

Fusion MFI continues to report strong earnings with PAT at Rs1.33bn and RoA at 4.7%, mainly led by continued margin expansion and higher fees. However, LLP remains elevated at 4.7%, primarily due to stress in the state of Punjab, specific PCR build-up, and incremental management overlay of Rs0.2bn. The management does not expect any further impact from Punjab, if the collection efficiency holds up at ~75% and improves gradually in due course. Fusion MFI will continue to build management overlay, which now stands at 0.5% of AUM, to withstand any future asset quality disruption. Separately, Company plans to change its name to Fusion Finance from Fusion MFI, thus reflecting its portfolio diversification strategy. Factoring some growth moderation and asset quality noise amid the ongoing elections, we lower our target multiple to 1.7x FY26E ABV (earlier 2x Dec-25E ABV), thus arriving at a TP of Rs700/sh (earlier Rs750). We retain BUY.

Fusion MicroFinance: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	3,871	5,052	6,053	7,062	7,949
Loan growth (%)	37.0	23.5	23.0	22.0	20.0
NII growth (%)	68.4	35.9	24.5	17.9	18.3
NIM (%)	12.0	12.7	12.7	12.3	12.1
PPOP growth (%)	81.2	44.3	23.2	15.4	14.2
Adj. EPS (Rs)	42.3	50.3	60.2	70.2	79.0
Adj. EPS growth (%)	1,477.6	18.9	19.6	16.7	12.6
Adj. BV (Rs)	248.5	276.6	337.1	406.1	483.8
Adj. BVPS growth (%)	53.9	11.0	21.3	20.6	19.2
RoA (%)	4.6	4.8	4.6	4.4	4.2
RoE (%)	21.2	19.7	19.4	18.7	17.6
P/E (x)	11.5	9.7	8.1	7.0	6.2
P/ABV (x)	2.0	1.8	1.5	1.2	1.0

Source: Company, Emkay Research

Fusion delivers healthy margins due to contained CoF

Fusion reported a slight moderation in credit growth at 24% YoY/7% QoQ, which we believe, could be partly due to stress build-up in Punjab, as the company has stopped fresh portfolio build-up since Dec-23. However, margins continue to improve (up 5bps QoQ) to 11.6% mainly due to declining funding cost, leading to better rating and a rising share of borrowings from banks. Going forward, the management guides for continued diversification in existing geographies (UP and Bihar), as well as new geographies in western (Gujarat)/southern (Karnataka, Tamil Nadu, Andhra Pradesh, and Telangana) India, which should drive growth. Management expects margins to expand further before stabilizing, and claims that the lending rate offered by the company remains low for its customers as compared to other players, and hence, it has not seen any regulatory nudging to reduce the rate.

Headline NPAs decline, but credit cost remains elevated due to stress in Punjab and build-up toward management overlay

Slippages moderated during 4Q at Rs0.8bn/3.9% of loans, despite the ~Rs0.2bn flow from the Punjab stress pool. This, coupled with higher w-offs, led to 17bps QoQ reduction in GNPA ratio to 2.9%. Management indicates that Punjab AUM stands at Rs3.2bn/2.8% of overall AUM, of which nearly 65% of the book has been impacted due to floods, followed by Karza Maafi campaigns. Par 60+ now stands high at 36% vs 12.9% in 3Q, while collection has dropped to 75% from 84%. Management does not expect any further impact from Punjab, if the collection efficiency holds up around 75% in the near term and improves gradually in due course. That said, the company will continue to build management overlay, which is at 0.5% of AUM to withstand any future asset quality disruption.

We retain BUY

Factoring some growth moderation and asset quality noise, we lower our target multiple to 1.7x FY26E ABV, thereby arriving at a TP of Rs700/sh (earlier Rs750). We retain BUY. Key risks: Impact on asset quality due to rising micro/climatic disruptions, execution risk in the highly-penetrated South, and stock supply from existing investors as seen across MFI players.

