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is the author and  
distributor of this report

Q4FY23 results review  
and TP change

## Financials

Target price: Rs650

Target price revision

Rs650 from Rs600

### Shareholding pattern

	Nov '22	Dec '22	Mar '23
Promoters	68.2	68.2	68.2
Institutional investors	20.3	17.0	19.6
MFs and others	7.4	9.6	9.9
FI/Banks	1.7	0.0	0.0
Insurance Cos.	1.5	2.1	2.9
FII's	9.7	5.3	6.8
Others	11.5	14.8	12.2

Source: NSE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

## Fusion Micro Finance

**BUY**  
Maintain

Continues to deliver industry-leading profitability  
with RoA / RoE sustaining at >4% / >20%

**Rs490**

Fusion Micro Finance (Fusion) continues to lead the industry in terms of profitability and growth – as reflected in its RoA and RoE sustained at >4% and >20% respectively in each of the 4 quarters of FY23 despite creation of a provisioning buffer of Rs0.3bn in Q4FY23. This is an outcome of the company's diversified operations with no single state contributing >20% of AUM, the rural portfolio accounting for 93% of it, quality underwriting, proactive risk management and deep understanding of demographics in states where it operates. AUM grew by a strong 7% QoQ, taking full-year FY23 growth to 37% YoY. Incremental growth was driven by new customer acquisitions (up 30% YoY) with average outstanding per borrower growing only 6% YoY. Company continued to invest towards distribution expansion (opened >100 branches during the past 1 year), which would ensure sustainability of high growth in the near term, in our view. Collection efficiency at 98% in Q4FY23 in the new book (comprising ~99% of MFI AUM originated post Mar'21), NNPL at <1% and standard restructured book of only 20bps – would keep credit cost at manageable levels. Maintain BUY with a revised target price of Rs650 (earlier: Rs600), implying 2x Sep'24E BVPS (Sep'23 BVPS earlier).

- **AUM growth remained robust at 37% YoY with steady 8-9% QoQ growth in each of the 4 quarters of FY23.** Key feature of Fusion's growth journey so far, including Q4FY23, has been its remarkably steady quarterly growth, unlike the industry trend of Q4 registering the highest growth. Further, Fusion has always focused on customer-led growth as reflected in 30% YoY expansion in its borrower base during Q4FY23. Net borrower addition stood at 0.8mn during FY23. In Q4FY23, customer base grew 4% QoQ leading to a robust 7% QoQ rise in AUM. Outstanding per borrower increased slightly by 3% QoQ to Rs26,335, one of the lowest in MFI space. Total borrower base stands at 3.53mn as of Mar'23. Disbursements also remained strong at Rs23.7bn (up 8% QoQ) in Q4FY23 with average ticket-size at >Rs40,000 (Rs36,800 in Q3FY23).
- **Improving trend in asset quality sustained; credit cost appears high as Fusion continued to build provisioning buffer.** Quality underwriting, stable management team, strong rural presence (less vulnerable than urban) and negligible exposure in states that were highly covid-impacted (e.g. Kerala, Maharashtra, West Bengal, Assam) helped Fusion sail through the pandemic phase with relatively better asset quality metrics. As a result, asset quality ratios are steadily declining from their peaks. During Q4FY23, GNPL fell to 3.5% (3.7% QoQ) while NNPL remained at 0.87% with PCR of 75%. Standard restructured book stands at a negligible 20bps of AUM (Rs149mn) as of Mar'23. Collection efficiency during the quarter continued to be healthy as reflected in 98% collections in the new book. Credit cost increased to 3.4% as management continued to build provisioning buffer (Rs0.3bn overlay in Q4FY23). Total management overlay stood at Rs0.5bn (70bps of AUM) as at Q4FY23-end.

