

Fusion Finance reported net loss of Rs3.1bn (Emkay: Rs1.8bn), mainly due to significantly elevated LLP at Rs6.9bn owing to further deterioration in asset quality with GNPA ratio shooting up to 9.4% (up by 395bps QoQ). Fusion's All-India PAR stands high at 14.9%, including ~22% in Fusion + >=3 lenders, being impacted the most due to customer overleveraging and imposition of MFIN guardrails. Additionally, Fusion breached financial covenants on borrowings of Rs56bn making them repayable on demand and raising going concern risks as per the auditor. However, the management believes that these breaches are temporary and lenders have been supportive, while on-BS liquidity of Rs17.9bn and proposed rights issue of Rs5.5bn should help ease going concern risks. Factoring in the sharp deterioration in asset quality and impact on growth/margins, we expect Fusion to report loss in FY25E, while recovery over FY26-27E should also be slow. We reiterate our REDUCE rating on the stock with a revised TP of Rs155 (0.7x Sep-26E ABV) from the earlier Rs260.

Fusion Finance: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	3,871	5,091	(5,034)	2,017	3,991
AUM growth (%)	37.0	23.5	5.0	10.0	15.0
NII growth (%)	68.4	35.9	14.2	3.3	12.0
NIM (%)	12.0	12.7	12.8	12.5	12.5
PPOP growth (%)	81.2	44.3	(1.2)	(5.6)	11.1
Adj. EPS (Rs)	42.3	50.7	(43.3)	15.3	30.2
Adj. EPS growth (%)	1,477.6	19.8	(185.4)	(135.3)	97.9
Adj. BV (INR)	245.0	275.6	220.9	211.2	245.6
Adj. BVPS growth (%)	61.8	12.5	(19.8)	(4.4)	16.3
RoA (%)	4.6	4.8	(4.2)	1.6	2.8
RoE (%)	21.2	19.7	(17.5)	6.7	12.1
P/E (x)	4.2	3.5	(4.1)	11.6	5.9
P/ABV (x)	0.7	0.6	0.8	0.8	0.7

Source: Company, Emkay Research

Escalating MFI, liquidity stress to derail growth trajectory

Fusion reported 5% QoQ decline in AUM to Rs115.7bn due to conscious slowdown in disbursement and imposition of MFIN guardrails for customers >4 lenders to deleverage them. However, MSME portfolio has been reporting decent growth with AUM at Rs6.2bn. Fusion's customer composition of Fusion + >=3 lenders/Fusion + >=4 lenders has reduced from 31.5%/16.9% in Mar-24 to 21.7%/9.7% in Sep-24, and is expected to come down further, thereby hurting growth. Margins declined by 16bps QoQ to 11.5%, mainly owing to decline in overall yields due to interest reversal, which we believe should see further pressure as Fusion's lenders call for higher rates to offset rising risk and RBI's continuous push to reduce MFI lending rates.

Asset quality worsens; going concern risks pop up

Slippages were elevated at Rs5.4bn/24.8% of loans leading to 395bps/116bps QoQ jump in GNPA/NNPA ratio to 9.4%/2.4%. The overall collection efficiency was 91% in Q2FY25 and PAR 0+ stood at 14.9%, but states like MP, Odisha, and TN continue to report <90% collection efficiency. The management has strengthened its collection team (550+ officers), rationalized their incentive structure, appointed third-party agencies in few geographies, and leveraged telecalling to improve its collection efficiency. Additionally, Fusion breached financial covenants on borrowings of Rs56bn, making them repayable on demand and raising going concern risks. However, the management believes that these breaches are temporary and lenders have been supportive by granting waivers from covenants, while on-BS liquidity of Rs17.9bn and proposed rights issue of Rs5.5bn should help ease going concern risks.