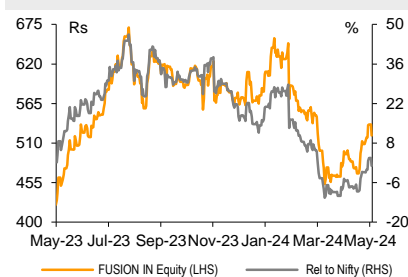
Target Price – 12M	Mar-25
Change in TP (%)	(6.7)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	43.5
CMP (07-May-24) (Rs)	487.9

Stock Data	Ticker
52-week High (Rs)	691
52-week Low (Rs)	419
Shares outstanding (mn)	101.0
Market-cap (Rs bn)	49
Market-cap (USD mn)	590
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	170.7
ADTV-3M (USD mn)	2.0
Free float (%)	32.0
Nifty-50	22,303
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	57.7
FPIs/MFs (%)	6.0/23.3

Price Performance

(%)	1M	3M	12M
Absolute	(1.3)	(15.5)	10.3
Rel. to Nifty	(0.4)	(16.9)	(10.6)

1-Year share price trend (Rs)



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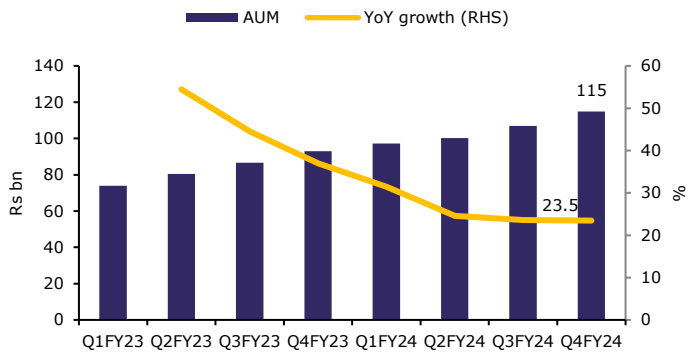
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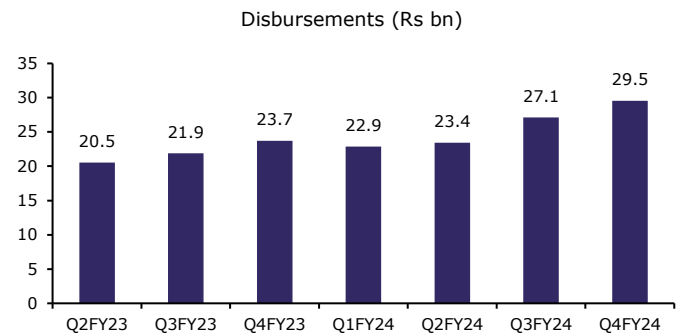
Story in Charts

Exhibit 1: AUM growth has moderated a bit



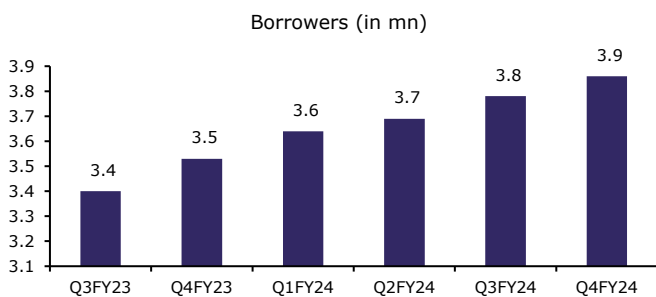
Source: Company, Emkay Research

Exhibit 2: Disbursement trend remains healthy, despite some stoppage in the state of Punjab



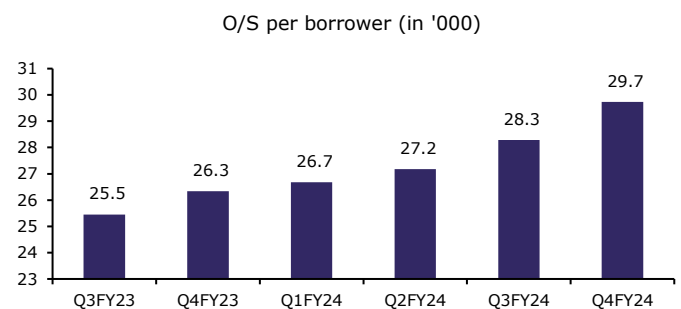
Source: Company, Emkay Research

Exhibit 3: Customer base continues to grow at a healthy pace...