Market Cap	Rs48.3bn/US\$583mn	Year to Mar	FY22	FY23	FY24E	FY25E
Bloomberg	FUSION IN	NII (Rs mn)	6,553	10,992	13,641	17,571
Shares Outstanding (mn)	100.6	Net Income (Rs mn)	217	3,872	5,424	7,122
52-week range (Rs)	480/325	EPS (Rs)	2.3	38.6	54.1	71.0
Free Float (%)	31.8	% Chg YoY	Nmg	nmf	40.1	31.3
FII (%)	6.8	P/E (x)	187.0	12.7	9.1	6.9
Daily Volume (US\$/'000)	2,107	BVPS (Rs)	161.7	231.4	285.4	356.4
Absolute Return 3m (%)	19.6	P/BV (x)	3.0	2.1	1.7	1.4
Absolute Return 12m (%)	NA	NNPL (%)	1.6	0.9	0.8	0.8
Sensex Return 3m (%)	4.0	RoA (%)	0.3	4.6	4.9	4.9
Sensex Return 12m (%)	15.6	RoE (%)	1.7	21.2	20.9	22.1

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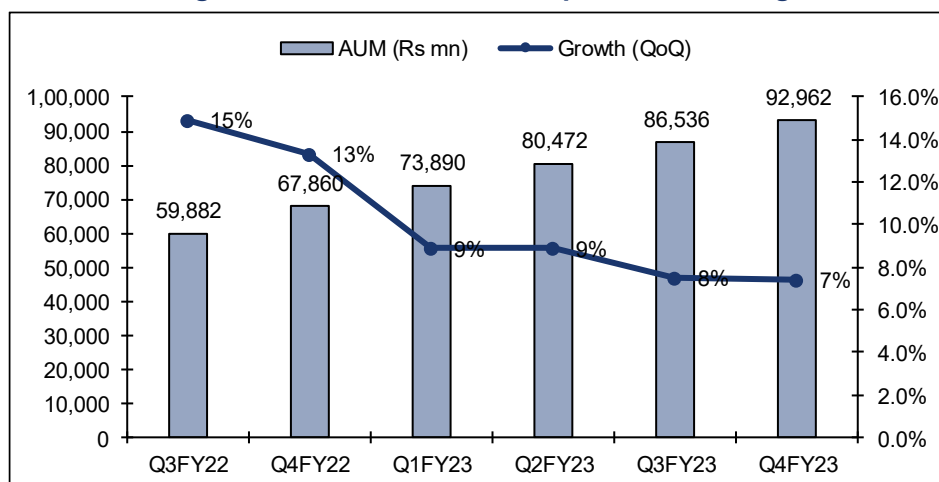
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- **Strong operating performance led to industry-leading profitability.** PAT during Q4FY23 was up 12% QoQ to Rs1.15bn largely driven by steady revenue growth and contained operating costs. NII growth remained robust at 12% QoQ despite strong AUM growth at 7% QoQ and NIM expansion of 25bps QoQ. Asset yield expansion at 30bps QoQ to 21% protected NIM as the cost of borrowing remained flat QoQ. Fusion's continued thrust on building its infrastructure to sustain growth momentum resulted in 9% QoQ growth in total operating expenses – staff cost was up 6% QoQ while other opex was up 18% QoQ.
- **Key risk.** AUM growth deceleration, and stress unfolding higher than our anticipation.