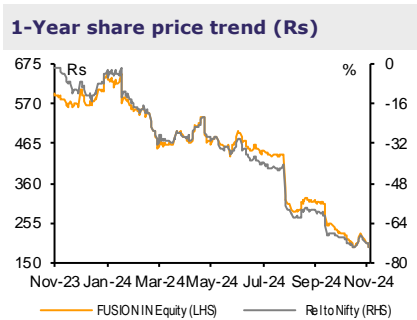
We reiterate REDUCE

We believe that MFI stress is on the rise across the sector, but the stress seen for Fusion seems to be disproportionately high given its exposure to few high-risk states and exposure to overleveraged customers. Additionally, Founder cum MD Devesh Sachdev's decision to step down from an executive role too should have a bearing on the growth/asset quality outcomes in the middle of a crisis. Factoring in sharp deterioration in asset quality and impact on growth/margins, we expect Fusion to report loss in FY25E, whereas recovery over FY26-27E should be slow. We reiterate our REDUCE rating on the stock with a revised TP of Rs155 (based on 0.7x Sep-26E ABV vs earlier 1x Jun-26E ABV). Higher-than-expected NPAs feeding into lender loan recalls or the failure of rights issue leading to gradual business slowdown remains a risk.

Target Price - 12M	Sep-25
Change in TP (%)	(40.4)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(12.8)
CMP (14-Nov-24) (Rs)	177.7

Stock Data	Ticker
52-week High (Rs)	675
52-week Low (Rs)	178
Shares outstanding (mn)	101.0
Market-cap (Rs bn)	18
Market-cap (USD mn)	213
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	129.7
ADTV-3M (USD mn)	1.5
Free float (%)	32.0
Nifty-50	23,533
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	57.7
FPIs/MFs (%)	2.8/19.2

Price Performance			
(%)	1M	3M	12M
Absolute	(21.7)	(38.5)	(69.3)
Rel. to Nifty	(16.4)	(36.9)	(74.7)



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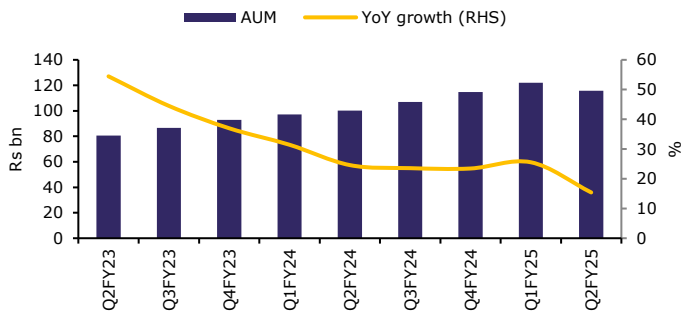
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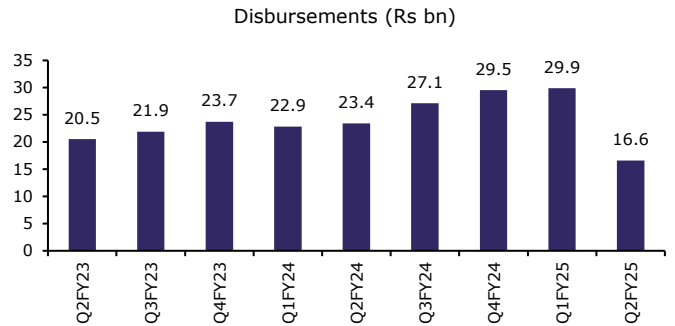
Story in Charts

Exhibit 1: AUM growth continues to moderate...



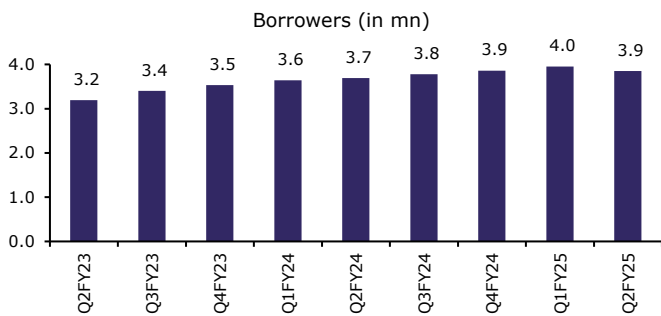
Source: Company, Emkay Research

Exhibit 2: ... and so also the overall disbursement trend owing to higher stress in the MFI space