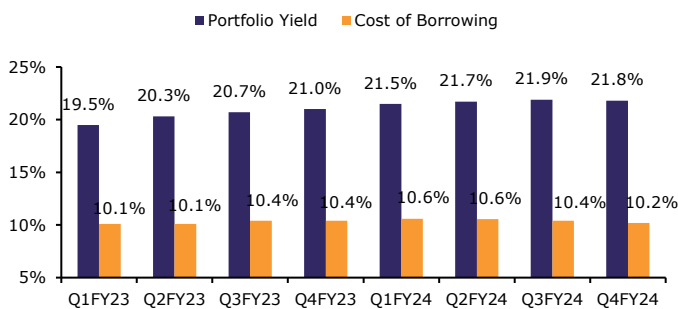
Source: Company, Emkay Research

Exhibit 4: ...with steady increase in o/s per borrower



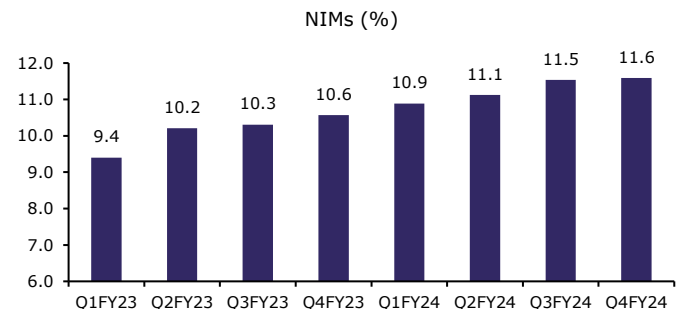
Source: Company, Emkay Research

Exhibit 5: Better portfolio yields, coupled with contained CoF...