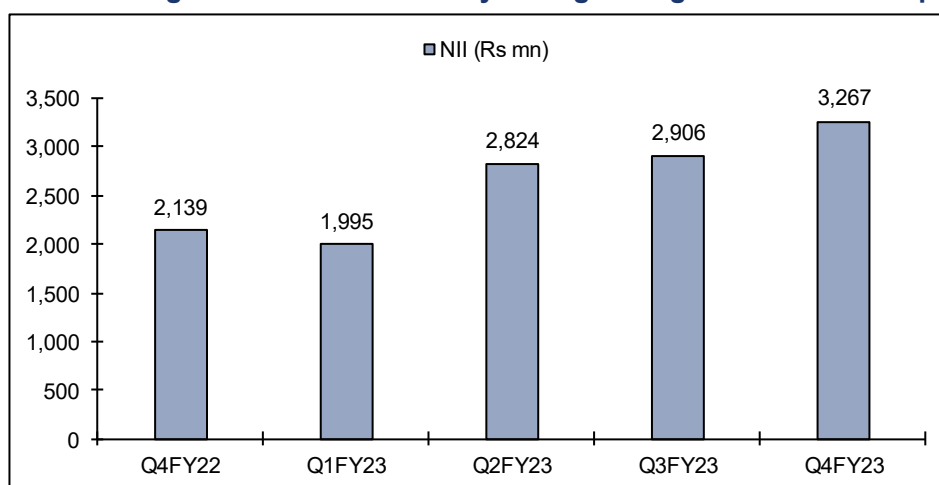
**Table 1: Q4FY23 result review**

(Rs mn)	Q4FY23	Q4FY22	% change YoY	Q3FY23	% change QoQ
Interest Income	5,009	3,505	42.9	4,586	9.2
Interest Expended	1,742	1,366	27.6	1,680	3.7
Net interest income (NII)	3,267	2,139	52.7	2,906	12.4
Other income	198	221	(10.3)	79	151.3
Total income	3,465	2,360	46.8	2,985	16.1
Operating expenses	1,253	864	45.1	1,147	9.3
-Staff expenses	894	644	38.7	842	6.2
-Other expenses	359	219	63.9	305	17.7
Operating profit	2,211	1,496	47.8	1,838	20.3
Total provisions	692	1,340	(48.4)	499	38.6
Profit before tax	1,519	156	871.7	1,339	13.5
Tax	374	24	1,432.9	314	19.2
Profit after tax	1,145	132	767.9	1,025	11.8
Key statistics (Rs mn)					
AuM	92,962	67,860	37.0	86,536	7.4
Borrowers (in mn)	3.5	2.7	29.8	3.4	3.8
Calc. Avg ticket size	26,335	24,949	5.6	25,452	3.5
Ratios (%)			bp change YoY	bp change QoQ	
Profitability ratios					
Portfolio Yields	21.0	17.7	330	20.7	30
Cost of Funds	10.4	9.9	50	10.4	-
NIM	10.6	7.8	277	10.3	26
RoAum	5.0	-	499	4.7	25
Asset Quality					
Gross NPL ratio	3.5	NA		3.7	(23)
Net NPL ratio	0.9			1.0	(11)
PCR	74.9			73.4	141
Business & Other Ratios					
Cost-income ratio	36.2	36.6	(42)	38.4	(225)
CAR	27.9			28.2	(21)