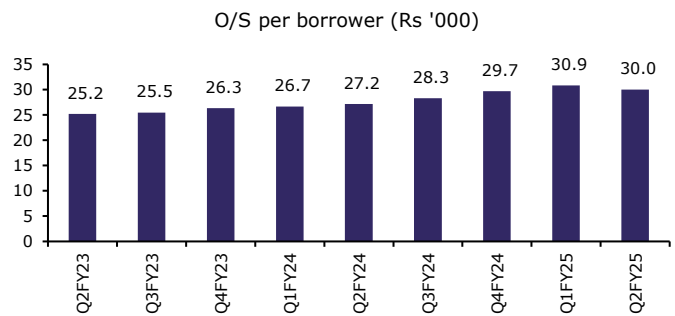
Source: Company, Emkay Research

Exhibit 3: Customer base declined QoQ...



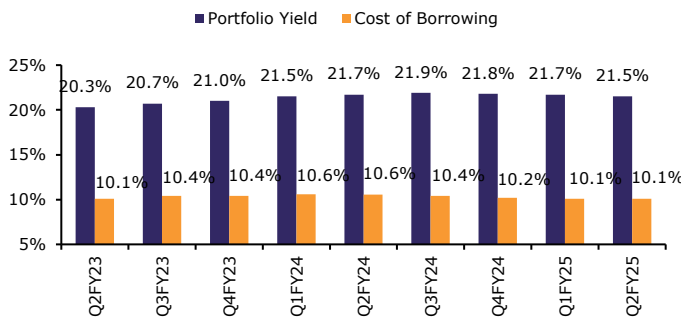
Source: Company, Emkay Research

Exhibit 4: ...with slight decline in o/s per borrower



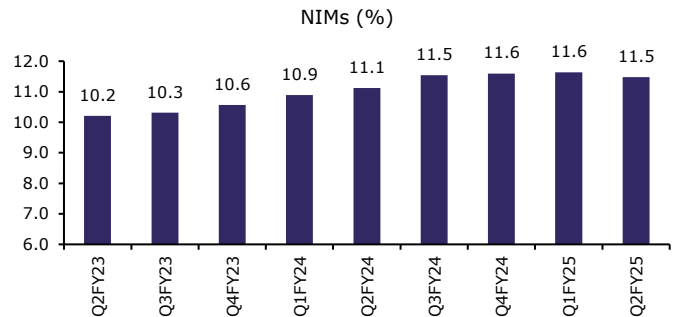
Source: Company, Emkay Research

Exhibit 5: Slight dip in portfolio yields coupled with contained CoF...



