%
Assam	99.9%	88.2%	63.5%	62.6%	84.4%
Total	99.0%	98.4%	96.4%	92.3%	95.2%

Source: RHP, Company data, HTI Research

**Restructured Book:**

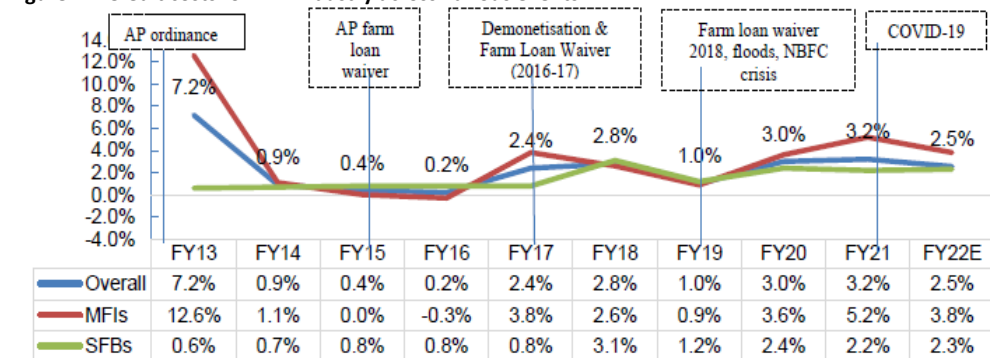
FUSION has restructured Rs 1,337mn (2.5% of AUM) of portfolio under RF 2.0. However, as of Sept-22, the o/s restructured book stands at a mere ~Rs 376mn i.e. 0.47% of AUM vs. Rs 428.41mn i.e. 0.58% of total AUM in Jun'22. The o/s restructured book for FUSION is lower vs. peers which are in the range of 0.5-3.7%.

**Figure 76: Restructured asset: remain lowers vs comparable peers**

Source: Company data, HTI Research; Note: data as on Q2FY23 except UTKARSH which is as on FY22

**Provisions: Decline to drive RoAAs**

Despite the challenging times over the last 10-12yrs, the microfinance industry has managed to keep the loan loss provisions well within the manageable levels. As per the industry data, the LLPs are already declining in FY22 and 1HFY23 given the higher and conservative provisions already done in FY21

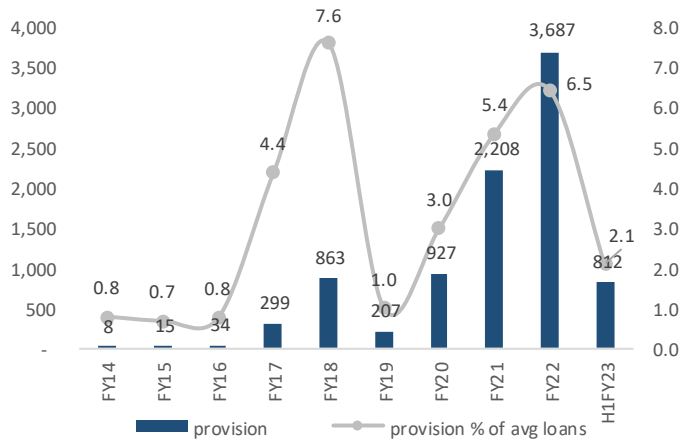
**Figure 77: Credit costs for MFI industry across various events**

Source: RHP, Company data, HTI Research

Over the last 5-yrs i.e. FY17-22, in-line with the movement in GNPA's and maintaining relatively higher coverage ratios, FUSION's LLPs stood at avg. 4.6%. The mgmt. intends to make required provisions on upfront basis (100% provisions at 90DPD), even at the cost of profitability. The co. has created higher provisions ~Rs 5.9bn i.e. avg. 5.9% of AUM over FY21-22. As of 1HFY22, FUSION non tax provision stood at Rs 812mn (2.1% annu. vs 6.45% in FY22). Further, Fusion carries management overlay of Rs 174.74mn, which is also included in Rs 611mn of provision as per ECL in Q2FY23.

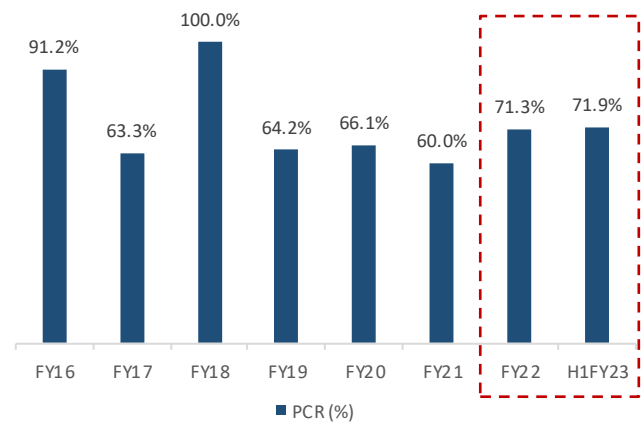
With improving in NIMs (due to benefit of repricing) along with better asset quality performance, the mgmt. intends to create additional provisions (std. assets or mgmt. overlay provisions) to cushion the B/S and also keep consistent earnings momentum. The mgmt. intends to create additional cumulative provisions of ~2.5-3% over the next few years. Accordingly, the mgmt. has guided for LLPs of 1.5-2.0% over the next couple of years. **We have factored LLPs of 1.8% over FY23-25E. We believe given the improvement in asset quality, these are conservative and provide upside risk to our estimates. The reduction in LLPs is one of the biggest RoAA driver for FUSION over the next couple of years.**

Figure 78: Provisions dipped in H1FY23



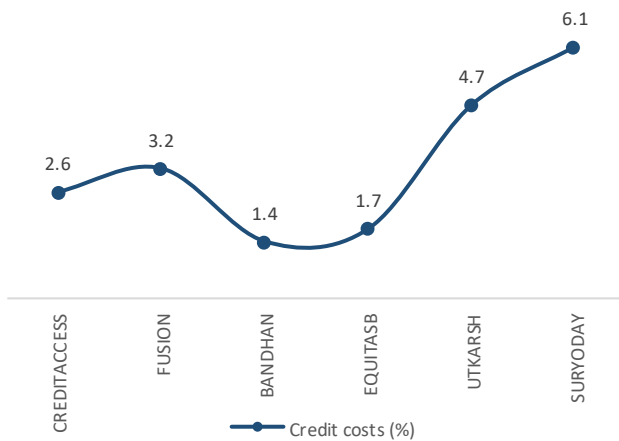
Source: RHP, Company data, HTI Research

Figure 79: PCR healthy at ~72%



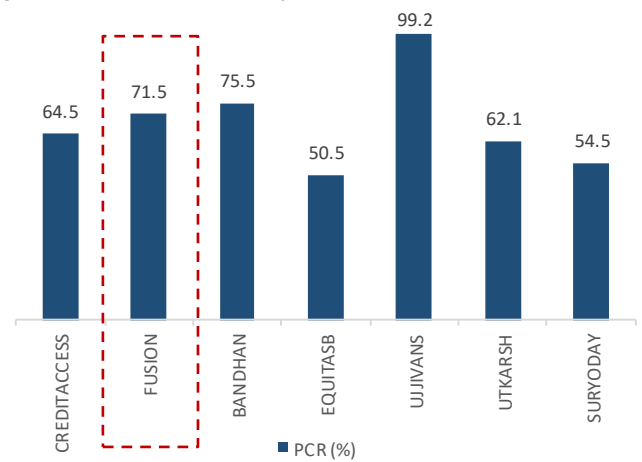
Source: RHP, Company data, HTI Research

Figure 80: Credit costs (%): higher vs CREDITACCESS



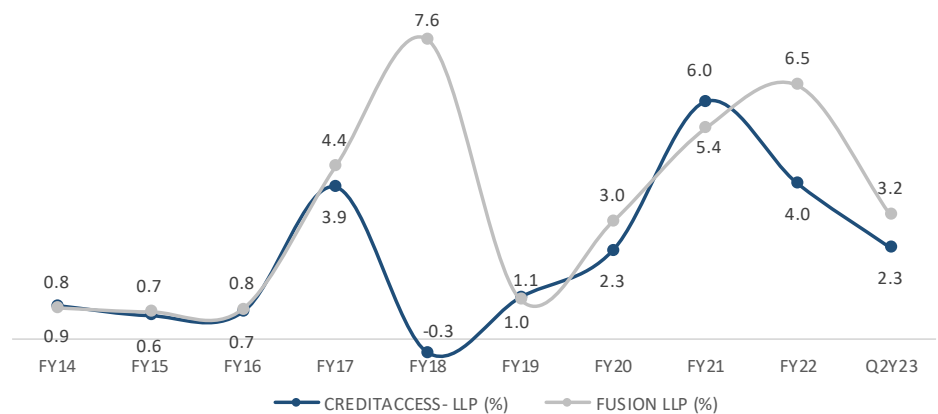
Source: Company data, HTI Research; Annualized credit costs as per Q2FY23 except UTKARSH denotes FY22

Figure 81: PCR (%): in-line with peers



Source: Company data, HTI Research; Note: PCR (%) as per Q2FY23 except UTKARSH denotes FY22

Figure 82: LLPs : CREDAG vs FUSION



Source: Company data, HTI Research

## Products Yields

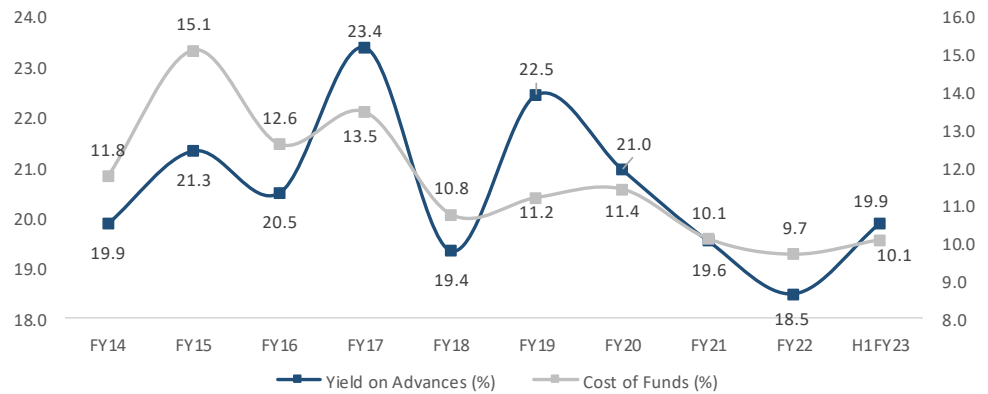
Products	Yields
Income generating loans	22.7%
Top up loans	22.3%
Cross-sell loans	22.3%
MSME loans	27.0%
Emergency loans	19.0%