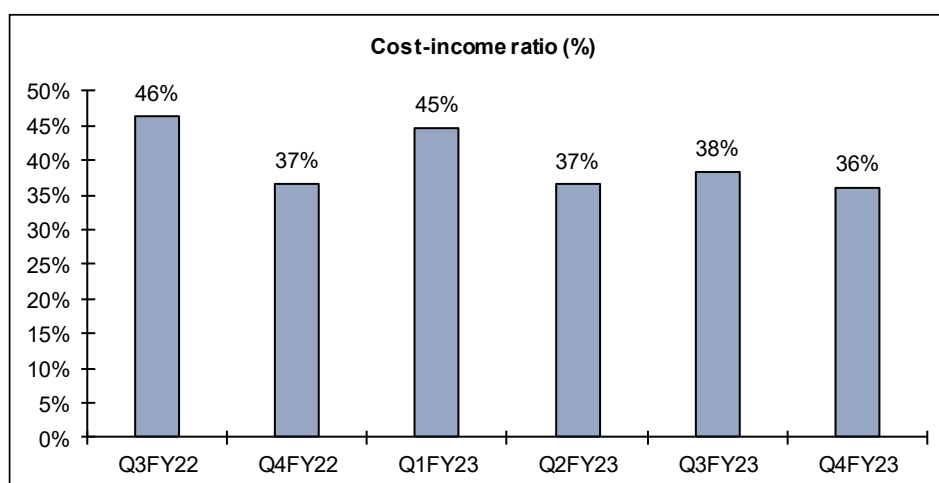
Source: Company data, I-Sec research

**Chart 1: AUM growth remained robust – up 7% QoQ during Q4FY23**

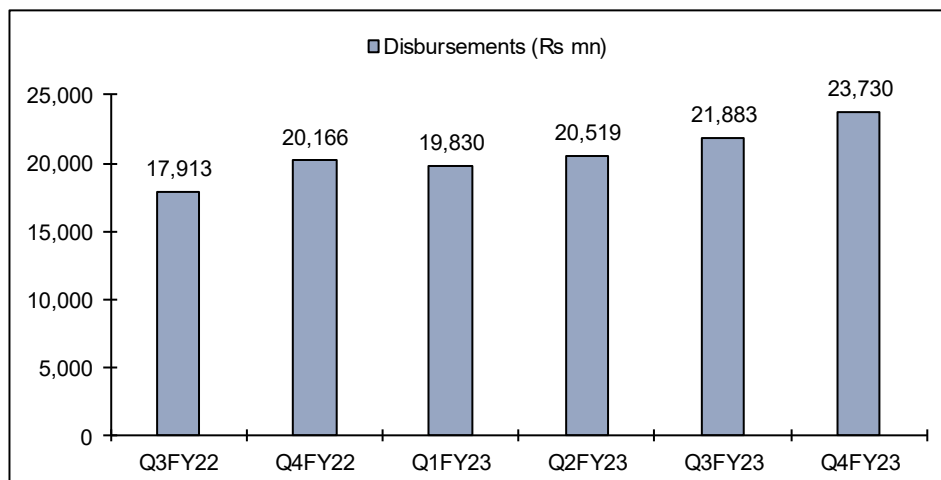
Source: Company data, I-Sec research

**Chart 2: NII grew 12% QoQ driven by strong AUM growth and NIM expansion...**

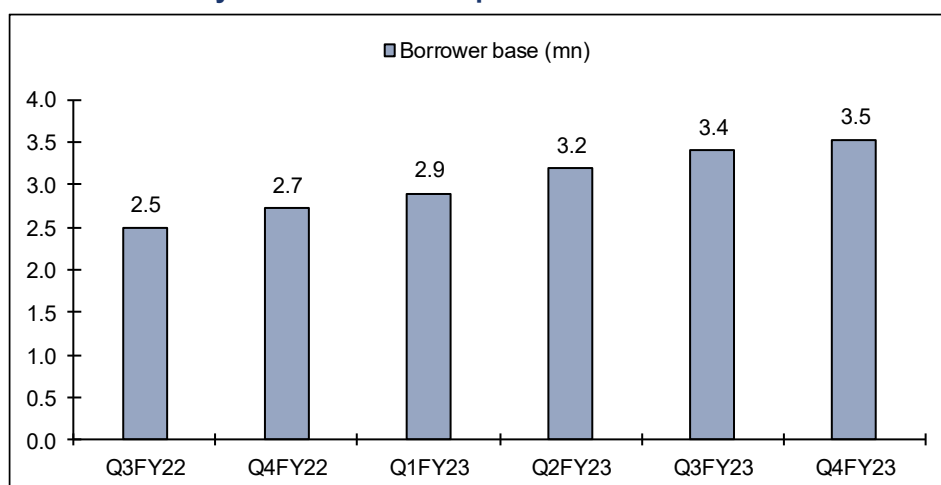
Source: Company data, I-Sec research

**Chart 3: ... resulting in 200bps decline in cost/income ratio to 36% during Q4FY23**

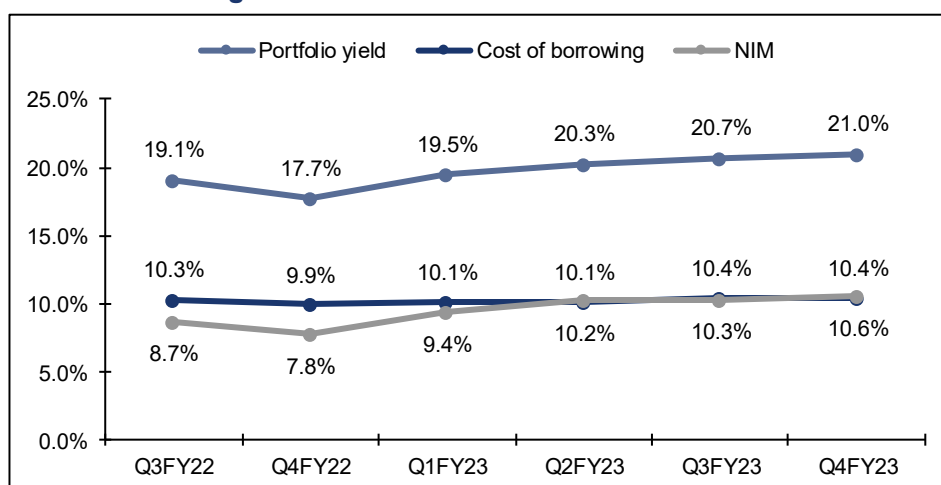
Source: Company data, I-Sec research

**Chart 4: Strong traction in disbursements continued...**

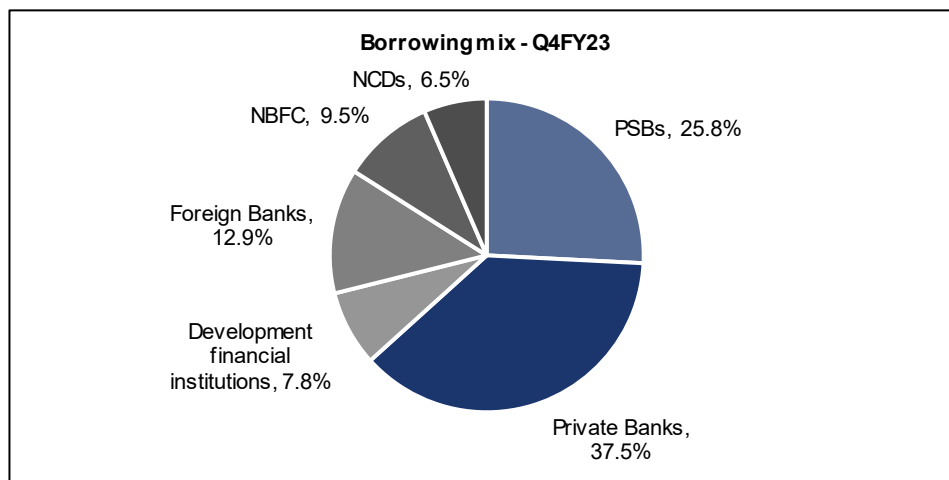
Source: Company data, I-Sec research

**Chart 5: ...led by new customer acquisition**

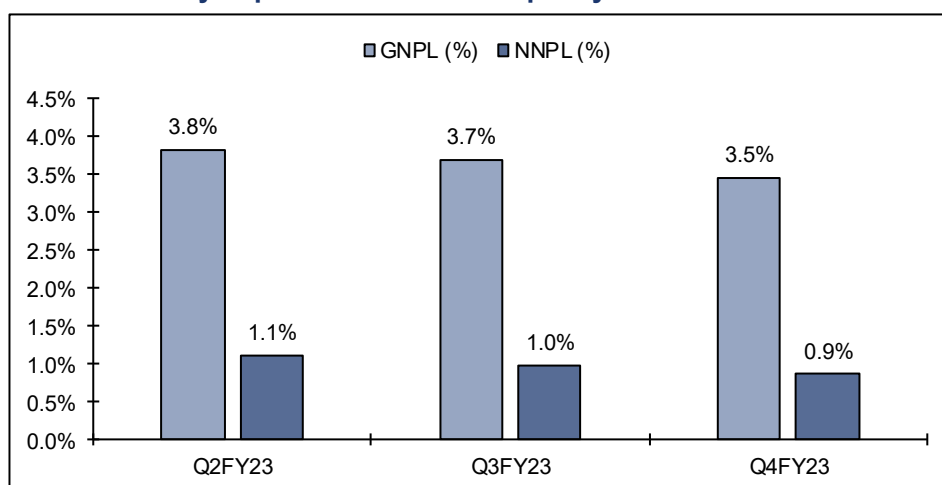
Source: Company data, I-Sec research

**Chart 6: NIM sustained at >10% with asset repricing outpacing the increase in cost of borrowing**

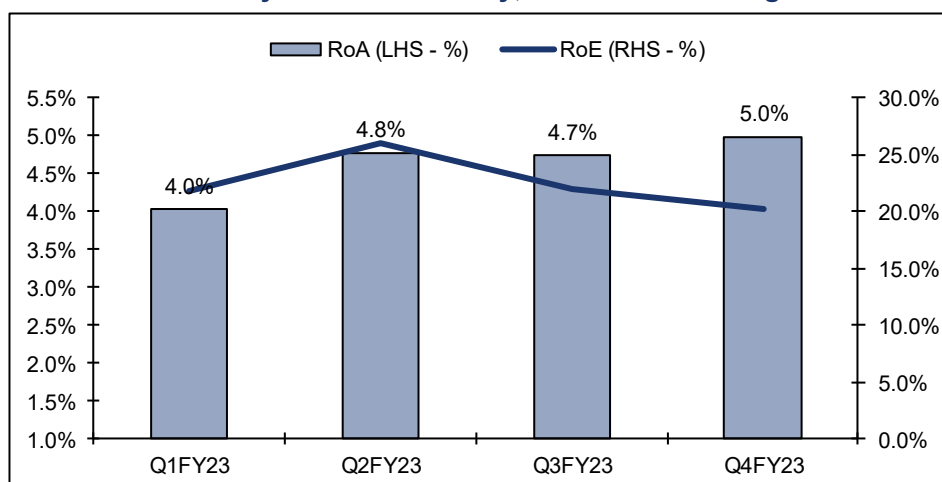