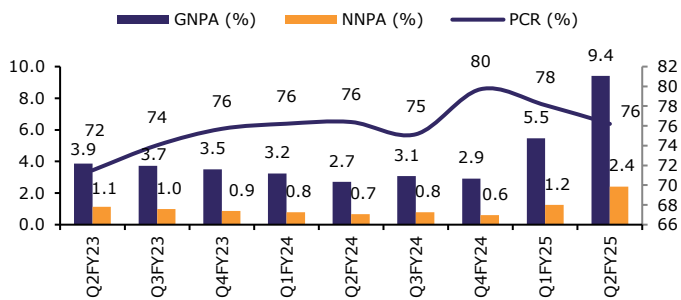
Source: Company, Emkay Research

Exhibit 6: ...led to marginal compression in margin



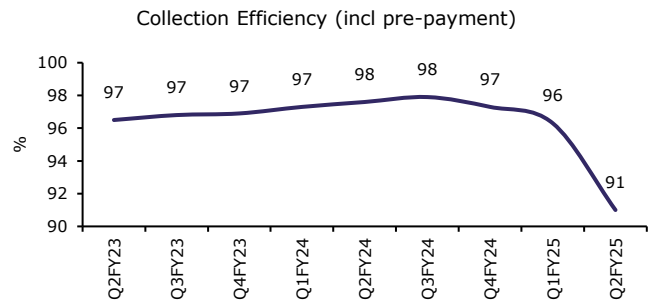
Source: Company, Emkay Research

Exhibit 7: Higher slippages led to shoot up in GNPA/NNPA ratios



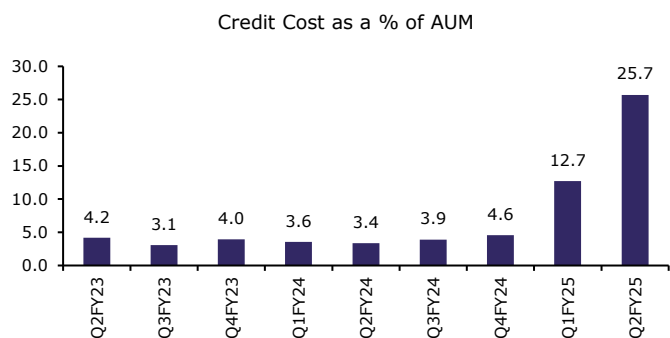
Source: Company, Emkay Research

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



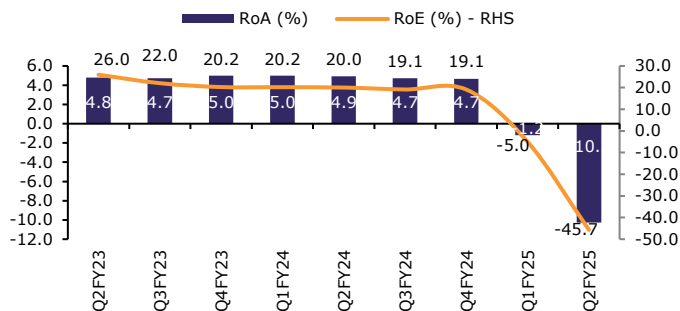
Source: Company, Emkay Research

Exhibit 9: Credit cost remained elevated due to higher delinquency



Source: Company, Emkay Research

Exhibit 10: Return ratios turn negative owing to significantly higher LLP



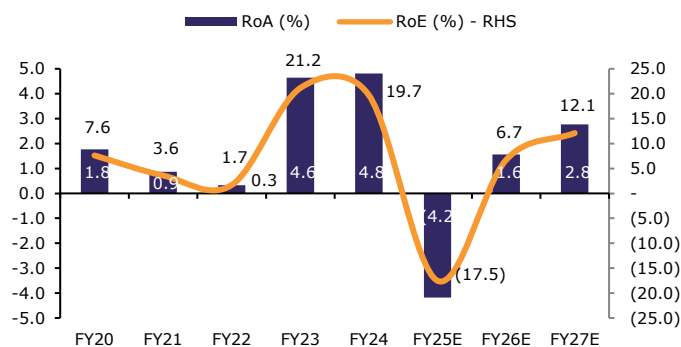
Source: Company, Emkay Research

Exhibit 11: Fusion + 3 or more lenders share have reduced, but still remains high vs peers at 22%

Timeline / Relationship #	Unique to Us ever + now	Us+1	Us+2	Us+3	Us+4	Us+ >= 5	Us+ >= 3	Us+ >= 4
Customer Composition*								
Mar'24	30.9%	19.7%	17.8%	14.6%	10.5%	6.4%	31.5%	16.9%
Sep'24	33.3%	26.0%	19.0%	11.9%	5.7%	4.0%	21.7%	9.7%

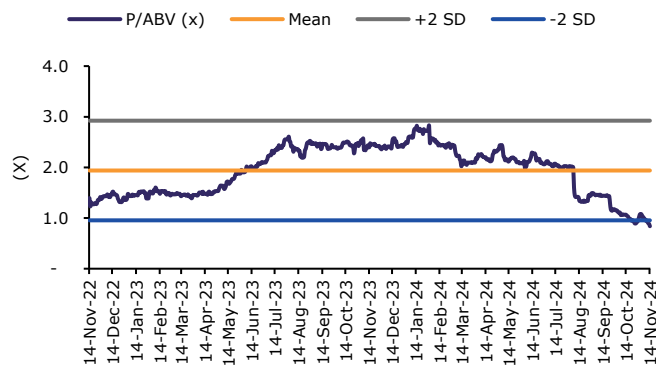
Source: Company, Emkay Research

Exhibit 12: We reduce our RoA/RoE estimates factoring in slower growth trajectory and higher NPAs



