

22th December 2023

Fusion Micro Finance Ltd.

BSE: 543652 | NSE: FUSION



Recommendation
BUY



Time Period
12 months



Current Price
575.4/-



Target Price
661.7/-



Potential Upside
15.0%

Fusion Micro Finance Ltd. has been operating in the microfinance industry for 13 years since January 2010. They have a strong presence in 20 states and Union Territories, and are among the top 10 companies in their business space, serving 3.52 million clients as Mar 23. The company has an asset under management (AUM) book of Rs 10026 crore, with gross non-performing assets (GNPA) and net non-performing assets (NNPA) standing at 2.68% and 0.65% respectively. Additionally, the company has received 2 rating upgrades in the last 11 months by CRISIL. The company has been reporting consistent improvement in Return on Assets (RoA) and Return on Equity (RoE) which stands at 4.97% and 20.10% respectively as of 2HFY24.

Five reasons to buy:

- ★ **Credit Rating Upgrade:** The company's A+ rating upgrade by CRISIL is expected to lower the marginal cost of funds and lead to NIM expansion. The company has set a target NIM of 11.2-11.5% going ahead.
- ★ **Marked improvement in asset quality:** The asset quality of the company has been improving steadily. Gross Non-Performing Assets (GNPA) reduced from 5.7% in Mar 22 to 3.5% in Mar 23 and further improved to 2.7% in Sep 23. The collection efficiency of the company has remained strong with low delinquencies for loans originated in the past 12-18 months. The credit cost is expected to normalize below the 3% level in FY24. Additionally, the total management overlay as of Sep 23 is Rs 61.5 crore.
- ★ **Well-capitalized Bank:** Overall capital adequacy ratio (CAR) including profit stood at 28.7%, we expect the company is well capitalized to adhere to future growth.
- ★ **Robust growth outlook:** In the 1HFY24, Fusion reported a PAT of Rs. 246 cr and a RoA of 4.5% (annualised). The company is expected to sustain improved profitability over the medium term. The GNPA / NNPA reduced by 52 bps / 13 bps QoQ, stands at 2.68% / 0.65% as of Sep 23.
- ★ **Expanding to newer geography:** The company plans to open 160-170 branches in FY24. The company has a network of 1164 branches across 24 states.

Reasonable valuation: At CMP, the stock is trading at P/BV of 2.0x/1.6x of its FY24E/FY25E BVPS respectively. Valuations appear to be reasonable and offer favourable risk-reward for medium to long-term investors.

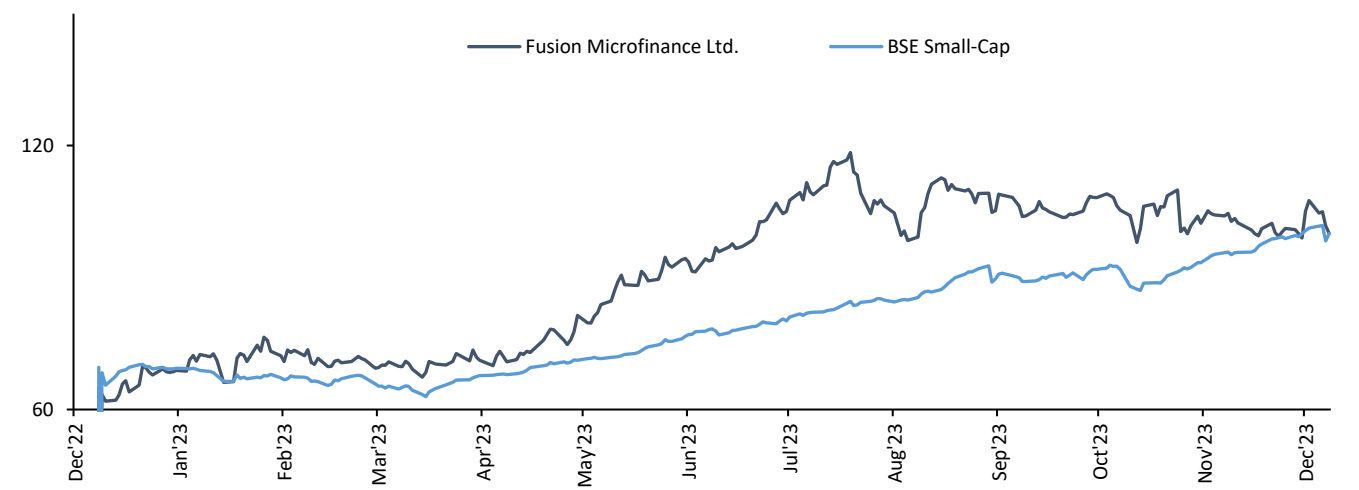
Key Risks: Unexpected credit delinquencies, Rise in competition, elevated cost of fund

Financial Summary

Particulars (Rs cr)	FY22A	FY23A	FY24E	FY25E
NII	568.4	957.4	1,298.0	1,590.4
Net Profit	21.7	387.1	513.2	657.7
NIM (%)	8.9	11.8	12.8	13.0
RoA (%)	0.3	4.6	5.0	5.3
RoE (%)	1.7	21.2	19.9	20.8
GNPA %	5.7	3.5	2.7	2.7
PCR %	71.9	74.3	75.7	75.7
PE (x)	217.9	14.8	11.2	8.7
P/BV (x)	3.5	2.5	2.0	1.6

Source: Bloomberg, SSL Research

Stock Performance (2-Years)



Source: Capitaline, SSL Research

Recommendation History

Date	Stock Price	Target Price	Recommendation	Status
-	-	-	-	-

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485

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