Source: Company data, I-Sec research

**Chart 7: Bank borrowing remained the major source of funding**

Source: Company data, I-Sec research

**Chart 8: Steady improvement in asset quality ratios**

Source: Company data, I-Sec research

**Chart 9: Profitability remained healthy; RoA at >4% during FY23**

Source: Company data, I-Sec research

## Financial summary

**Table 2: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY21	FY22	FY23	FY24E	FY25E
<b>Interest income on portfolio loans</b>	<b>8,060</b>	<b>10,566</b>	<b>16,001</b>	<b>21,443</b>	<b>27,463</b>
YoY growth	24%	31%	51%	34%	28%
<b>Other Interest Income</b>	<b>498</b>	<b>946</b>	<b>1,418</b>	<b>1,505</b>	<b>1,882</b>
<b>Finance costs</b>	<b>3,751</b>	<b>4,960</b>	<b>6,428</b>	<b>9,307</b>	<b>11,775</b>
<b>NII</b>	<b>4,807</b>	<b>6,553</b>	<b>10,992</b>	<b>13,641</b>	<b>17,571</b>
YoY growth	26%	36%	68%	24%	29%
<b>Net Revenue</b>	<b>4,980</b>	<b>7,054</b>	<b>11,572</b>	<b>14,896</b>	<b>19,009</b>
<b>Total Opex</b>	<b>2,204</b>	<b>3,123</b>	<b>4,448</b>	<b>5,631</b>	<b>6,976</b>
Employee benefits expenses	1,686	2,331	3,255	4,079	5,035
YoY growth	14%	38%	40%	25%	23%
Other expenses	479	738	1,119	1,456	1,820
YoY growth	-2%	54%	52%	30%	25%
Depreciation and amortisation expenses	39	54	74	96	120
<b>PPoP</b>	<b>2,776</b>	<b>3,931</b>	<b>7,124</b>	<b>9,265</b>	<b>12,034</b>
YoY growth	44%	42%	81%	30%	30%
Provision and write-offs	2,208	3,687	2,004	2,092	2,616
<b>Adjusted PBT</b>	<b>568</b>	<b>244</b>	<b>5,120</b>	<b>7,173</b>	<b>9,418</b>
Exceptional items (IV)		0	0	0	0
<b>Profit before tax</b>	<b>568</b>	<b>244</b>	<b>5,120</b>	<b>7,173</b>	<b>9,418</b>
Tax	128	27	1,248	1,749	2,296
<b>Profit after tax</b>	<b>439</b>	<b>217</b>	<b>3,872</b>	<b>5,424</b>	<b>7,122</b>