Source: Company, Emkay Research

Exhibit 13: The stock trades at 0.8x its 1YF ABV



Source: Bloomberg, Emkay Research

Exhibit 14: ctuals vs Estimates (Q2FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,764	4,936	4,737	-3%	1%	Lower other income leads to a miss
PPOP	2,838	3,051	2,832	-7%	0%	Lower net income and higher staff costs lead to a miss
PAT	(3,050)	(1,832)	(1,592)	66%	92%	PPOP miss coupled with significantly elevated LLP leads to net loss

Source: Company, Emkay Research

Exhibit 15: Quarterly Summary

(Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	4,968	5,400	5,761	6,213	6,261	26	1	20,919	23,790	14
Interest Exp.	1,910	2,015	2,149	2,234	2,274	19	2	7,908	8,929	13
Net Interest Income	3,058	3,386	3,612	3,979	3,987	30	0	13,011	14,861	14
Global NIMs (reported)	11.12	11.54	11.59	11.64	11.48	36bps	-16bps	9.29	9.05	-24bps
Non-interest Income	745	732	991	854	776	4	(9)	3,205	3,289	3
Operating Expenses	1,385	1,515	1,696	1,855	1,925	39	4	5,935	7,990	35
Pre Provisioning Profit	2,418	2,603	2,907	2,978	2,838	17	(5)	10,281	10,160	(1)
Provision & Contingencies	762	938	1,190	3,485	6,941	811	99	3,611	16,891	368
PBT	1,656	1,665	1,717	(507)	(4,102)	(348)	709	6,670	(6,730)	(201)
Income Tax Expense (Gain)	399	401	390	(151)	(1,052)	(364)	596	1,580	(1,696)	(207)
Net Profit/(Loss)	1,257	1,265	1,327	(356)	(3,050)	(343)	756	5,091	(5,034)	(199)
Gross NPA (%)	2.72	3.07	2.92	5.46	9.41	670bps	395bps	5.67	5.81	14bps
Net NPA (%)	0.65	0.78	0.61	1.25	2.41	176bps	116bps	2.35	1.74	-61bps
Net Advances (Rs bn)	87	94	99	103	91	5	(11)	99	99	(1)

Source: Company, Emkay Research

Exhibit 16: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	20,239	18,150	-10.3%	23,072	19,167	-16.9%	26,819	21,880	-18.4%
PPOP	12,623	10,160	-19.5%	13,734	9,592	-30.2%	15,533	10,659	-31.4%
PAT	3,401	(5,034)	-248.0%	4,985	2,017	-59.5%	6,565	3,991	-39.2%
EPS (Rs)	33.8	(43.3)	-228.0%	49.5	15.3	-69.2%	65.2	30.2	-53.7%
BV (Rs)	314.0	247.2	-21.3%	363.6	233.0	-35.9%	428.8	263.3	-38.6%

Source: Company, Emkay Research

Exhibit 17: Key assumptions

	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	23.7	(0.7)	12.0	17.7
Deposit Growth (%)	23.5	5.0	10.0	15.0
NIM (%)	12.7	12.8	12.5	12.5
GNPA (%)	2.9	11.7	9.7	6.8
Credit Cost (%)	3.9	16.1	6.1	4.2

Source: Emkay Research

Exhibit 18: Key ratios and trends

Particulars	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs bn)	70	76	80	84	87	94	99	103	91
-Growth (YoY; %)	48.9	37.1	35.9	26.3	23.6	23.8	23.7	22.0	5.1
-Growth (QoQ; %)	5.8	7.4	6.4	4.5	3.5	7.6	6.3	3.0	(10.8)

Asset Quality

GNPA (%)	3.9	3.7	3.5	3.2	2.7	3.1	2.9	5.5	9.4
NNPA (%)	1.1	1.0	0.9	0.8	0.7	0.8	0.6	1.2	2.4
PCR (%)	71.5	74.0	75.7	76.2	76.4	75.2	79.7	78.1	76.2

ROE Decomposition (%)