Source: RHP, Company data, HTI Research

## NIM to remain healthy

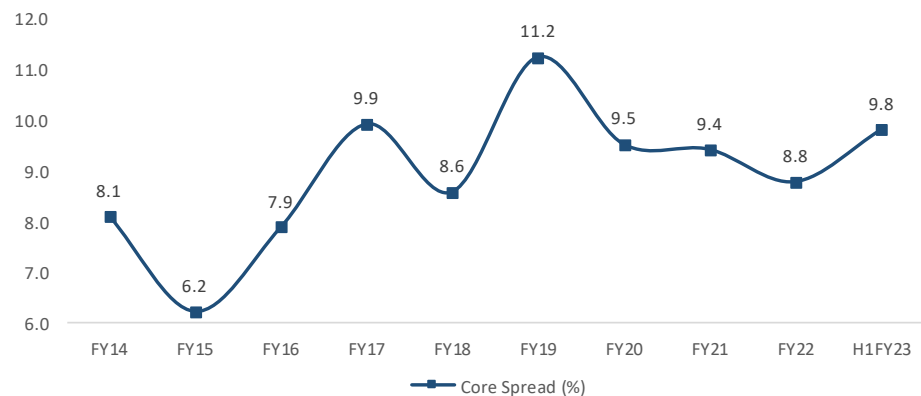
Over FY17-FY22, FUSION's cost of borrowings has dipped ~380bps led by overall dip in interest rates and its wide diversified borrowing sourcing. Further this was led by continuous rating upgrades and additions of various financial institutions. Similarly, its yields have dipped ~490bps during FY17-22 and have maintained spreads below 10% (as directed by RBI). FUSION on calc. basis have maintained NIMs in the range of ~8.4-11.5% over the same period. As on Sept-22, FUSION charges interest rates in the range of 19.0-27.0% across segments and with the removal of RBI's spread cap, bodes well for FUSION. With the recent rating upgrade, FUSION is expected to contain the rise in CoF. Whereas it further expects 150bps expansion of yields (targeting in the range of 21.5-21.75%). **We have factored NIMs of 11.8% over FY23-25E.**

Figure 83: calc. Yields and CoF: dipped over the period



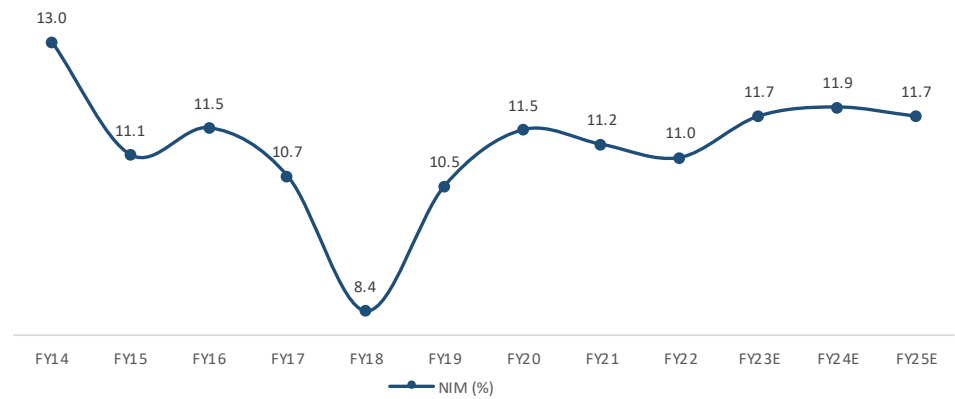
Source: RHP, Company data, HTI Research

Figure 84: Core spreads: Improvement seen in 1HFY23



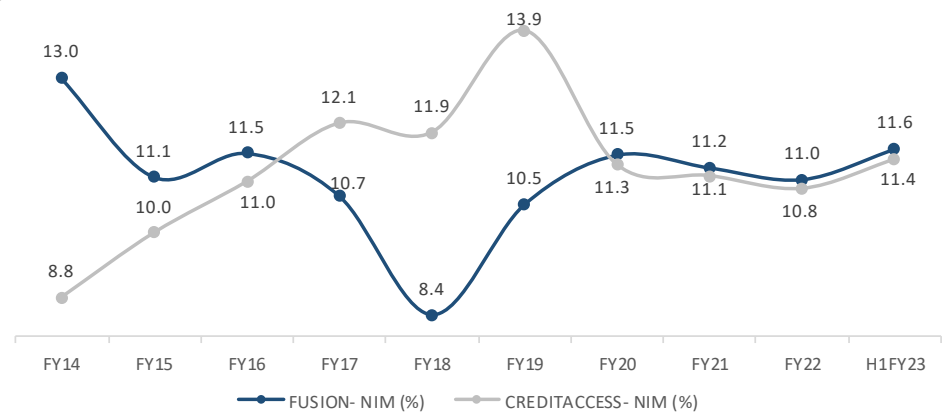
Source: RHP, Company data, HTI Research

Figure 85: NIM: to remain healthy



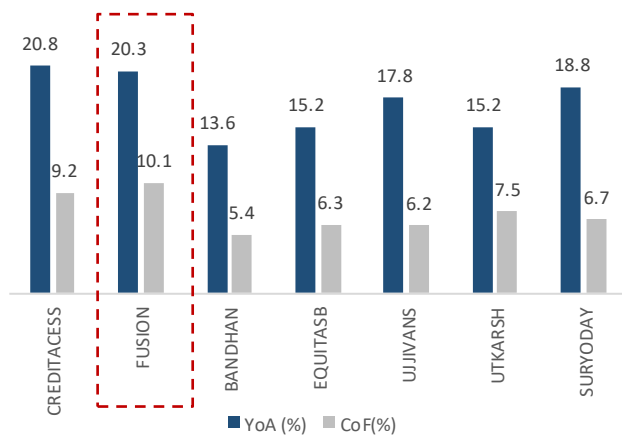
Source: RHP, Company data, HTI Research

Figure 86: FUSION NIM bounced back since FY18 low



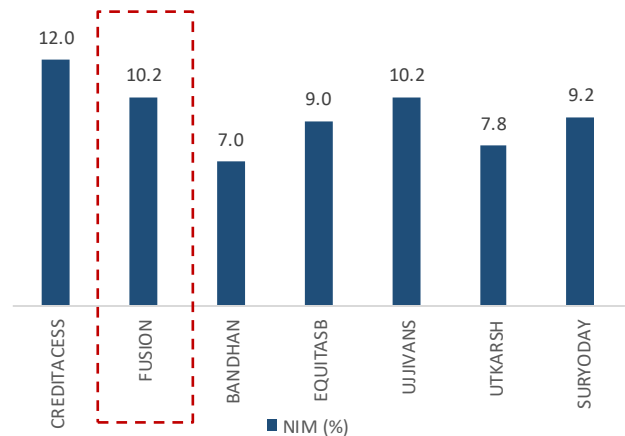
Source: RHP, Company data, HTI Research

Figure 87: Yields and CoF vs. peers (as on Q2FY23)



Source: Company data, HTI Research; Note: UTKARSH denotes FY22 number

Figure 88: NIM vs. peers (as on Q2FY23)



Source: Company data, HTI Research; Note: UTKARSH denotes FY22 number

### Operating efficiency driven by technology

FUSION has expanded its reach to 19 states as on Sept-22 from a mere 4 states in FY13 and has increased its branch network to 1,031 branches. Further the co has total employee strength of 8700+. Despite the continued expansion (into newer states), employee additions and continued investments in technology, FUSION's overall opex has grown at 35% and 59% CAGR over FY17-22 and FY13-22 respectively which is slower vs. overall AUM CAGR of 55% and 70% CAGR and NII CAGR of 54% and 75% during the similar period.

The slower opex growth was equally led by 31% CAGR (over FY17-22) in other opex and 37% CAGR (over FY17-22) in staff cost. This controlled opex has led to a sharp improvement in oplev for FUSION. The co's C/I ratio has improved to 44% (-222bps since FY17) and C-AA has improved to 5.5% (down 465bps since FY17). Further, as on Q2FY23, the C/I and C-AA ratio stood at 36.5% and 5.6% respectively.

Despite the continued addition in branches and employees, FUSION has reported improvement in oplev as it continued to improve its productivity.

FUSION's disbursements per branch and disbursements per employee has grown at 14.7% and 13.3% CAGR respectively over FY17-22 and 9.3% and ~7.6% over FY13-22 respectively. Further, its AUM per branch and AUM per employee has grown at 18.6% and 17.2% CAGR over FY17-22 and 11.6% and ~10% over FY17-22 and FY13-22 respectively.

In comparison to NBFC-MFI peers, FUSION's productivity matrix is relatively better with highest borrowers per employees (309 vs. peers in the range of 193-307), highest borrowers per branch (3,116 vs. NBFC-MFI peers in the range of 1,686-2,440). Further its client per loan officer at 479 is higher vs. many of the comparable peers. **We believe the significantly higher productivity is partially due to fortnightly/monthly collections for FUSION vs. weekly for some of the players.** While, the collections are on fortnightly and monthly basis, FUSION continues to maintain the constant touch with its borrowers, which provide comfort on collections and NPAs.

FUSION's oplev is better vs. the comparable SFB (understandably so given the liability and diversification cost) and is in-line with the comparable NBFC-MFI peers (~30-64% as on Mar-22).

With a focus towards deepening of presence vs. expansion in newer states, superior NIM performance and continued healthy growth momentum, we expect FUSION to report improvement in operating leverage. We have factored opex growth of 30% CAGR in-line with AUM CAGR of 30%, leading to an improvement of a mere 10bps in C-AA to 4.8% by FY25E, which we believe to be conservative.

