

Fusion Micro Finance | BUY

NDR takeaways – on a strong footing

We recently hosted the management of Fusion Micro Finance for an NDR. Management reiterated its focus on deepening presence and driving customer growth without chasing ticket size led growth. Growth is likely to come from existing districts given Fusion is already present in 20 states and currently no district is >3% of overall AUM for Fusion. The company aspires to maintain healthy medium growth trajectory (3QFY23 AUM grew 45% YoY) without losing sight of risk parameters. Fusion aspires to deliver return profile of ~4.5% on RoA and 18-20% on RoEs on a steady state basis. Management will also continue to strengthen the balance sheet by creating excess provision buffers (as stated in the past).

We believe Fusion's operating metrics remain on a strong footing and the company should see continued earnings momentum. Fusion's stable management, focus on technology with respect to driving efficiencies and ability to grow borrower base faster than peers should hold the company in good stead as the sector enters a sweet spot w.r.t. growth and asset quality. Currently, Fusion trades at attractive valuation of 1.2x FY25E BVPS in wake of 4.6%/23.2% RoA/RoE for FY25E and earnings CAGR of 36% over FY23-25E. Maintain BUY with a target price of INR 570 valuing it at 1.7x FY25E BVPS.

- **Customer addition, productivity uptick to drive AUM growth:** Fusion's rural focus (>90% rural portfolio) and a large share of agri/agri-allied customers implies that impact of the purported rural slowdown has been minimal given the "cost-plus" model of these customers. Deepening presence in existing districts (396 districts), higher productivity of branches opened over last couple of years (332 added since Mar'21 forming 31% of branch network presently) are likely to drive growth for Fusion. In 9MFY23, Fusion has added 0.68m customers (highest in our MFI coverage) and believes healthy growth rates in AUM (45% YoY for 3QFY23) are sustainable.
- **Operating metrics on a strong footing:** Fusion has raised lending interest rates by ~180bps over FY23 while it has seen cost of funds increase by 78bps. As a result, NIMs are likely to remain strong for Fusion in the near-term. Also, with credit rating improvement seen in Nov'22 is likely to aid cost of funds for Fusion on an incremental basis. Collection efficiency remains steady with portfolio originated post Mar'21 (which is 97% of the AUM as of Dec'22) exhibiting 98% collection efficiency. Management believes Fusion's stance of opting for lower restructuring during Covid has aided the sharp normalization in its asset quality vs industry. As a prudent measure, Fusion intends to create provision buffer of ~2.5% of loans over the medium to long term.
- **Valuations and view:** Fusion's performance in relation to outstanding restructured assets, write-offs has been relatively healthy and we expect the same to sustain given improving sector dynamics. Fusion trades at attractive valuation of 1.2x FY25E BVPS in wake of 4.6%/23.2% RoA/RoE for FY25E and earnings CAGR of 36% over FY23-25E. Maintain BUY.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	570
Upside/(Downside)	44.0%
Previous Price Target	550
Change	3.6%

Key Data – FUSION IN

Current Market Price	INR396
Market cap (bn)	INR39.8/US\$0.5
Free Float	71%
Shares in issue (mn)	99.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR142.4/US\$1.7
52-week range	444/321
Sensex/Nifty	58,075/17,108
INR/US\$	82.7

Price Performance

%	1M	6M	12M
Absolute	-5.1	0.0	0.0
Relative*	-2.4	0.0	0.0

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Profit	439	218	3,821	5,473	7,028
Net Profit (YoY) (%)	-36.9%	-50.5%	1,656.2%	43.2%	28.4%
Assets (YoY) (%)	37.7%	24.9%	45.0%	27.9%	24.4%
ROA (%)	0.9%	0.3%	4.3%	4.5%	4.6%
ROE (%)	3.6%	1.7%	21.2%	21.9%	23.2%
EPS	5.6	2.6	38.6	55.2	70.9
EPS (YoY) (%)	-36.9%	-52.7%	1,367.2%	43.2%	28.4%
P/E (x)	71.2	150.6	10.3	7.2	5.6
BV	158	162	228	275	336
BV (YoY) (%)	3.8%	2.5%	41.3%	20.6%	21.9%
P/BV (x)	2.51	2.45	1.73	1.44	1.18

Source: Company data, JM Financial. Note: Valuations as of 21/Mar/2023

JM Financial Institutional Securities Limited

JM Financial Research is also available on: Bloomberg – JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