NII	12.2	11.7	12.0	12.2	12.0	12.6	12.7	13.2	13.4
Other Income	2.6	2.1	3.0	3.1	2.9	2.7	3.5	2.8	2.6
Opex	5.4	5.3	5.5	5.6	5.4	5.6	5.9	6.2	6.5
PPOP	9.4	8.5	9.6	9.8	9.5	9.7	10.2	9.9	9.6
Provisioning Cost	3.1	2.3	3.0	3.1	3.0	3.5	4.2	11.6	23.4
PBT	6.3	6.2	6.6	6.6	6.5	6.2	6.0	(1.7)	(13.8)
Tax	1.6	1.5	1.6	1.6	1.6	1.5	1.4	(0.5)	(3.5)
ROA	4.8	4.7	5.0	5.0	4.9	4.7	4.6	(1.2)	(10.3)
Leverage (x)	5.3	3.9	4.0	3.9	4.0	4.0	4.0	4.3	4.7
ROE	25.1	18.6	19.7	19.7	19.5	18.7	18.6	(5.1)	(48.4)

Source: Emkay Research

Fusion Finance: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	16,001	20,919	23,790	24,588	27,496
Interest Expense	6,428	7,908	8,929	9,240	10,300
Net interest income	9,573	13,011	14,861	15,349	17,195
NII growth (%)	68.4	35.9	14.2	3.3	12.0
Other income	1,999	3,205	3,289	3,819	4,685
Total Income	11,572	16,216	18,150	19,167	21,880
Operating expenses	4,448	5,935	7,990	9,575	11,221
PPOP	7,124	10,281	10,160	9,592	10,659
PPOP growth (%)	81.2	44.3	(1.2)	(5.6)	11.1
Core PPOP	7,124	10,281	10,160	9,592	10,659
Provisions & contingencies	2,004	3,611	16,891	6,896	5,324
PBT	5,120	6,670	(6,730)	2,697	5,336
Extraordinary items	0	0	0	0	0
Tax expense	1,248	1,580	(1,696)	680	1,345
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,871	5,091	(5,034)	2,017	3,991
PAT growth (%)	1,685.4	31.5	(198.9)	(140.1)	97.9
Adjusted PAT	3,871	5,091	(5,034)	2,017	3,991
Diluted EPS (Rs)	41.6	49.5	(42.7)	15.1	29.9
Diluted EPS growth (%)	1,475.6	19.1	(186.2)	(135.3)	97.9
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	23.7	25.2	25.2	25.2
Net interest margins (%)	12.0	12.7	12.8	12.5	12.5
Cost-income ratio (%)	38.4	36.6	44.0	50.0	51.3
Shares outstanding (mn)	108.3	119.2	150.6	150.6	150.6