#### FUSION CAGR growth (%)

3 yr- 26.6%

5 yr- 35.3 %

9 yr- 58.2%

#### CREDITACCESS CAGR growth (%)

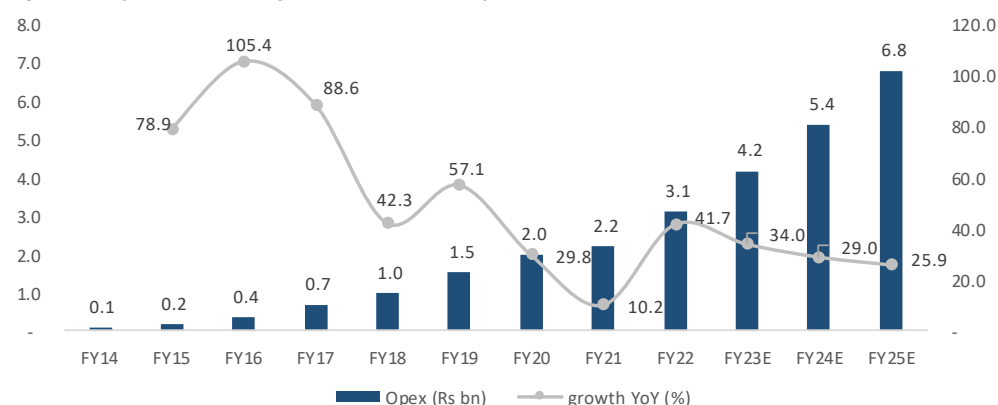
3 yr- 42.4%

5 yr- 31.1%

9 yr- 44.7%

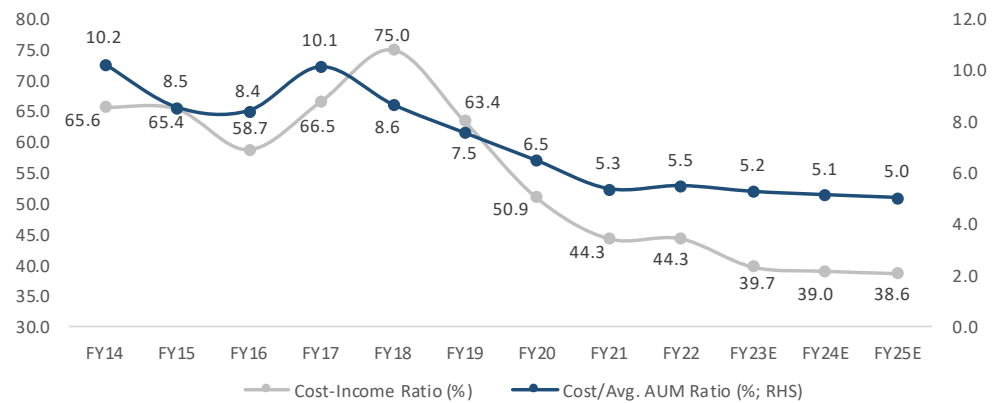
Note: CREDITACCESS is on consol basis; 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

Figure 89: Opex to remain higher driven further expansion and branch addition



Source: RHP, Company data, HTI Research

Figure 90: Operating leverage to improve further



Source: RHP, Company data, HTI Research

Figure 91: Cost to Income ratio: remains lower vs comparable peers

Cost to Income	FY18	FY19	FY20	FY21	FY22	H1FY23
CreditAccess Grameen Ltd.	39.2%	35.1%	38.0%	38.1%	39.0%	38.9%
Fusion Microfinance Pvt. Ltd.	68.7%	63.2%	50.8%	44.3%	44.3%	40.0%
Asirvad Microfinance Ltd.	57.2%	47.8%	33.9%	46.7%	49.7%	51.5%
Muthoot Microfin Ltd.	62.5%	62.2%	50.0%	58.5%	61.5%	53.7%
Annapurna Finance Pvt. Ltd.	66.9%	56.3%	62.0%	50.3%	63.1%	55.7%
Samasta Microfinance Ltd.	42.5%	47.6%	49.8%	62.2%	52.6%	51.7%
Satin Creditcare Network Ltd.	61.6%	51.3%	51.2%	58.5%	64.4%	32.2%
Svatantra Microfin Pvt. Ltd.	81.3%	71.5%	60.3%	59.1%	54.3%	40.2%
Spandana Sphoorty Financial Ltd.	30.4%	24.6%	19.9%	21.6%	32.8%	29.0%
Belstar Microfinance Ltd.	52.5%	44.2%	51.0%	52.7%	48.4%	55.0%
Bandhan Bank	35.4%	32.8%	31.3%	30.4%	31.2%	38.8%
Equitas Small Finance Bank	66.4%	80.0%	70.3%	66.4%	60.0%	65.2%
Ujjivan Small Finance Bank	95.3%	67.1%	76.5%	67.4%	60.6%	55.3%
Utkarsh Small Finance Bank	79.2%	57.1%	57.6%	56.5%	59.1%	52.5%
Suryoday Small Finance Bank	64.4%	46.8%	47.1%	67.5%	60.9%	55.9%

Source: RHP, Company data, HTI Research

Figure 92: C-AA ratio: too remains lower vs comparable peers

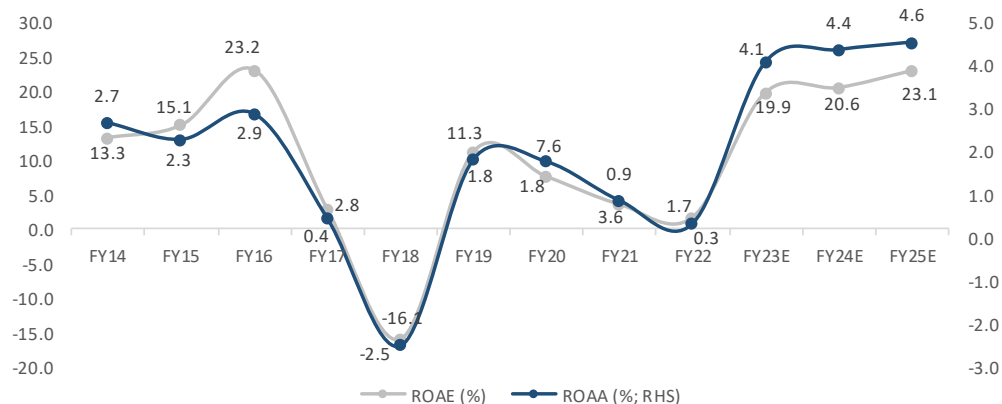
C-AA ratio	FY20	FY21	FY22	H1FY23
CreditAccess Grameen Ltd.	4.3%	4.2%	4.9%	4.9%
Fusion Microfinance Pvt. Ltd.	6.4%	5.3%	5.5%	5.6%
Asirvad Microfinance Ltd.	4.6%	4.9%	6.5%	NA
Muthoot Microfin Ltd.	7.5%	5.2%	6.3%	6.0%
Annapurna Finance Pvt. Ltd.	6.1%	6.4%	5.8%	6.0%
Samasta Microfinance Ltd.	8.8%	6.0%	6.1%	7.1%
Satin Creditcare Network Ltd.	6.1%	5.1%	5.6%	7.0%
Svatantra Microfin Pvt. Ltd.	7.1%	5.3%	6.2%	4.6%
Spandana Sphoorty Financial Ltd.	4.1%	3.3%	4.1%	3.8%
Belstar Microfinance Ltd.	7.1%	5.6%	5.3%	6.7%
Bandhan Bank	3.3%	2.7%	2.8%	3.1%
Equitas Small Finance Bank	6.7%	6.0%	6.6%	6.6%
Ujjivan Small Finance Bank	8.2%	6.3%	6.8%	6.7%
Utkarsh Small Finance Bank	6.1%	5.1%	5.4%	5.6%
Suryoday Small Finance Bank	6.0%	5.4%	5.5%	5.2%

Source: RHP, Company data, HTI Research

### Return ratios to improve

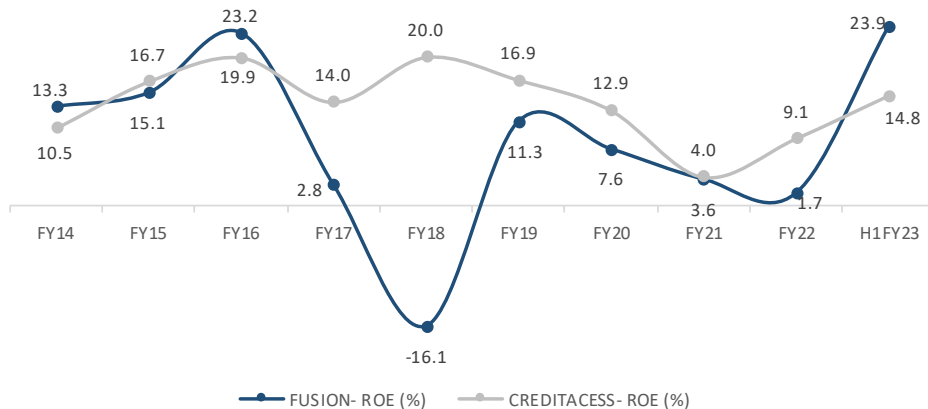
Given the improvement in asset quality and continued momentum in growth, we expect healthy net earnings growth for FUSION. With this, we expect FUSION to report superior return ratios. We expect RoAA to inch closer to 4.3% (avg) by FY23-25E led by a sharp drop in provisions, and better NIMs. We note that reduction in LLPs, is one of the biggest drivers for RoAA improvement over the next couple of years.

**Figure 93: ROAA and ROAE expect to grow led by decline in provisions and better NIMs**



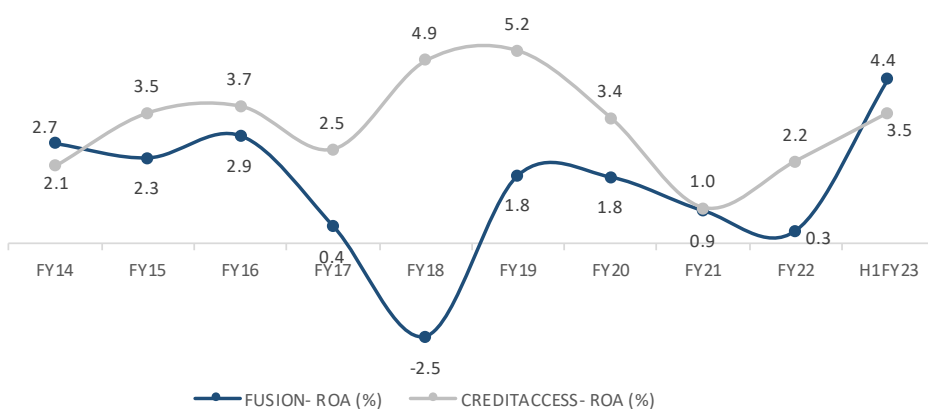
Source: RHP, Company data, HTI Research

**Figure 94: ROAE: FUSION vs. CREDAG**



Source: RHP, Company data, HTI Research

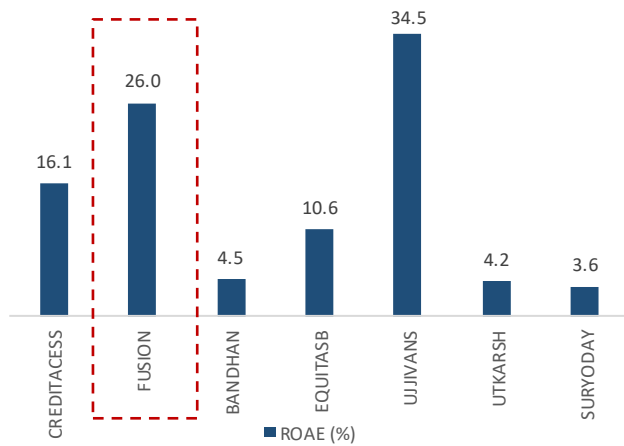
**Figure 95: RoAA: FUSION vs. CREDAG**



Source: RHP, Company data, HTI Research

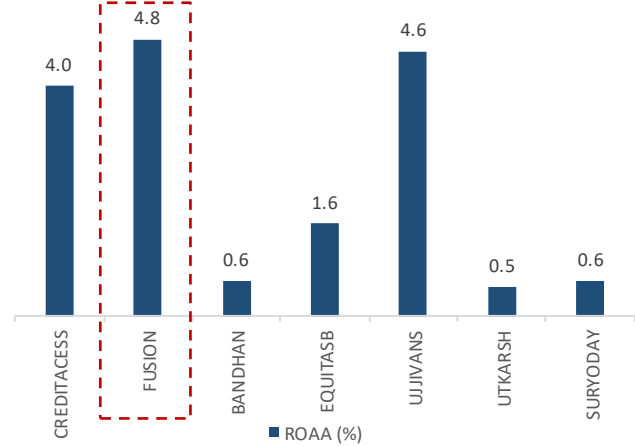


Figure 96: ROAE (%): higher vs. peers



Source: Company data, HTI Research; ROAE (%) as per Q2FY23 except UTKARSH denotes FY22