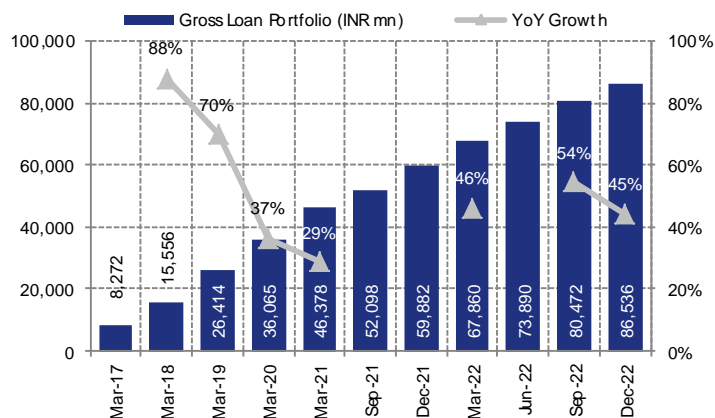
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Fusion – 3Q23 trends

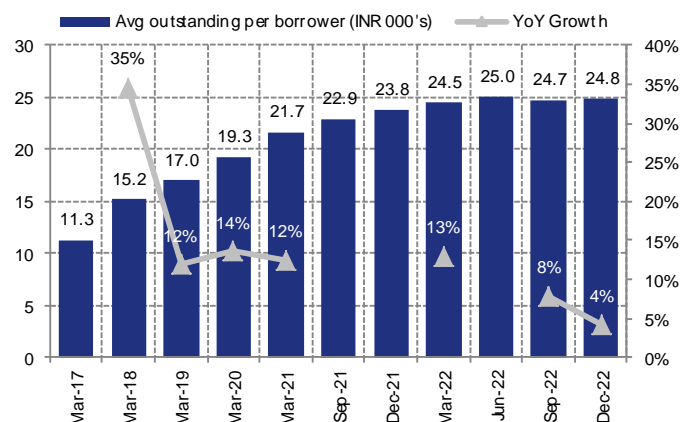
Exhibit 1. Fusion 3Q23: Results summary

Earnings Table (INR mn)	3Q'22	2Q'23	3Q'23	YoY (%)	QoQ (%)
Interest Income	2,769	4,307	4,460	61.1%	3.6%
Interest Expenses	1,183	1,573	1,680	42.0%	6.8%
Net interest income	1,586	2,733	2,780	75.3%	1.7%
Non-Interest Income	1,570	2,411	2,477	57.8%	2.8%
Total Income	198	217	205	3.4%	-5.5%
Employees Cost	1,784	2,950	2,985	67.3%	1.2%
Other Expenditure	613	797	842	37.4%	5.6%
Total Operating Expenses	213	280	305	43.1%	8.9%
Operating Profit (PPP)	826	1,077	1,147	38.9%	6.5%
Provisions & Write Offs	958	1,873	1,838	91.8%	-1.9%
PBT	958	612	499	-47.9%	-18.4%
Tax	1	1,261	1,339	262351.0%	6.2%
Reported Profit	-9	310	314	-3642.7%	1.2%
	9	951	1,025	10835.1%	7.8%
Balance Sheet Data (INR bn)					
Assets Under Management	59.9	80.5	86.5	44.5%	7.5%
Disbursements	17.9	20.5	21.9	22.2%	6.6%
Ratios Analysis (%)					
Cost to Income (%)	46.3%	36.5%	38.4%	-7.86%	1.91%
Effective Tax Rate (%)	NM	25%	23%	NM	-1%
Asset Quality					
Gross NPA (%)	5.52%	3.83%	3.69%	-1.83%	-0.14%
Net NPA (%)	NA	1.12%	0.98%	NA	-0.14%
Coverage (%)	NA	67.8%	70.7%	NA	2.9%
Capital Adequacy (%)					
CAR (%)	NA	20.97%	28.15%	NA	7.18%
Du-pont Analysis (%)					
NII / Assets (%)	10.12%	13.75%	12.86%	2.73%	-0.89%
Non-Interest Inc. / Assets (%)	1.26%	1.09%	0.95%	-0.32%	-0.14%
Operating Cost / Assets (%)	5.27%	5.42%	5.30%	0.03%	-0.12%
Operating Profits / Assets (%)	6.11%	9.42%	8.50%	2.38%	-0.92%
Provisions / Assets (%)	6.11%	3.08%	2.31%	-3.80%	-0.77%
PBT/ Assets (%)	0.00%	6.34%	6.19%	6.19%	-0.15%
ROA (%)	0.06%	4.78%	4.74%	4.68%	-0.04%
Du-pont Analysis (%) - AUM					
NII / AUM (%)	11.33%	14.17%	13.32%	1.98%	-0.85%
Other income / AUM (%)	1.41%	1.12%	0.98%	-0.43%	-0.14%
Cost to AUM (%)	5.90%	5.58%	5.49%	-0.41%	-0.09%
PPP / AUM (%)	6.85%	9.70%	8.80%	1.96%	-0.90%
Provisions / AUM (%)	6.84%	3.17%	2.39%	-4.45%	-0.78%
PBT / AUM (%)	0.00%	6.53%	6.41%	6.41%	-0.12%
ROAUM (%)	0.07%	4.93%	4.91%	4.84%	-0.02%