Source: Company data, I-Sec research

**Table 3: Balance sheet**

(Rs mn, year ending March 31)

	FY21	FY22	FY23	FY24E	FY25E
Share capital	790	828	1,003	1,003	1,003
Reserves and surplus	11,673	12,552	22,216	27,640	34,761
<b>Shareholders' funds</b>	<b>12,464</b>	<b>13,380</b>	<b>23,219</b>	<b>28,643</b>	<b>35,765</b>
Borrowings (other than debt securities)	33,251	48,295	60,366	96,477	1,22,795
Subordinated liabilities	1,167	1,626	1,130	1,073	1,020
Other financial liabilities	1,266	1,334	1,577	1,498	1,423
<b>Equity and liabilities</b>	<b>58,379</b>	<b>72,905</b>	<b>93,635</b>	<b>1,27,933</b>	<b>1,61,244</b>
<b>Assets</b>					
Tax assets	120	354	384	403	423
Property, plant and equipment	103	122	133	139	146
Intangible assets	2	1	3	3	3
Right of use asset	78	69	77	80	84
Other non-financial assets	23	62	82	86	90
<b>Loan Portfolio</b>	<b>43,607</b>	<b>59,182</b>	<b>80,416</b>	<b>98,802</b>	<b>1,23,521</b>
<b>DTA</b>	<b>765</b>	<b>868</b>	<b>777</b>	<b>785</b>	<b>793</b>
Trade receivables	28	43	144	144	144
Cash and bank balances	13,353	11,536	10,650	12,844	16,058
Other financial assets	301	669	971	14,647	19,981
<b>Assets</b>	<b>58,379</b>	<b>72,905</b>	<b>93,635</b>	<b>1,27,933</b>	<b>1,61,244</b>