Figure 97: ROAA (%): higher. vs peers



Source: Company data, HTI Research; ROAA (%) as per Q2FY23 except UTKARSH denotes FY22

Figure 98: FUSION vs CREDITACCESS

Dupont (on Avg. Assets)	FUSION			CREDITACCESS		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Net Interest Income	9.6%	10.9%	11.2%	10.8%	11.5%	12.0%
Non Interest Income	1.2%	1.4%	1.2%	0.0%	0.0%	0.0%
Operating Cost	4.8%	4.9%	4.8%	4.2%	4.3%	4.1%
Provisions	5.6%	2.0%	1.7%	3.7%	1.7%	1.3%
Tax	0.0%	1.4%	1.5%	0.8%	1.4%	1.7%
<b>ROAA</b>	<b>0.3%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>2.2%</b>	<b>4.1%</b>	<b>4.9%</b>
Leverage (x)	5.1	4.9	4.7	4.1	4.4	4.5
<b>ROAE</b>	<b>1.7%</b>	<b>19.9%</b>	<b>20.6%</b>	<b>9.1%</b>	<b>17.9%</b>	<b>22.1%</b>

Source: Company data, HTI Estimates

## Valuation

We value FUSION using the residual income method. We expect the co. to deliver RoAE of 18.0%+ over the next 10 years and subsequently assume the RoAE to moderate towards the cost of equity of the co. in the long term. We hence arrive at a target price of Rs 578 for FUSION via an implied multiple of 2.0x on its Dec-24E ABV assuming a cost of equity of 14.7%.

Figure 99: Key assumption

Parameters	Value
Risk-Free Rate	7.5%
Market Risk Premium	4.8%
Beta (x)	1.5
Required Rate of Return for Equity Shareholders	14.7%

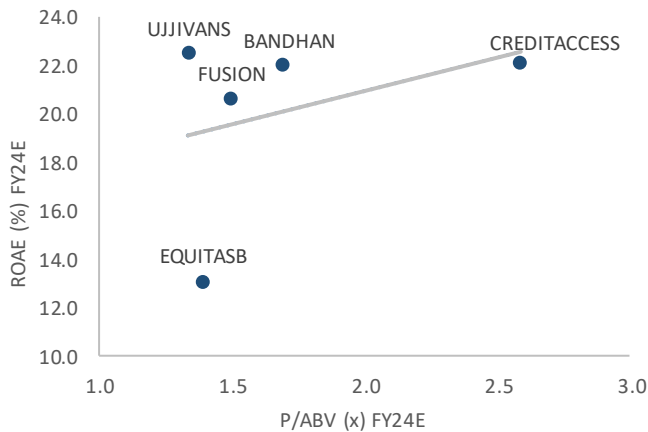
Source: HTI Estimates

Figure 100: FUSION valuation summary

Parameters	Value (Rs mn)
Dec 24E Adjusted Networth	29,356
Addition to Book Value	27,942
Market Value of Equity	57,298
Number of Shares Today	99
<b>Target Price</b>	<b>578</b>
Dec-24E ABV	288
<b>Implied Price/ ABV Multiple</b>	<b>2.0</b>

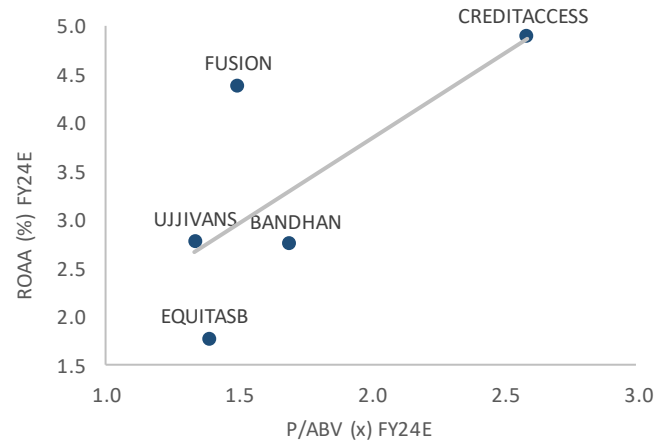
Source: Company data, HTI Estimates

Figure 101: P/ABV vs ROAE



Source: Company data, HTI Estimates

Figure 102: P/ABV vs ROAA



Source: Company data, HTI Estimates

Figure 103: Valuation comps

Company Name	Market Cap (Rs bn)	Target Price (Rs)	Rating	P/B		P/E		ROA (%)		ROE (%)		PAT CAGR (FY22-24E)
				FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	
CREDAG	135	1,100	Outperform	2.8x	2.3x	17.1x	11.4x	4.4%	5.1%	18.9%	22.7%	80.6%
FUSION	38	578	Outperform	1.7x	1.5x	10.6x	7.6x	4.1%	4.4%	19.9%	20.6%	375.4%
BANDHAN	398	378	Outperform	2.0x	1.6x	13.5x	8.1x	1.9%	2.7%	15.7%	22.1%	525.8%
EQUITAB	71	65	Outperform	1.5x	1.3x	15.3x	10.7x	1.5%	1.8%	10.3%	13.1%	53.2%
UJJIVANS	60	33	Outperform	1.6x	1.3x	7.2x	6.4x	3.1%	2.8%	26.4%	22.6%	NA

Source: Company data, HTI Research

### Key Risk

- **Slower Growth:** We have factored ~30% AUM CAGR over FY22-25E. Slower than expected AUM growth will lead to subdued earnings and thus lower return ratios
- **Sharp rise in Stress:** Within the MFI sector, FUSION is in the sweet spot, any deterioration in asset quality will led to rise in LLPs and thus dent the earnings for the co.
- **NIM Compression:** With the recent rating upgrade and revision in lending rates, FUSION is set to deliver superior NIMs. Faster than expected rise in cost of funds and its inability to pass on the rise (through yields) will impact the core earnings and thus the return ratios.
- **Change in Regulations:** Any incremental regulatory changes towards interest rates, recognition and provisions, can impact FUSION from delivery of superior return ratios.
- **Political intervention and natural calamities:** Overall microcredit lending remains relatively riskier, given unsecured nature of lending to vulnerable segments, high risk of political intervention (especially the waiver announcement) and vulnerability to natural calamities and social-economic events.
- **Departure of key personnel**

## Financial Summary

Figure 104: Financial Summary

Balance sheet (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>SOURCES OF FUNDS</b>						
Share Capital	790	790	828	991	991	991
Reserves	11,199	11,673	12,552	21,028	24,717	29,582
<b>Shareholders' Funds</b>	<b>11,989</b>	<b>12,464</b>	<b>13,380</b>	<b>22,019</b>	<b>25,707</b>	<b>30,572</b>
Total Borrowings	29,737	44,323	57,758	74,465	96,676	125,092
Other Liabilities & Provisions	674	1,593	1,767	2,651	3,181	3,817
<b>Total</b>	<b>42,400</b>	<b>58,379</b>	<b>72,905</b>	<b>99,135</b>	<b>125,564</b>	<b>159,482</b>
<b>APPLICATION OF FUNDS</b>						
Advances	33,430	43,607	59,182	82,739	107,417	137,296
<b>Investments</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fixed Assets	60	183	192	221	243	267
Other Assets	8,905	14,589	13,531	16,175	17,904	21,919
<b>Total Assets</b>	<b>42,400</b>	<b>58,379</b>	<b>72,905</b>	<b>99,135</b>	<b>125,564</b>	<b>159,482</b>
<b>Income Statement (Rs mn)</b>						
Interest Earned	6,936	8,383	11,251	16,035	21,266	27,347
Interest Expended	3,377	3,751	4,960	6,677	8,728	11,421
<b>Net Interest Income</b>	<b>3,560</b>	<b>4,632</b>	<b>6,292</b>	<b>9,357</b>	<b>12,538</b>	<b>15,926</b>
Other Income	367	347	762	1,198	1,321	1,699
<b>Total Income</b>	<b>3,926</b>	<b>4,980</b>	<b>7,054</b>	<b>10,556</b>	<b>13,858</b>	<b>17,626</b>
Total Operating Exp	1,999	2,204	3,123	4,186	5,400	6,801
<b>PPOP</b>	<b>1,927</b>	<b>2,776</b>	<b>3,931</b>	<b>6,370</b>	<b>8,458</b>	<b>10,825</b>
Provisions & Contingencies	927	2,208	3,687	1,678	1,902	2,175
PBT	1,000	568	244	4,692	6,557	8,649
Provision for Tax	304	128	27	1,173	1,639	2,162
<b>PAT</b>	<b>696</b>	<b>439</b>	<b>218</b>	<b>3,519</b>	<b>4,918</b>	<b>6,487</b>
<b>Valuation Ratios</b>						
EPS	8.8	5.6	2.6	35.5	49.6	65.5
Earnings Growth (%)	37.4	-36.9	-50.5	1517.7	39.7	31.9
BVPS (ex reval.)	151.9	157.7	161.7	222.3	259.5	308.6
Adj. BVPS (ex reval. & 100% cover)	150.2	144.7	149.2	214.4	252.0	300.4
RoAA (%)	1.8	0.9	0.3	4.1	4.4	4.6
ROAE (%)	7.6	3.6	1.7	19.9	20.6	23.1
P/E (x)	42.7	67.8	143.3	10.6	7.6	5.8
P/ABV (x)	2.5	2.6	2.5	1.8	1.5	1.3
Dividend Yield (%)	0.0	0.0	0.0	0.5	1.3	1.7