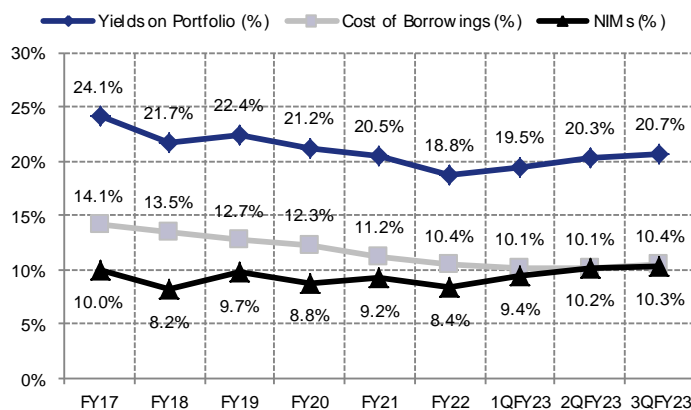
Source: Company, JM Financial

Exhibit 2. Fusion: Trends in Gross Loan Portfolio

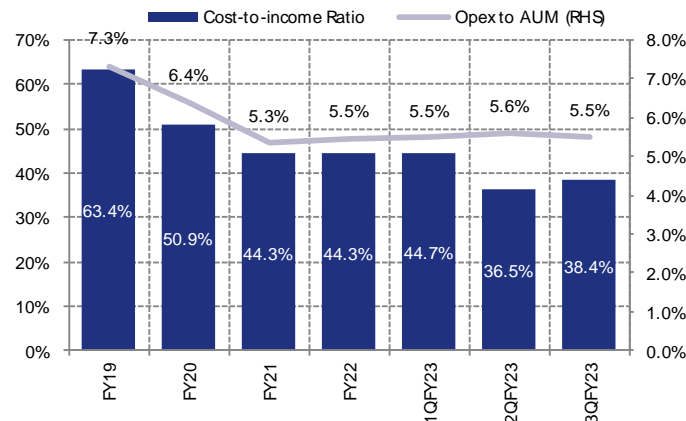
Source: Company, JM Financial

Exhibit 3. Fusion: Trends in avg. outstanding per borrower

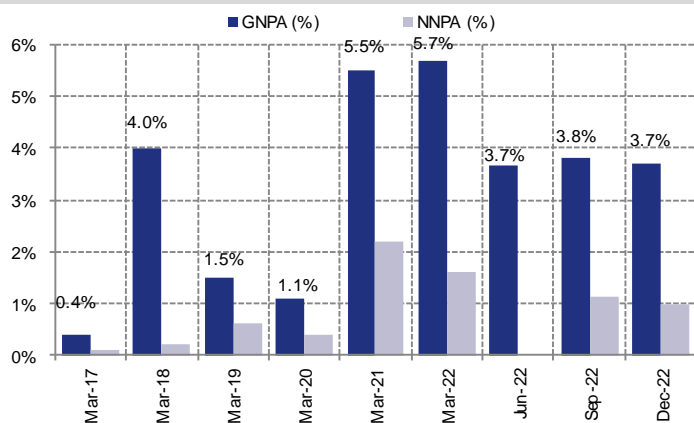
Source: Company, JM Financial

Exhibit 4. Fusion: Trends in yields, cost of borrowing and NIMs

Source: Company, JM Financial

Exhibit 5. Fusion: Trends in Cost/Income and Opex/GLP

Source: Company, JM Financial

Exhibit 6. Fusion: Trends in GNPA and NNPA

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Interest Income (NII)	4,632	6,292	10,413	14,361	18,141
Non Interest Income	347	762	915	1,187	1,543
Total Income	4,980	7,054	11,327	15,548	19,684
Operating Expenses	2,204	3,123	4,427	5,856	7,292
Pre-provisioning Profits	2,776	3,931	6,900	9,692	12,392
Loan-Loss Provisions	2,208	3,687	1,512	1,976	2,493
Others Provisions	0	0	259	370	465
Total Provisions	2,208	3,687	1,772	2,346	2,958
PBT	568	244	5,128	7,346	9,434
Tax	128	27	1,308	1,873	2,406
PAT (Pre-Extra ordinaries)	439	218	3,821	5,473	7,028
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	439	218	3,821	5,473	7,028
Dividend	0	0	573	821	1,054
Retained Profits	439	218	3,248	4,652	5,974