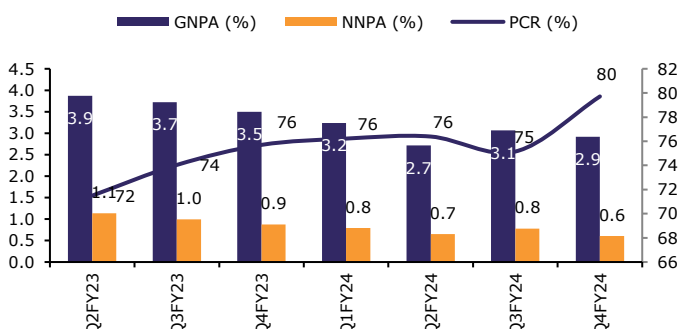
Source: Company, Emkay Research

Exhibit 6: ...led to continued margin expansion



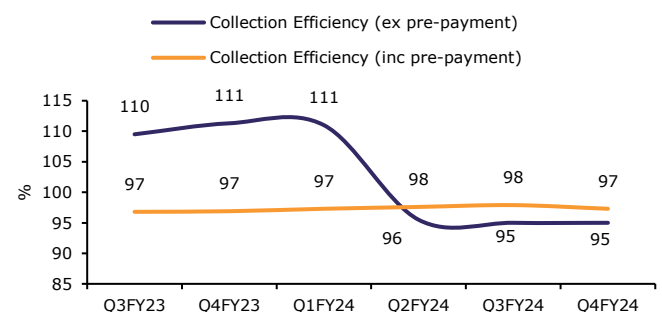
Source: Company, Emkay Research

Exhibit 7: Receding GNPA + rising PCR led to lower NNPA

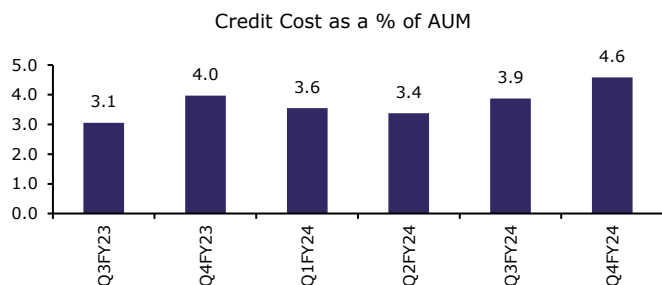


Source: Company, Emkay Research

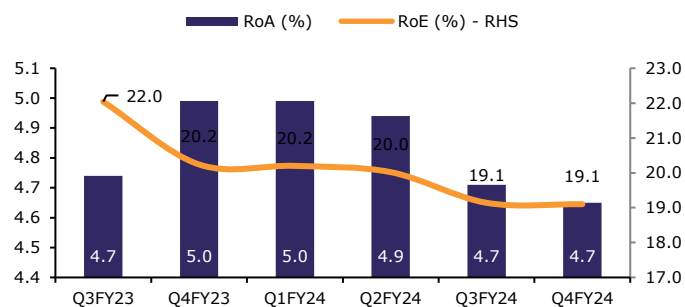
Exhibit 8: Collection efficiency impacted slightly due to stress in Punjab



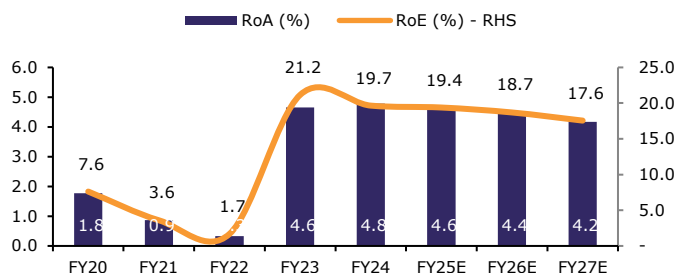
Source: Company, Emkay Research

Exhibit 9: Credit cost remained elevated due to rising PCR, management overlay, and aggressive write-off policy

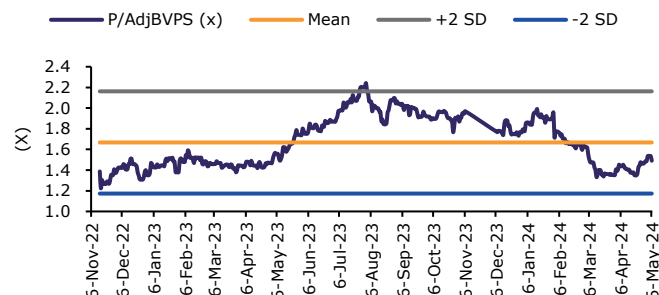
Source: Company, Emkay Research

Exhibit 10: Return ratios remain healthy

Source: Company, Emkay Research

Exhibit 11: Strong growth/margins partly offset by elevated credit costs, to keep return ratios healthy

Source: Company, Emkay Research

Exhibit 12: The stock trades at 1.5x its one-year forward ABV

Source: Bloomberg, Emkay Research

Exhibit 13: Actuals vs Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,603	4,135	NA	11%	NA	Better margins, higher other income led to beat
PPOP	2,907	2,552	2,749	14%	6%	Higher Net income led to beat
PAT	1,327	1,286	1,373	3%	-3%	Higher PPOP, partly offset by higher provisions led to beat

Source: Company, Emkay Research

Exhibit 14: Quarterly Summary

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23A	FY24A	YoY (%)
Interest Earned	4,507	4,790	4,968	5,400	5,761	28	7	16,001	20,919	31
Interest Exp.	1,742	1,835	1,910	2,015	2,149	23	7	6,428	7,908	23
Net Interest Income	2,765	2,955	3,058	3,386	3,612	31	7	9,573	13,011	36
Global NIMs (reported)	10.57	10.89	11.12	11.54	11.59	102bps	5bps	8.54	9.29	74bps
Non-interest Income	700	738	745	732	991	42	35	1,999	3,205	60
Operating Expenses	1,253	1,339	1,385	1,515	1,696	35	12	4,448	5,935	33
Pre Provisioning Profit	2,211	2,354	2,418	2,603	2,907	31	12	7,124	10,281	44
Provision & Contingencies	692	759	762	938	1,190	72	27	2,004	3,649	82
PBT	1,519	1,595	1,656	1,665	1,717	13	3	5,120	6,632	30
Income Tax Expense (Gain)	374	390	399	401	390	4	-3	1,248	1,580	27
Net Profit/(Loss)	1,145	1,205	1,257	1,265	1,327	16	5	3,871	5,052	31
Gross NPA (%)	3.50	3.24	2.72	3.07	2.92	-58bps	-15bps	1.14	5.67	453bps
Net NPA (%)	0.87	0.79	0.65	0.78	0.61	-27bps	-17bps	0.39	2.35	196bps
Net Advances (Rs bn)	80	84	87	94	99	24	6	80	99	24