Source: Company data, I-Sec research

**Table 4: Key ratios***(Year ending March 31)*

	FY21	FY22	FY23	FY24E	FY25E
<b>Average Yields</b>	<b>19.6%</b>	<b>18.5%</b>	<b>19.9%</b>	<b>20.5%</b>	<b>21.0%</b>
<b>Average cost of borrowing</b>	<b>9.9%</b>	<b>9.5%</b>	<b>9.9%</b>	<b>11.0%</b>	<b>10.5%</b>
Cal NIM	11.2%	10.6%	12.9%	11.8%	12.3%
<b>Opex/AUM (Cal.)</b>	<b>5.3%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.3%</b>
Cost/Income ratio	44.3%	44.3%	38.4%	37.8%	36.7%
<b>RoA</b>	<b>1.1%</b>	<b>0.3%</b>	<b>4.6%</b>	<b>4.9%</b>	<b>4.9%</b>
<b>RoE</b>	<b>3.6%</b>	<b>1.7%</b>	<b>21.2%</b>	<b>20.9%</b>	<b>22.1%</b>
<b>Asset quality</b>					
GNPA (%)	5.5	5.7	3.5	2.7	2.7
NNPA (%)	2.2	1.6	0.9	0.8	0.8
<b>PCR</b>	<b>60%</b>	<b>72%</b>	<b>75%</b>	<b>70%</b>	<b>70%</b>
<b>Credit cost</b>	<b>5.4%</b>	<b>6.5%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>2.0%</b>
<b>Per share data (Rs)</b>					
<b>No of shares</b>	<b>79</b>	<b>83</b>	<b>100</b>	<b>100</b>	<b>100</b>
Diluted EPS	5.6	2.6	38.6	54.1	71.0
EPS growth (%)	(36.9)	(52.9)	1,372.8	40.1	31.3
Book value per share	157.7	161.7	231.4	285.4	356.4
BVPS growth (%)	3.8	2.5	43.1	23.4	24.9
<b>P/E</b>	<b>88.1</b>	<b>187.0</b>	<b>12.7</b>	<b>9.1</b>	<b>6.9</b>
<b>P/BV</b>	<b>3.1</b>	<b>3.0</b>	<b>2.1</b>	<b>1.7</b>	<b>1.4</b>
<b>RoA decomposition</b>					
<b>Interest Income</b>	<b>16.0%</b>	<b>16.1%</b>	<b>19.2%</b>	<b>19.4%</b>	<b>19.0%</b>
<b>Interest exp</b>	<b>7.4%</b>	<b>7.6%</b>	<b>7.7%</b>	<b>8.4%</b>	<b>8.1%</b>
<b>Net interest income (%)</b>	<b>9.9%</b>	<b>10.7%</b>	<b>13.9%</b>	<b>13.4%</b>	<b>13.1%</b>
Other income (%)	1.3%	2.2%	2.4%	2.5%	2.3%
<b>Total income (%)</b>	<b>9.9%</b>	<b>10.7%</b>	<b>13.9%</b>	<b>13.4%</b>	<b>13.1%</b>
Employee expenses (%)	3.3%	3.6%	3.9%	3.7%	3.5%
Depre (%)	1.0%	1.1%	1.3%	1.3%	1.3%
Other operating expenses (%)	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Total operating expenses (%)</b>	<b>4.4%</b>	<b>4.8%</b>	<b>5.3%</b>	<b>5.1%</b>	<b>4.8%</b>
Pre provisioning profits (%)	5.5%	6.0%	8.6%	8.4%	8.3%
<b>Provisions (%)</b>	<b>4.4%</b>	<b>5.6%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>1.8%</b>
Pre tax profits (%)	1.1%	0.4%	6.1%	6.5%	6.5%
Tax (%)	0.3%	0.0%	1.5%	1.6%	1.6%
<b>RoAUM (%.)</b>	<b>0.9%</b>	<b>0.3%</b>	<b>4.6%</b>	<b>4.9%</b>	<b>4.9%</b>
Leverage	4.1	5.1	4.6	4.3	4.5
<b>RoE (%.)</b>	<b>3.6%</b>	<b>1.7%</b>	<b>21.2%</b>	<b>20.9%</b>	<b>22.1%</b>
<b>Operating data</b>					
<b>Portfolio (Rs mn)</b>	<b>46,378</b>	<b>67,860</b>	<b>92,960</b>	<b>1,16,238</b>	<b>1,45,319</b>
Disbursements	37,013	61,798	85,960	1,07,450	1,34,313
<b>Repayments</b>	<b>26,700</b>	<b>40,316</b>	<b>60,860</b>	<b>84,172</b>	<b>1,05,231</b>
<b>Collections</b>	<b>65%</b>	<b>71%</b>	<b>76%</b>	<b>80%</b>	<b>80%</b>
Active Borrowers (in mn)	2	3	3	4	4
<b>Avg ticket size</b>	<b>21,877</b>	<b>24,949</b>	<b>29,719</b>	<b>32,313</b>	<b>35,129</b>
<b>Capital Adequacy</b>					
Tier I Capital	11,547	12,370	22,216	27,640	34,761
Tier II Capital	788	1,244	1,244	1,244	1,244
<b>Total Capital</b>	<b>12,335</b>	<b>13,614</b>	<b>23,460</b>	<b>28,884</b>	<b>36,006</b>
<b>Total Risk Weighted Assets</b>	<b>45,245</b>	<b>62,049</b>	<b>87,663</b>	<b>1,31,750</b>	<b>1,82,659</b>
<b>CRAR - Tier I capital (%)</b>	<b>25.5%</b>	<b>19.9%</b>	<b>26.5%</b>	<b>21.0%</b>	<b>19.0%</b>
CRAR - Tier II capital (%)	1.74%	1.97%	1.4%	0.9%	0.7%
<b>CRAR (%)</b>	<b>27.3%</b>	<b>21.9%</b>	<b>27.9%</b>	<b>21.9%</b>	<b>19.7%</b>

Source: Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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