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Equity Capital	790	828	991	991	991
Reserves & Surplus	11,673	12,552	21,636	26,288	32,262
Stock option outstanding	0	0	0	0	0
Borrowed Funds	44,323	57,758	80,861	1,05,120	1,31,400
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	1,593	1,767	2,209	2,761	3,452
Total Liabilities	58,379	72,905	1,05,697	1,35,160	1,68,104
Net Advances	43,607	59,182	87,264	1,11,932	1,42,904
Investments	0	0	0	0	0
Cash & Bank Balances	13,353	11,536	13,962	16,790	20,007
Loans and Advances	0	0	0	0	0
Other Current Assets	471	1,127	2,956	4,785	4,515
Fixed Assets	183	192	257	302	342
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	765	868	1,258	1,352	336
Total Assets	58,379	72,905	1,05,697	1,35,160	1,68,104

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY) (%)	0	0	0	0	0
Borrowed funds	49.0%	30.3%	40.0%	30.0%	25.0%
Advances	30.4%	35.7%	47.5%	28.3%	27.7%
Total Assets	37.7%	24.9%	45.0%	27.9%	24.4%
NII	30.1%	35.8%	65.5%	37.9%	26.3%
Non-interest Income	-5.3%	119.4%	20.0%	29.8%	30.0%
Operating Expenses	10.2%	41.7%	41.8%	32.3%	24.5%
Operating Profits	44.0%	41.6%	75.5%	40.5%	27.9%
Core Operating profit	55.0%	39.5%	80.4%	41.1%	27.7%
Provisions	138.2%	67.0%	-51.9%	32.4%	26.1%
Reported PAT	-36.9%	-50.5%	1,656.2%	43.2%	28.4%
Yields / Margins (%)	0	0	0	0	0
Interest Spread	9.68%	9.85%	11.12%	11.55%	11.31%
NIM	9.40%	9.86%	12.11%	12.49%	12.44%
Profitability (%)	0	0	0	0	0
ROA	0.87%	0.33%	4.28%	4.54%	4.63%
ROE	3.6%	1.7%	21.2%	21.9%	23.2%
Cost to Income	44.3%	44.3%	39.1%	37.7%	37.0%
Asset quality (%)	0	0	0	0	0
Gross NPA	5.67%	5.81%	2.50%	2.19%	2.14%
LLP	5.73%	7.17%	2.42%	2.36%	2.32%
Capital Adequacy (%)	0	0	0	0	0
Tier I	25.52%	19.93%	24.03%	22.83%	22.53%
CAR	27.26%	21.94%	25.41%	23.92%	23.41%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
NII / Assets	9.19%	9.58%	11.66%	11.92%	11.96%
Other Income / Assets	0.69%	1.16%	1.02%	0.99%	1.02%
Total Income / Assets	9.88%	10.75%	12.68%	12.91%	12.98%
Cost / Assets	4.37%	4.76%	4.96%	4.86%	4.81%
PPP / Assets	5.51%	5.99%	7.73%	8.05%	8.17%
Provisions / Assets	4.38%	5.62%	1.98%	1.95%	1.95%
PBT / Assets	1.13%	0.37%	5.74%	6.10%	6.22%
Tax rate	22.6%	10.9%	25.5%	25.5%	25.5%
ROA	0.87%	0.33%	4.28%	4.54%	4.63%
Leverage	4.7	5.4	4.7	5.0	5.1
ROE	3.6%	1.7%	21.2%	21.9%	23.2%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shares in Issue	79.0	82.8	99.1	99.1	99.1
EPS (INR)	5.6	2.6	38.6	55.2	70.9
EPS (YoY) (%)	-36.9%	-52.7%	1,367.2%	43.2%	28.4%
P/E (x)	71.2	150.6	10.3	7.2	5.6
BV (INR)	158	162	228	275	336
BV (YoY) (%)	3.8%	2.5%	41.3%	20.6%	21.9%
P/BV (x)	2.51	2.45	1.73	1.44	1.18
DPS (INR)	0.0	0.0	5.8	8.3	10.6
Div. yield (%)	0.0%	0.0%	1.5%	2.1%	2.7%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
6-Jan-23	Buy	550	

APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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