Source: Company, Emkay Research

Exhibit 15: Revision in Estimates

Y/E March (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	19,037	20,095	5.6%	22,615	23,698	4.8%
PPOP	11,897	12,663	6.4%	13,990	14,611	4.4%
PAT	6,514	6,053	-7.1%	7,704	7,062	-8.3%
EPS (Rs)	64.8	60.2	-7.2%	76.7	70.2	-8.5%
BV (Rs)	348.0	340.4	-2.2%	424.6	410.6	-3.3%

Source: Emkay Research

Exhibit 16: Key Assumptions

	FY24A	FY25E	FY26E	FY27E
Loan Growth (%)	23.7	23.1	21.7	19.7
Deposit Growth (%)	23.5	23.0	22.0	20.0
NIM (%)	12.7	12.7	12.3	12.1
GNPA (%)	2.9	2.7	2.9	3.2
Credit Cost (%)	4.0	3.9	3.5	3.5

Source: Emkay Research

Fusion MicroFinance: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	16,001	20,919	26,047	30,718	36,193
Interest Expense	6,428	7,908	9,843	11,614	13,588
Net interest income	9,573	13,011	16,203	19,104	22,605
NII growth (%)	68.4	35.9	24.5	17.9	18.3
Other income	1,999	3,205	3,891	4,594	5,063
Total Income	11,572	16,216	20,095	23,698	27,668
Operating expenses	4,448	5,935	7,432	9,087	10,977
PPOP	7,124	10,281	12,663	14,611	16,691
PPOP growth (%)	81.2	44.3	23.2	15.4	14.2
Core PPOP	7,124	10,281	12,663	14,611	16,691
Provisions & contingencies	2,004	3,649	4,570	5,169	6,063
PBT	5,120	6,632	8,093	9,442	10,628
Extraordinary items	0	0	0	0	0
Tax expense	1,248	1,580	2,039	2,379	2,678
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,871	5,052	6,053	7,062	7,949
PAT growth (%)	1,685.4	30.5	19.8	16.7	12.6
Adjusted PAT	3,871	5,052	6,053	7,062	7,949
Diluted EPS (Rs)	41.6	49.5	59.3	69.1	77.8
Diluted EPS growth (%)	1,475.6	19.1	19.6	16.7	12.6
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	24.4	23.8	25.2	25.2	25.2
Net interest margins (%)	12.0	12.7	12.7	12.3	12.1
Cost-income ratio (%)	38.4	36.6	37.0	38.3	39.7
Shares outstanding (mn)	108.3	100.6	100.6	100.6	100.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,083	1,006	1,006	1,006	1,006
Reserves & surplus	22,136	27,475	33,529	40,591	48,540
Net worth	23,219	28,482	34,535	41,597	49,547
Deposits	0	0	0	0	0
Borrowings	67,784	86,693	105,253	128,067	153,299
Interest bearing liab.	67,784	86,693	105,253	128,067	153,299
Other liabilities & prov.	2,632	2,569	4,015	4,331	4,326
Total liabilities & equity	93,635	117,743	143,802	173,996	207,172
Net advances	80,416	99,479	122,427	149,013	178,410
Investments	0	0	0	0	0
Cash, other balances	10,650	15,532	18,350	21,526	24,798
Interest earning assets	91,066	115,011	140,777	170,539	203,209
Fixed assets	212	336	269	354	471
Other assets	2,357	2,396	2,756	3,102	3,493
Total assets	93,635	117,743	143,802	173,996	207,172
BVPS (Rs)	252.7	280.6	340.4	410.6	489.6
Adj. BVPS (INR)	245.0	274.6	335.4	403.9	480.8
Gross advances	92,960	114,761	141,156	172,210	206,652
Credit to borrowing (%)	118.6	114.7	116.3	116.4	116.4
CASA ratio (%)	NA	NA	NA	NA	NA
Cost of deposits (%)	NA	NA	NA	NA	NA
Loans-to-Assets (%)	85.9	84.5	85.1	85.6	86.1
Net advances growth (%)	37.0	23.5	23.0	22.0	20.0
Deposit growth (%)	NA	NA	NA	NA	NA
Book value growth (%)	53.3	10.6	21.3	20.6	19.2