Source: Company Data, HTI Estimates

Profitability	FY20	FY21	FY22	FY23E	FY24E	FY25E
Yield on Advances (%)	21.0	19.6	18.5	18.9	19.3	19.3
Cost of Funds (%)	11.4	10.1	9.7	10.1	10.2	10.3
Core Spread (%)	9.5	9.4	8.8	8.8	9.1	9.0
<b>NIM (%)</b>	<b>11.5</b>	<b>11.2</b>	<b>11.0</b>	<b>11.7</b>	<b>11.9</b>	<b>11.7</b>
Operating Efficiency	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cost/Avg. AUM Ratio (%)	6.5	5.3	5.5	5.2	5.1	5.0
Cost-Income Ratio (%)	50.9	44.3	44.3	39.7	39.0	38.6
Balance Sheet Structure Ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
Loan Growth (%)	39.1	28.6	46.3	35.5	29.8	27.8
Borrowing Growth (%)	1.5	49.0	30.3	28.9	29.8	29.4
Equity/Assets (%)	28.3	21.3	18.4	22.2	20.5	19.2
Total Capital Adequacy Ratio (CAR)	35.8	27.3	21.9	29.8	27.6	26.0
<i>Tier I CAR</i>	<i>33.1</i>	<i>25.5</i>	<i>19.9</i>	<i>27.8</i>	<i>25.6</i>	<i>24.0</i>
Asset Quality	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross NPLs (Rsm)	384.5	2,559	3,584	2,458	2,395	2,819
Net NPLs (Rsm)	130.5	1,024	1,030	781	745	809
Gross NPLs (%)	1.1	5.7	5.8	2.9	2.2	2.0
Net NPLs (%)	0.4	2.3	1.7	0.9	0.7	0.6
Coverage Ratio (%)	66.1	60.0	71.3	68.2	68.9	71.3
Provision/Avg. AUM (%)	3.0	5.4	6.5	2.1	1.8	1.6
Dupont (on Avg. Assets)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Interest Income	9.1%	9.2%	9.6%	10.9%	11.2%	11.2%
Non Interest Income	0.9%	0.7%	1.2%	1.4%	1.2%	1.2%
Operating Cost	5.1%	4.4%	4.8%	4.9%	4.8%	4.8%
Provisions	2.4%	4.4%	5.6%	2.0%	1.7%	1.5%
Tax	0.8%	0.3%	0.0%	1.4%	1.5%	1.5%
<b>ROAA</b>	<b>1.8%</b>	<b>0.9%</b>	<b>0.3%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>4.6%</b>
Leverage (x)	4.3	4.1	5.1	4.9	4.7	5.1
<b>ROAE</b>	<b>7.6%</b>	<b>3.6%</b>	<b>1.7%</b>	<b>19.9%</b>	<b>20.6%</b>	<b>23.1%</b>

Source: Company Data, HTI Estimates

## Annexure

### Company Profile

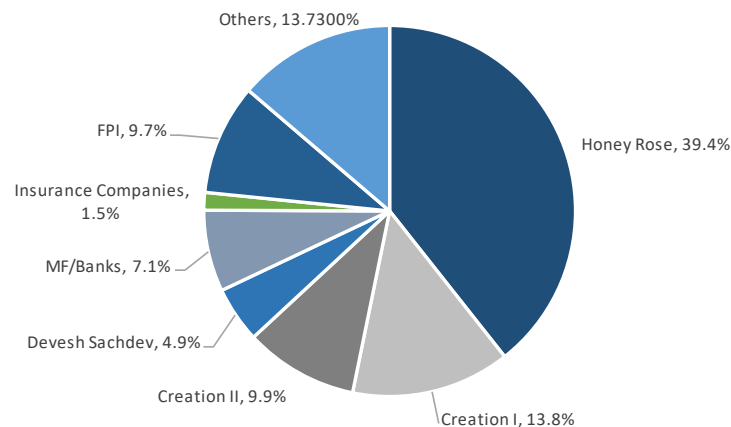
FUSION MFI started its operations in 2010 with a focus on strategic management of state concentration risk by expanding into underpenetrated rural areas and focus customer segment is women (typically comprising 5-7 members) in rural areas with an annual household income of up to Rs 300k. FUSION business runs on JLG model and offer key products like income-generating loans that provide capital for women entrepreneurs in rural areas to fund businesses operating in the agriculture-allied and agriculture, manufacturing and production, trade and retail, and services sectors. Based on eligibility criteria, FUSION also offer existing customers top-up loans to manage interim working capital requirements as well as emergency loans. In addition, to that FUSION also offer existing customers cross-sell loans as well as MSME loans to eligible enterprises. FUSION provide financial services to unserved and underserved women in rural areas (91.4% of total AUM) across India.

**Figure 105: History**

FY	Events and Milestones
1994	The Company was incorporated as Ambience Fincap Private Limited
2010	Started operating under the brand name 'Fusion'
2010	First investment by RIF North 2 in our Company
2013	First investment by NMI Frontier Fund and the other foreign shareholder of the Company at that time
2014	Issuance of first Listed Non-Convertible Debentures
2015	Expanded operation in up to five states
2015	First investment by Oikocredit Ecumenical Development Cooperative Society U.A. and Belgian Investment Company in our Company
2016	First investment by Creation I and Global Impact Funds, S.C.A., SICAR and certain existing shareholders, in our Company
2017	Achieved AUM of over INR 1,000 Crore
2018	Expanded operations up to 18 states
2018	First investment by Honey Rose, which is directly owned by certain private equity funds managed by Warburg Pincus LLC and follow-on round by Creation I in our Company
2018	Issuance of market-linked debentures
2019	Follow-on round from Honey Rose, which is directly owned by certain private equity funds managed by Warburg Pincus LLC and Creation II
2021	Reached 2,200,000 active loan clients through 725 branches across 18 states

Source: RHP, Company data, HTI Research

**Figure 106: Shareholding pattern as of 10<sup>th</sup> Nov'22**



Source: Company data, HTI Research

Figure 107: Board of Directors

Name	Designation	Brief Profile
Devesh Sachdev	MD & CEO	He is the Chairperson of the governing board of the Microfinance Institutions Network. He completed his post-graduate certificate in Logistics and Supply Chain Management from LRI, Jamshedpur and completed the HBS Accion Program on Strategic Leadership inclusive Finance from Harvard Business School, USA. He has over 26 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
Ratna Dharashree Vishwanathan	Independent Director	She holds a Bachelor of Arts degree from Utkal University, Bhubaneswar and studied Master of Arts at the University of Lucknow. She has over 35 years of experience and has worked in the past with the Government of India (IA & AS 87), United Nations Office for Project Services, MFIN, Oxfam India, and United Nations Development Program. She is currently on the board of Moneybox Finance Limited, Dilip Buildcon Limited, Reach to Teach Private Limited and Reach to Teach Foundation.
Namrata Kaul	Independent Director	She holds a post-graduate diploma from Indian Institute of Management, Ahmedabad and was also awarded the Chevening Scholarship to study Leadership and Excellence at the London School of Economics and Political Science. She has over 34 years of experience in the finance sector in India and UK. In the past she has worked with Grindlays Bank and Deutsche Bank and is currently an independent director on several boards including Havells India Limited, Schneider Electric, Vivriti Capital Private Limited, Bhopal Smart City Development Corporation Limited.
Pankaj Vaish	Independent Director	He holds a bachelor of technology degree in mechanical engineering from IIT – Banaras Hindu University, Varanasi and had also completed a MBA from the University of Minnesota, U.S.A. He was awarded the “Banaras Hindu University Medal” for standing first at the bachelor of technology in fifth year examinations in mechanical engineering, and the ‘Distinguished Alumni Award of Excellence’ by the Association of IIT-BHU Alumni, New Delhi for the year 2011-12. He has over 35 years of work experience. He was associated with Accenture Services Private Limited and SEWA Trade Facilitation Centre.
Narendra Ostawal	Nominee Director	He is associated with Warburg Pincus India Private Limited since 2007 where he currently holds the position of MD. He has 20 years of experience and has previously been associated with 3i India Private Limited and McKinsey & Company, Inc. He holds a post graduate diploma in business management from Indian Institute of Management Bangalore and attended the international executive business program at the University of Chicago’s Graduate School of Business.
Kenneth Dan Vander Weele	Nominee Director	He has over 15 years of experience and has served on the board of several companies including Creditaccess Grameen Limited, Muthoot Microfinance Limited, Sonata Finance Private Limited, etc. He holds a bachelor’s degree in business administration from the University of Wisconsin and a PhD from the Oxford Centre for Mission Studies, Open University.

Source: RHP, Company data, HTI Research

Figure 108: Management Team profile

Name	Designation	Brief Profile
Tarun Mehndirtta	COO	a) Previously worked with companies like GE India, SBI Cards & Payments Services, Citicorp Finance (India) and SRF Finance b) Holds a PGDM in Management Science from IMM, Delhi c) Has been with Fusion for 5+ years
Gaurav Maheshwari	CFO	a) Previously worked with Essel Mining (Aditya Birla Group) and Avantha Holdings b) Qualified Chartered Accountant c) Has been with Fusion for 6+ years
Deepak Madaan	CS and Compliance Officer	a) Previously worked with Almondz Capital, Management Services and Megha Technical Engineers b) Qualified CS and holds a Bachelor's degree in Law c) Has been with Fusion for 9+ years
Naveen Kumar Mangle	CTO	a) Several years of work experience with Tata Consultancy Services, GE Capital, Mahindra Satyam, Location Labs among others b) MBA from IIFT and BE from Delhi University c) Has been with Fusion for 3+ years
Kamal Kaushik	COO - MSME	a) Previously worked with companies such as Religare Housing Development Finance Corporation, HDFC Bank, ICICI Bank, among others b) Qualified CA c) Has been with Fusion for 3+ years
Ankush Ahluwalia	SVP – Business Operations	a) Previously worked with Magma Fincorp and Development Credit Bank among others b) Holds a Master's in Business Economics from Kurukshetra University c) Has been with Fusion for 7+ years
Satish Mani	SVP – Audit	a) Previously worked with GE Capital, ICICI Bank, Kotak Mahindra Bank, and Sundaram Finance b) B. Com from Delhi University and has also completed HBS Accion Program c) Has been with Fusion for 7+ years
Sanjay Vishwanath Choudhary	CRO	a) Previously worked with Axis Bank, Tata Consultancy Services, Satin Creditcare Network, WIMCO and ICICI Bank b) Qualified CA and completed FRM certification from GARP, USA c) Has been with Fusion for 2+ years
Pooja Mehta	CHRO	a) She has over 20 years of experience working extensively in HR domain. She has been associated with organization likes PwC and Mercer. b) She is a post-graduate in psychology from Delhi University and completed her post graduation from XLRI

Source: company data, HTI Research

### Financial Performance

Over FY17-22, FUSION reported 55% AUM CAGR to Rs 67.9bn led by faster growth in no of borrowers (+32% CAGR) and a mere 16% CAGR in the avg. o/s per borrowers. The strong growth in AUM drove the core earnings by 54% CAGR over the same period.