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	2,972.6	12,733.0	11,540.0	9,345.0
Net NPLs	707.9	603.2	3,055.9	2,885.0	2,336.3
GNPA ratio (%)	3.5	2.9	11.7	9.7	6.8
NNPA ratio (%)	0.9	0.6	3.1	2.6	1.8
Provision coverage (%)	75.5	79.7	76.0	75.0	75.0
Gross slippages	1,776.7	3,271.3	16,267.3	5,964.7	4,390.0
Gross slippage ratio (%)	2.2	3.2	15.0	5.0	3.2
LLP ratio (%)	2.8	3.9	16.1	6.1	4.2
NNPA to networth (%)	3.0	2.1	10.5	9.2	6.5
Capital adequacy					
Total CAR (%)	27.9	27.9	26.7	26.5	26.3
Tier-1 (%)	27.0	27.0	25.8	25.6	25.4
CET-1 (%)	27.0	27.0	25.8	25.6	25.4
RWA-to-Total Assets (%)	88.4	81.7	83.0	83.0	83.0
Miscellaneous					
Total income growth (%)	49.8	34.0	12.3	4.9	13.3
Opex growth (%)	42.5	33.4	34.6	19.8	17.2
Core PPOP growth (%)	81.2	44.3	(1.2)	(5.6)	11.1
PPOP margin (%)	8.6	9.7	8.4	7.5	7.4
PAT/PPOP (%)	54.3	49.5	(49.5)	21.0	37.4
LLP-to-Core PPOP (%)	28.1	35.1	166.2	71.9	49.9
Yield on advances (%)	23.1	23.4	24.3	24.0	23.2
Cost of funds (%)	10.2	10.3	10.3	9.9	9.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,083	1,192	1,506	1,506	1,506
Reserves & surplus	22,136	27,290	27,441	29,458	33,450
Net worth	23,219	28,482	28,948	30,965	34,956
Deposits	0	0	0	0	0
Borrowings	67,784	86,159	88,042	98,638	116,040
Interest bearing liab.	67,784	86,159	88,042	98,638	116,040
Other liabilities & prov.	2,632	3,103	6,517	4,396	2,984
Total liabilities & equity	93,635	117,743	123,507	133,998	153,980
Net advances	80,416	99,479	98,772	110,639	130,179
Investments	0	21	21	21	21
Cash, other balances	10,650	15,532	21,690	19,882	19,816
Interest earning assets	91,066	115,031	120,482	130,542	150,016
Fixed assets	212	336	268	354	471
Other assets	2,357	2,376	2,756	3,103	3,493
Total assets	93,635	117,743	123,507	133,998	153,980
BVPS (Rs)	252.7	281.6	247.2	233.0	263.3
Adj. BVPS (INR)	245.0	275.6	220.9	211.2	245.6
Gross advances	92,960	114,761	120,499	132,549	152,431
Credit to deposit (%)	na	na	na	na	na
CASA ratio (%)	na	na	na	na	na
Cost of deposits (%)	na	na	na	na	na
Loans-to-Assets (%)	85.9	84.5	80.0	82.6	84.5
Net advances growth (%)	37.0	23.5	5.0	10.0	15.0
Deposit growth (%)	na	na	na	na	na
Book value growth (%)	53.9	11.4	(12.2)	(5.7)	13.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	4.2	3.5	(4.1)	11.6	5.9
P/B (x)	0.7	0.6	0.7	0.8	0.7
P/ABV (x)	0.7	0.6	0.8	0.8	0.7
P/PPOP (x)	2.7	2.1	2.6	2.8	2.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split (%)					
NII/avg assets	11.5	12.3	12.3	11.9	11.9
Other income	2.4	3.0	2.7	3.0	3.3
Fee income	1.9	2.3	2.1	2.3	2.7
Opex	5.3	5.6	6.6	7.4	7.8
PPOP	8.6	9.7	8.4	7.5	7.4
Core PPOP	8.6	9.7	8.4	7.5	7.4
Provisions	2.4	3.4	14.0	5.4	3.7
Tax expense	1.5	1.5	(1.4)	0.5	0.9
RoA (%)	4.6	4.8	(4.2)	1.6	2.8
Leverage ratio (x)	4.6	4.1	4.2	4.3	4.4
RoE (%)	21.2	19.7	(17.5)	6.7	12.1

Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	3,058	3,386	3,612	3,979	3,987
NIM(%)	11.1	11.5	11.6	11.6	11.5
PPOP	2,418	2,603	2,907	2,978	2,838
PAT	1,257	1,265	1,327	(356)	(3,050)
EPS (Rs)	12.52	12.60	13.22	(3.55)	(30.40)

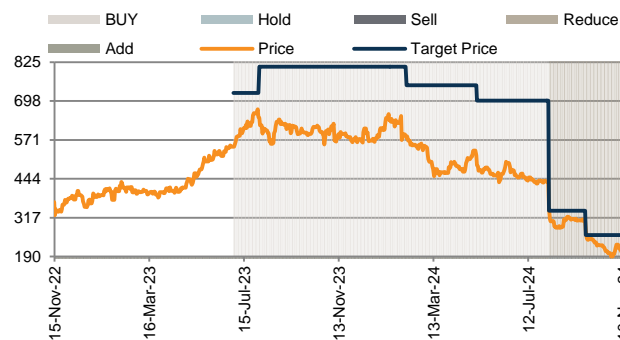
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Oct-24	226	260	Reduce	Anand Dama
23-Sep-24	276	260	Reduce	Anand Dama
07-Aug-24	346	340	Reduce	Anand Dama
07-May-24	488	700	Buy	Anand Dama
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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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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