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	2,889.0	2,972.5	3,348.3	4,494.6	5,870.1
Net NPLs	707.9	603.1	502.2	674.2	880.5
GNPA ratio (%)	3.5	2.9	2.7	2.9	3.2
NNPA ratio (%)	0.9	0.6	0.4	0.5	0.5
Provision coverage (%)	75.5	79.7	85.0	85.0	85.0
Gross slippages	1,776.7	3,281.8	3,758.2	4,585.0	5,502.0
Gross slippage ratio (%)	2.2	3.2	3.0	3.0	3.0
LLP ratio (%)	2.8	4.0	3.9	3.5	3.5
NNPA to networth (%)	3.0	2.1	1.4	1.6	1.7
Capital adequacy					
Total CAR (%)	27.9	27.5	27.2	27.0	26.8
Tier-1 (%)	27.0	27.4	27.1	26.8	26.6
CET-1 (%)	0.9	0.1	0.2	0.2	0.2
RWA-to-Total Assets (%)	88.4	85.0	86.0	87.0	88.0
Miscellaneous					
Total income growth (%)	49.8	34.0	24.1	18.0	16.8
Opex growth (%)	42.5	33.4	25.2	22.3	20.8
Core PPOP growth (%)	81.2	44.3	23.2	15.4	14.2
PPOP margin (%)	8.6	9.7	9.7	9.2	8.8
PAT/PPOP (%)	54.3	49.1	47.8	48.3	47.6
LLP-to-Core PPOP (%)	28.1	35.5	36.1	35.4	36.3
Yield on advances (%)	23.1	23.3	23.4	22.6	22.1
Cost of funds (%)	10.2	10.2	10.3	10.0	9.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	11.5	9.7	8.1	7.0	6.2
P/B (x)	1.9	1.7	1.4	1.2	1.0
P/ABV (x)	2.0	1.8	1.5	1.2	1.0
P/PPOP (x)	7.4	4.8	3.9	3.4	2.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split (%)					
NII/avg assets	11.5	12.3	12.4	12.0	11.9
Other income	2.4	3.0	3.0	2.9	2.7
Fee income	1.9	2.4	2.4	2.4	2.2
Opex	5.3	5.6	5.7	5.7	5.8
PPOP	8.6	9.7	9.7	9.2	8.8
Core PPOP	8.6	9.7	9.7	9.2	8.8
Provisions	2.4	3.5	3.5	3.3	3.2
Tax expense	1.5	1.5	1.6	1.5	1.4
RoA (%)	4.6	4.8	4.6	4.4	4.2
Leverage ratio (x)	4.6	4.1	4.2	4.2	4.2
RoE (%)	21.2	19.7	19.4	18.7	17.6
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	2,765	2,955	3,058	3,386	3,612
NIM(%)	10.6	10.9	11.1	11.5	11.6
PPOP	2,211	2,354	2,418	2,603	2,907
PAT	1,145	1,205	1,257	1,265	1,327
EPS (Rs)	11.41	12.00	12.52	12.60	13.22

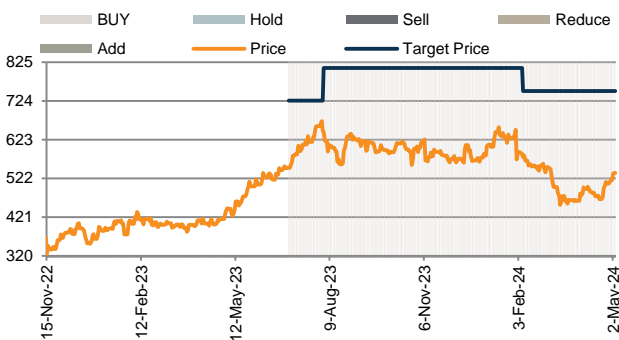
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Feb-24	577	750	Buy	Anand Dama
30-Nov-23	564	810	Buy	Anand Dama
07-Nov-23	569	810	Buy	Anand Dama
03-Aug-23	643	810	Buy	Anand Dama
01-Jul-23	549	725	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
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