During the same period, FUSION continued with its branch expansion and employee addition. Despite this, the overall opex growth at ~35.3% CAGR (led by 37% CAGR in the staff cost and 31.2% CAGR in other opex) which was lower vs. the AUM CAGR and NII CAGR and thus has led to healthy 63% CAGR in PPOP.

Further, with this the cost ratios saw a significant improvement i.e. C-I ratio was lower by 2,223bps to 44.3% and C-AA improved ~465bps to 5.5% as on Mar-22.

However, with elevated provisions over FY17-22 (65% CAGR), the net earnings have grown at ~40% CAGR.

Over FY23-25E, we expect NII CAGR of 30.5% led by AUM CAGR of 28.8% and avg. NIMs of ~11.8%. Even as we factor opex CAGR of ~27.5%, we expect cost ratios to broadly remain stable (C-AA at 5.1% and C/I at 39.1%). With dip in provisions cost (down 13.9% CAGR), we expect net earnings to grow at 35.8% CAGR. With this we expect avg. RoAA of 4.3% and avg. RoAE of 21.2% over FY23-25E.

#### FUSION CAGR growth (%)

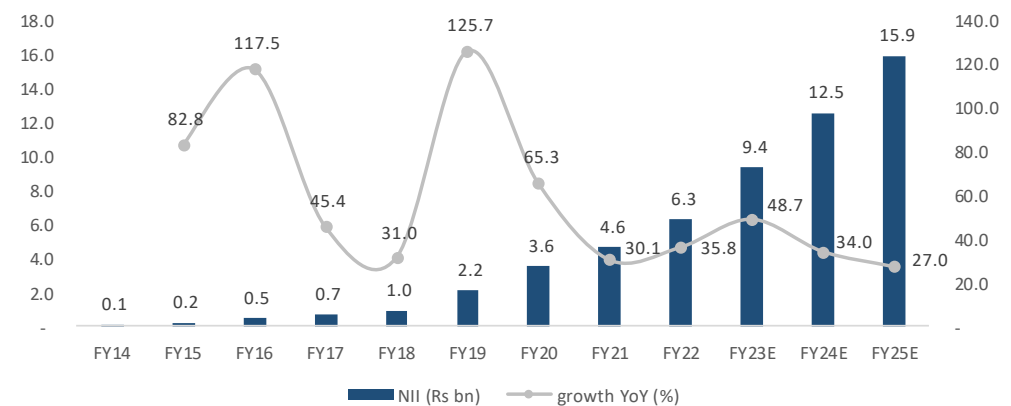
3 yr- 42.9%  
5 yr- 53.9%  
9 yr- 74.8%

#### CREDITACCESS CAGR growth (%)

3 yr- 26.7%  
5 yr- 35.5%  
9 yr- 50.3%

Note: CREDITACCESS is on consol basis; 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

Figure 109: NII growth continue to remain strong



Source: RHP, Company data, HTI Research

#### FUSION CAGR growth (%)

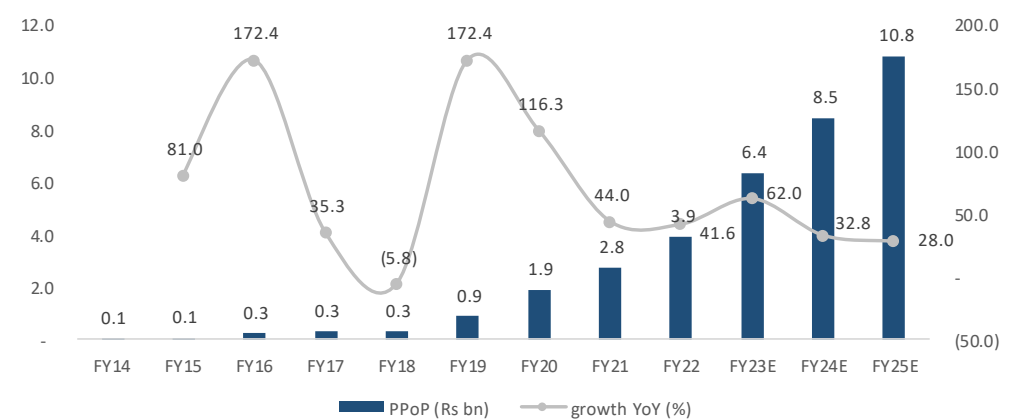
3 yr- 64.0%  
5 yr- 62.5%  
9 yr- 116.7%

#### CREDITACCESS CAGR growth (%)

3 yr- 23.5%  
5 yr- 35.8%  
9 yr- 65.0%

Note: CREDITACCESS is on consol basis; 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

Figure 110: PPOP growth to remain healthy led by improvement in opex



Source: RHP, Company data, HTI Research



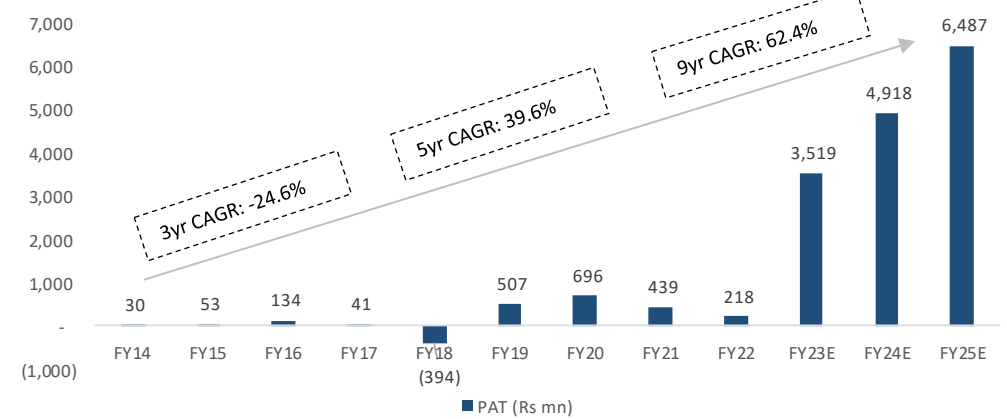
**CREDITACCESS CAGR growth (%)**

3 yr- 4.1%

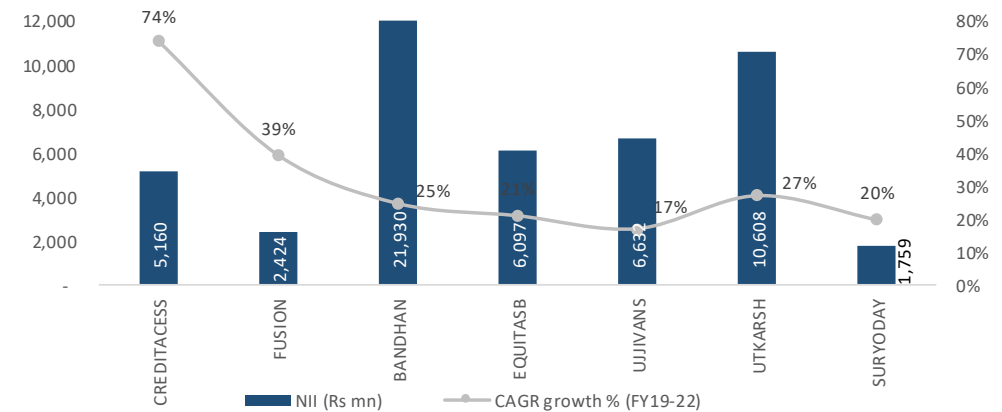
5 yr- 35.2%

9 yr- 53.0%

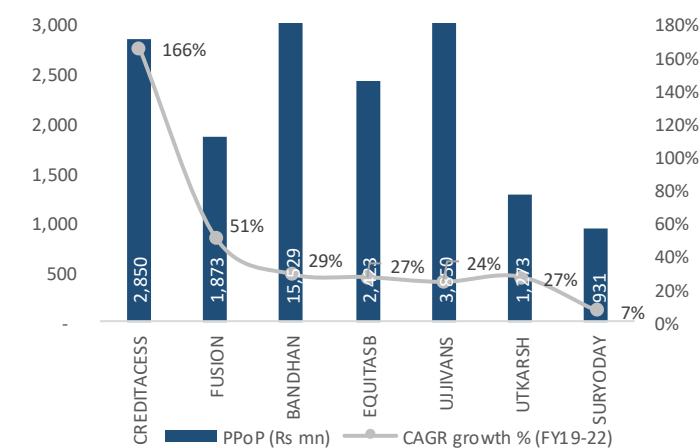
Note: CREDITACCESS is on consol basis; 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

**Figure 111: Strong PAT growth driven by lower provisions**

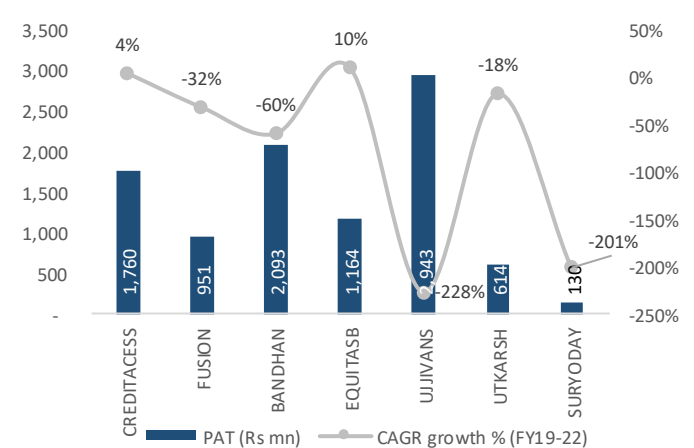
Source: RHP, Company data, HTI Research; Note: 3yr CAGR denotes FY19-FY22, 5yr CAGR denotes FY17-FY22 and 9yr CAGR denotes FY13-FY22

**Figure 112: NII vs. comparable peers**

Source: Company data, HTI Research; Note: NII denotes Q2FY23 number except UTKARSH which denotes FY22 number

**Figure 113: PPOP vs. comparable peers**

Source: Company data, HTI Research; Note: NII denotes Q2FY23 number except UTKARSH which denotes FY22 number

**Figure 114: PAT vs. comparable peers**

Source: Company data, HTI Research; Note: NII denotes Q2FY23 number except UTKARSH which denotes FY22 number

### Technology

For FUSION, technology was one of the key integral part of the overall business strategy. Through the early adoption of technology, FUSION has enabled automation and digitalization of several processes across its business functions incl. customer acquisition, customer onboarding, customer service, loan disbursements, internal audit and risk management.

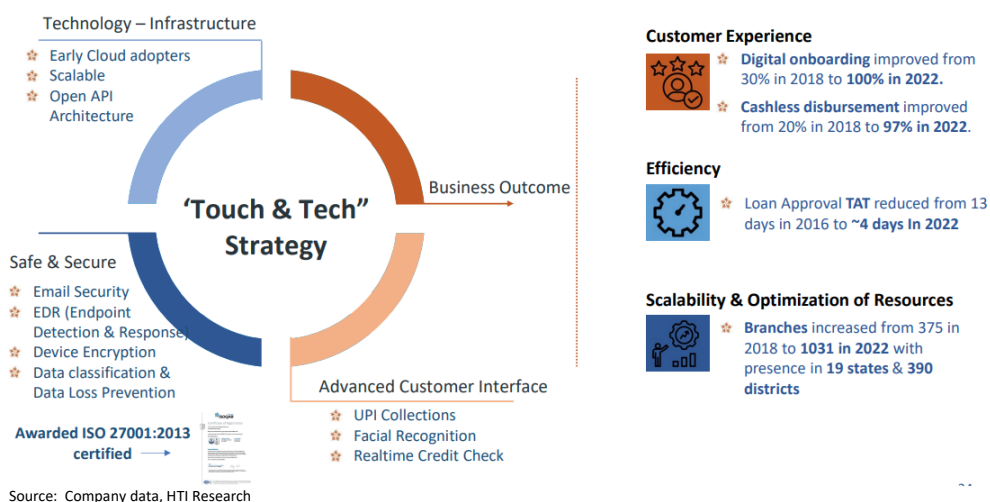
FUSION was first to move to cloud in FY13. Further, in FY17-18 moved to digital and UPI based disbursement and collections and in FY18, FUSION created separate collection vertical. Further, FUSION has done huge work in IT security and also done some future ready kind of work in IT part. Whereas in FY17-18, FUSION has created committee to understand lagging on Tech front and post this build a plan to enhance the same. Apart from this, FUSION also launches soft and hard tellectalling and also launched random sampling tellectalling (post disbursement) and also created separate vertical of tellectalling for 90+ customer.

With the adaptation of technology, all the borrowers are on-boarded digitally, the share of cash-less disbursals have increased to ~96-97% as on Sept-23 and the average turnaround time for loan approvals has been reduced from ~13.2 days in FY16 to 5.1 days in FY22 and further to 3.9 days as on June-22.

**As of June 30, 2022, FUSION tech spends stood at Rs 30.8mn (3.2% of total opex) vs Rs 47.6mn (2.2% of total opex) in FY21.**

**Figure 115: Digital remains key strength for FUSION**

Key Strengths : Digital Orientation



## Productivity ratios: FUSION vs. comparable peers

Figure 116: Disbursement per Branch

Disbursement per Branch (Rs mn)	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	111.9	100.0	110.2	15.4	26.0
Fusion Microfinance Pvt. Ltd.	60.9	51.8	67.3	21.0	20.2
Asirvad Microfinance Ltd.	46.1	34.2	80.6	22.5	NA
Muthoot Microfin Ltd.	59.2	34.2	51.6	13.9	NA
Annapurna Finance Pvt. Ltd.	55.7	35.5	54.1	11.7	NA
Samasta Microfinance Ltd.	55.3	59.9	70.8	14.3	NA
Satin Creditcare Network Ltd.	70.2	43.5	39.2	15.1	15.1
Svatantra Microfin Pvt. Ltd.	56.1	47.1	68.4	16.9	NA
Spandana Sphoorty Financial Ltd.	79.2	61.1	28.1	10.9	12.5
Belstar Microfinance Ltd.	43.4	37.5	48.6	14.7	NA

Source: RHP, Company data, HTI Research

Figure 117: Disbursement per Employee

Disbursement per employee (Rs mn)	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	9.6	9.1	10.7	1.5	2.7
Fusion Microfinance Pvt. Ltd.	6.6	5.7	7.0	2.1	2.2
Asirvad Microfinance Ltd.	7.7	5.0	6.8	2.8	NA
Muthoot Microfin Ltd.	5.6	3.7	5.8	1.6	NA
Annapurna Finance Pvt. Ltd.	6.7	4.2	6.2	1.4	NA
Samasta Microfinance Ltd.	5.3	5.4	5.3	1.2	NA
Satin Creditcare Network Ltd.	7.2	4.1	3.8	1.6	1.8
Svatantra Microfin Pvt. Ltd.	6.4	5.2	7.9	2.2	NA
Spandana Sphoorty Financial Ltd.	9.7	7.4	3.7	1.5	1.7
Belstar Microfinance Ltd.	5.9	5.3	6.0	1.7	NA

Source: RHP, Company data, HTI Research

Figure 118: AUM per Branch

AUM per branch (Rs mn)	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	106.5	117.7	118.0	107.6	81.8
Fusion Microfinance Pvt. Ltd.	61.9	65.3	73.9	77.9	78.1
Asirvad Microfinance Ltd.	52.8	56.4	45.9	45.5	48.1
Muthoot Microfin Ltd.	71.3	65.9	72.6	71.7	NA
Annapurna Finance Pvt. Ltd.	55.8	55.2	66.6	62.9	NA
Samasta Microfinance Ltd.	60.6	76.7	80.3	69.5	NA
Satin Creditcare Network Ltd.	63.3	72.0	62.3	62.0	61.8
Svatantra Microfin Pvt. Ltd.	58.3	69.6	78.7	77.5	NA
Spandana Sphoorty Financial Ltd.	67.6	77.4	58.6	52.8	51.8
Belstar Microfinance Ltd.	39.1	50.8	59.9	62.2	64.3

Source: RHP, Company data, HTI Research

Figure 119: AUM per Employee

AUM per employee (Rs mn)	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	9.1	10.7	11.5	10.8	8.6
Fusion Microfinance Pvt. Ltd.	6.7	7.2	7.6	7.7	8.5
Asirvad Microfinance Ltd.	8.9	8.3	5.6	5.7	6.2
Muthoot Microfin Ltd.	6.8	7.2	8.2	8.1	NA
Annapurna Finance Pvt. Ltd.	6.7	6.6	7.6	7.4	NA
Samasta Microfinance Ltd.	5.8	6.9	6.0	5.7	NA
Satin Creditcare Network Ltd.	6.5	6.9	6.0	6.7	7.3
Svatantra Microfin Pvt. Ltd.	6.6	7.7	9.1	9.9	NA
Spandana Sphoorty Financial Ltd.	8.3	9.4	7.3	7.0	6.9
Belstar Microfinance Ltd.	5.3	7.2	7.4	7.1	7.3

Source: RHP, Company data, HTI Research

Figure 120: AUM per customer

AUM per Customer (Rs mn)	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	34,065	39,502	47,352	46,396	36,261
Fusion Microfinance Pvt. Ltd.	19,700	21,877	24,644	24,931	25,148
Asirvad Microfinance Ltd.	23,219	24,832	26,931	26,973	28,373
Muthoot Microfin Ltd.	26,234	26,758	31,271	31,200	NA
Annapurna Finance Pvt. Ltd.	22,909	25,968	28,474	28,213	NA
Samasta Microfinance Ltd.	22,078	29,247	36,022	29,065	NA
Satin Creditcare Network Ltd.	23,442	27,350	25,636	26,621	27,423
Svatantra Microfin Pvt. Ltd.	25,762	27,628	32,041	32,750	NA
Spandana Sphoorty Financial Ltd.	26,572	33,288	26,743	27,605	26,636
Belstar Microfinance Ltd.	19,658	23,906	24,250	26,089	NA

Source: RHP, Company data, HTI Research

Figure 121: AUM per loan officer

AUM per loan officer (Rs mn)	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	12.8	15.2	16.6	16.1	16.4
Fusion Microfinance Pvt. Ltd.	10.3	11.1	11.4	12.0	13.5
Asirvad Microfinance Ltd.	16.5	13.3	9.3	9.4	10.7
Muthoot Microfin Ltd.	11.3	10.8	11.7	13.7	NA
Annapurna Finance Pvt. Ltd.	11.3	10.7	11.3	11.5	NA
Samasta Microfinance Ltd.	9.7	11.7	11.1	9.6	NA
Satin Creditcare Network Ltd.	11.1	11.0	9.1	10.4	11.3
Svatantra Microfin Pvt. Ltd.	12.4	14.4	15.7	17.2	NA
Spandana Sphoorty Financial Ltd.	11.2	12.1	9.9	9.5	9.1
Belstar Microfinance Ltd.	11.4	15.7	13.2	13.0	NA

Source: RHP, Company data, HTI Research

Figure 122: Employee per Branch

Employee per branch	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	11.7	11.0	10.3	10.0	9.5
Fusion Microfinance Pvt. Ltd.	9.3	9.0	9.7	10.1	9.2
Asirvad Microfinance Ltd.	6.0	6.8	11.8	8.1	7.7
Muthoot Microfin Ltd.	10.5	9.2	8.8	8.8	NA
Annapurna Finance Pvt. Ltd.	8.3	8.4	8.7	8.6	NA
Samasta Microfinance Ltd.	10.5	11.1	13.3	12.3	NA
Satin Creditcare Network Ltd.	9.8	10.5	10.4	9.2	8.5
Svatantra Microfin Pvt. Ltd.	8.8	9.0	8.6	7.8	NA
Spandana Sphoorty Financial Ltd.	8.1	8.2	7.5	7.1	7.6
Belstar Microfinance Ltd.	7.3	7.0	8.1	8.7	8.8

Source: RHP, Company data, HTI Research

Figure 123: Clients per Employee

Clients per employee	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	268	270	244	237	237
Fusion Microfinance Pvt. Ltd.	338	331	312	309	337
Asirvad Microfinance Ltd.	382	333	205	211	219
Muthoot Microfin Ltd.	259	267	256	257	NA
Annapurna Finance Pvt. Ltd.	294	253	269	258	NA
Samasta Microfinance Ltd.	263	237	163	193	NA
Satin Creditcare Network Ltd.	276	251	229	251	266
Svatantra Microfin Pvt. Ltd.	257	280	282	307	NA
Spandana Sphoorty Financial Ltd.	313	283	271	253	258
Belstar Microfinance Ltd.	272	303	308	279	NA

Source: RHP, Company data, HTI Research

Figure 124: Clients per Branch

Clients per branch	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	3,127	2,978	2,510	2,360	2,255
Fusion Microfinance Pvt. Ltd.	3,141	2,986	3,020	3,116	3,104
Asirvad Microfinance Ltd.	2,274	2,269	1,688	1,686	1,694
Muthoot Microfin Ltd.	2,717	2,464	2,266	2,271	NA
Annapurna Finance Pvt. Ltd.	2,437	2,126	2,353	2,198	NA
Samasta Microfinance Ltd.	2,745	2,621	2,171	2,376	NA
Satin Creditcare Network Ltd.	2,702	2,631	2,385	2,307	2,252
Svatantra Microfin Pvt. Ltd.	2,265	2,520	2,431	2,398	NA
Spandana Sphoorty Financial Ltd.	2,545	2,324	2,168	1,920	1,946
Belstar Microfinance Ltd.	1,996	2,127	2,511	2,440	NA

Source: RHP, Company data, HTI Research

Figure 125: Clients per loan officer

Clients per loan officer	FY20	FY21	FY22	Q1FY23	Q2FY23
CreditAccess Grameen Ltd.	376	385	354	353	453
Fusion Microfinance Pvt. Ltd.	525	506	464	479	537
Asirvad Microfinance Ltd.	710	537	343	347	378
Muthoot Microfin Ltd.	430	402	364	434	NA
Annapurna Finance Pvt. Ltd.	493	412	399	403	NA
Samasta Microfinance Ltd.	437	399	299	329	NA
Satin Creditcare Network Ltd.	473	404	348	388	411
Svatantra Microfin Pvt. Ltd.	479	523	485	533	NA
Spandana Sphoorty Financial Ltd.	421	364	366	345	340
Belstar Microfinance Ltd.	579	656	555	510	NA

Source: RHP, Company data, HTI Research

Figure 126: No of loans disbursed by loan officer

No of loans disbursed per loan officer	FY20	FY21	FY22	Q1FY23
CreditAccess Grameen Ltd.	673	360	414	71
Fusion Microfinance Pvt. Ltd.	339	272	202	72
Asirvad Microfinance Ltd.	632	276	292	85
Muthoot Microfin Ltd.	281	164	242	91
Annapurna Finance Pvt. Ltd.	321	191	228	41
Samasta Microfinance Ltd.	321	268	248	53
Satin Creditcare Network Ltd.	393	202	136	62
Svatantra Microfin Pvt. Ltd.	327	267	364	105
Spandana Sphoorty Financial Ltd.	382	211	112	52
Belstar Microfinance Ltd.	410	336	307	81

Source: RHP, Company data, HTI Research

### Lending process

**Area selection-** FUSION uses Area Lucrative Index (ALI) analysis model to evaluate the local conditions and potential for establishing a new branch. When selecting a new area, the ALI analysis is independently conducted by two separate teams, namely business operations team and risk/audit team. Each team discusses their respective findings with the relevant regional office heads, and the findings are then reported to head office approval committee comprising CEO, COO, CRO, Business Head and Audit Head. Once the committee approves the new area, then the company initiates the processes for opening a new branch and hiring required manpower. In addition to the ALI process, FUSION also has a village selection process which involves a detailed village survey conducted by a relationship officer and the branch manager assigned to the relevant area.

**Group formation-** After a branch has been opened and the corresponding villages are selected, then the company employees conduct public meetings to introduce themselves and the Company. In these meetings, FUSION showcases their product offerings and explain the concepts of group lending, lending procedures and the requirements for group and center formation.

**Customer due diligence-** Once the interested women have formed their groups, FUSION provides further information to them, such as a brief introduction to the company, criteria for group formation and group responsibilities. Immediately after the formation of the group, the relationship officer visits the prospective borrowers house to collect the KYC documents and basic data of the customers.

**Continuous Group Training (CGT) and Group Recognition Test (GRT)-** After a group is formed and has cleared customer due diligence checks, FUSION conducts CGT sessions over the course of two days. During the CGT, Company employees also collect quantitative data on each potential member to ensure she qualifies for the program and to record baseline information for future analysis. The CGT covers various topics such as the center meeting processes with the relationship officers, the frequency of which depends on the relevant customer's repayment schedule, as well as the rules and regulations of the Company, awareness of the products and processes, bank accounts, savings and insurance. Once CGT is done then the branch manager will undertake GRT and would also visit homes of the new customers to ascertain the repayment capacity and obtain consent from other member of family for the guarantor.

**Loan approval-** Following the online submission of loan application, uploading of the required KYC documents, filing of the CGT and GRT reports along with the related individual and household visit photos, and receipt of a positive credit report from the relevant credit bureau, the branch manager will proceed to submit the loan sanctioning proposal via mobile application for approval.

**Center meetings and loan collections-** The company branch managers and relationship officers use regular center meetings and business development visits to villages as means to communicate with the members in the joint liability groups. Company Relationship officers are given primary responsibility for both the sourcing of new borrowers and the collection of repayments from the borrowers at center meetings. In the event of overdue payments, the relationship officer will increase his level of engagement with the borrower by conducting more frequent center meetings and field visits in order to discuss the situation with the customers and the group/center and come up with resolutions that work in the best interest of both the borrower and the Company.

**Loan utilization checks-** During a loan utilization check, the relationship officers visits the borrowers' household or place of business to verify whether the loan funds received have been used for the purpose that the borrower stated in her loan application. Each relationship officer is required to conduct loan utilization checks for 100% of the loans sourced by him in the previous month, and branch managers are required to conduct loan utilization checks for a sample of 25% of loans sourced from within his designated area in the previous month. FUSION have implemented app-based modules for the officers to collect information during post-disbursement loan utilization checks and field visits.

## Compliance: FUSION vs. industry regulations

Figure 127: Compliance: FUSION vs. industry regulations

Criteria	NBFC-ND-SI Master Directions	FUSION Compliance Status
Loan Portfolio – Microfinance Loans	75.0% of total assets to be in the nature of “Microfinance loans”.	“Microfinance loans” constituted 85.43% of our total assets, as of June 30, 2022.
Criteria – Microfinance Loans	1) The borrower’s total annual household income to not exceed Rs300K. 2) The outflow on account of repayment of monthly loan obligation of a household shall be subject to a limit of maximum 50% of monthly household income which includes repayments towards all existing loans as well as the loan under consideration, and is in line with the board approved policy of NBFC-MFI. 3) The computation of loan repayment obligations has taken into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. And no new loans have been provided to those households till the prescribed limit of 50% is complied with.	Fusion comply with the criteria determined for NBFC-MFIs by the NBFC-ND-SI Master Directions.
Ticket Size	Individual loan amounts not to exceed Rs 75K in the first cycle and Rs125K in subsequent cycles.	The maximum credit limit is Rs 40K for the first loan cycle and Rs 90K for subsequent loan cycles.
Tenure of Loan	Tenure of loan to be at least 24 months for loan amounts in excess of Rs 30K with prepayment without penalty.	FUSION comply with this norm in relation to our micro-credit products.
Collateral	Loan to be extended without collateral.	FUSION comply with this norm for our micro-credit products.
Mode of Repayment	Loan to be repayable in weekly, fortnightly or monthly installments, at the choice of the Borrower.	FUSION comply with this norm, subject to compliance with any local law requirements.
Insurance Premium	The actual cost of insurance for group, livestock, life and health of borrower and spouse can be recovered. However, administrative charges can only be recovered as per the applicable guidelines issued by the IRDA.	FUSION collect only the actual cost of loan cover insurance. We comply with this norm in relation to collection of insurance premium.
Penalty	Borrowers not to be subject to penalties for delayed payments.	FUSION comply with this norm.
Security Deposit	No security deposit or margin should be taken from the borrower.	FUSION have not taken any security deposit or margin money from our borrowers in respect of our micro-credit products.
Asset Classification	Asset for which interest or principal payment has remained overdue for a period of 90 days or more to be classified as a NPA.	FUSION comply with this norm. We classify loans that remain overdue for 90 days or more as NPAs.
Loan Provisioning	Loan provision for non-performing assets meeting the “Qualifying Assets” criteria to be created for higher of: (a) 1% of the outstanding loan portfolio; or (b) 50% of the aggregate loan installments overdue for more than 90 days and less than 180 days; or (c) 100% of the aggregate loan installments overdue for 180 days or more (applicable from April 1, 2013).	For non-performing assets, expected credit loss allowance (“ECL”) is as per our Board approved ECL model to ensure compliance with RBI Circular No. DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020.

Source: RHP, Company data, HTI Research

Figure 128: Recent regulatory changes

Area of regulation	Existing regulations		Revised regulations (effective from April 1, 2022)
	For NBFC-MFIs	For Banks and SFBs	For all Regulated Entities
Loan pricing	Margin cap at 10% for large MFIs (loan portfolios > Rs 1bn); 12% for small MFIs (loan portfolios < Rs 1bn)	No restrictions for Banks and SFBs	No pricing cap. Underwriting of loans to be done on a risk-based analysis, and a risk premium to be charged based on the borrower.  Board-approved policy for pricing of loans to be put in place. The policy should include the interest rate model, range of spread of each component for categories of borrowers and ceiling on the interest rate and all other charges on MFI loans.
Processing fees	Not more than 1% of gross loan amount		
Qualifying criteria	85% loans unsecured	Have to meet the target set for priority sector loans	The minimum requirement of microfinance loans for NBFC-MFIs has been revised to 75% of an NBFC-MFI's total assets.  The maximum limit on microfinance loans for NBFCs other than NBFC-MFIs has been revised to 25% of the total assets from 10% previously.
Household income	Rural areas: Rs 125k p.a. Urban areas: Rs 200k p.a	No restrictions for Banks and SFBs	Annual household income: Up to Rs 300k in urban as well as rural areas (This amount is higher than what was stated in the consultation paper issued in June 2021 – up to Rs 125k for rural areas and Rs 200k for urban and semi-urban areas).  Board-approved policy for assessment of household income
Ticket size of loans	Rs 75k in the first cycle and Rs 125k in the subsequent cycles		
Lending to the same borrower	Not more than 2 lenders allowed per borrower	More than 2 banks can lend to same borrower	Limit on maximum loan repayment obligation of a household towards all loans: 50% of monthly household income
Overall borrower indebtedness	Should not exceed Rs 125k	No restrictions for banks and SFBs	

Source: RHP, Company data, HTI Research

## APPENDIX

### IMPORTANT DISCLOSURES

This research report is distributed by Haitong International, a global brand name for the equity research teams of Haitong International Research Limited ("HTIRL"), Haitong Securities India Private Limited ("HSIL"), Haitong International Japan K.K. ("HTIJKK"), Haitong International Securities Company Limited ("HTISCL"), and any other members within the Haitong International Securities Group of Companies ("HTISG"), each authorized to engage in securities activities in its respective jurisdiction.

#### Analyst Certification:

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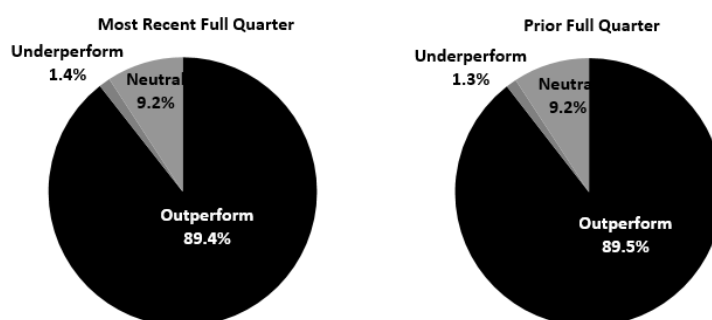
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