motilal oswal
Financial Services

10 August 2026
1QFY27 Results Update | Sector: Financials

# Fusion Finance

| | |
|---|---|
| Estimate change | ↑ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | FUSION IN |
| Equity Shares (m) | 162 |
| M.Cap.(INRb)/(USDb) | 33.4 / 0.4 |
| 52-Week Range (INR) | 243 / 137 |
| 1, 6, 12 Rel. Per (%) | -13/13/39 |
| 12M Avg Val (INR M) | 105 |

**Financials & Valuations (INR b)**

| Y/E March | FY26 | FY27E | FY28E |
|---|---|---|---|
| Total Income | 11.9 | 13.5 | 17.0 |
| PPP | 3.6 | 5.1 | 7.5 |
| PAT | 0.1 | 3.2 | 4.6 |
| EPS (INR) | 0.9 | 19.6 | 28.4 |
| EPS Gr. (%) | - | - | 45 |
| BV (INR) | 152 | 172 | 200 |
| **Valuations** | | | |
| NIM (%) | 14.1 | 14.7 | 15.3 |
| C/I ratio (%) | 69.7 | 62.5 | 56.2 |
| RoAA (%) | 0.2 | 3.5 | 4.3 |
| RoE (%) | 0.7 | 12.1 | 15.3 |
| **Valuations** | | | |
| P/E (x) | - | 10.6 | 7.3 |
| P/BV (x) | 1.4 | 1.2 | 1.0 |

**Shareholding Pattern (%)**

| As of | Jun-26 | Mar-26 | Jun-25 |
|---|---|---|---|
| Promoter | 54.0 | 54.6 | 55.0 |
| DII | 15.3 | 14.4 | 12.6 |
| FII | 5.0 | 5.0 | 3.2 |
| Others | 25.8 | 26.1 | 29.2 |

FII includes depository receipts

**CMP: INR207 TP: INR260 (+26%) Buy**

## Steady start to FY27; growth trajectory intact

**Margins set to expand further; credit costs to remain benign**

- Fusion Finance's (FUSION) net profit rose 67% QoQ to INR624m in 1QFY27 (~11% miss but not very significant given the base). NII in 1QFY27 declined ~11% YoY to ~INR2.4b (in line). Opex declined ~2% YoY to INR2.06b (in line). Cost-income ratio declined ~190bp QoQ to ~67% (PQ: ~69% and PY: ~71%).
- PPoP rose ~18% YoY to ~INR1.02b (6% miss). Net credit costs declined sequentially to ~INR397m (in line). Annualized credit costs in 1QFY27 declined ~115bp QoQ to ~2.5% (PQ: ~3.6%).
- FUSION's growth is expected to be driven by sustained MFI momentum, scaling of MSME, and expansion across identified customer segments, with a focus on higher-quality, lower-leverage customers, selective market expansion, and greater productivity from the existing branch network.
- MSME will emerge as a key growth driver, where the company will leverage its existing MFI infrastructure through a hub-and-spoke model. The company expects MSME to contribute ~15% to the disbursement mix (rising to ~20% thereafter). The planned launch of individual loans should further broaden the product suite. With MFI momentum sustaining and MSME scaling up, the company is confident of delivering AUM CAGR of ~20-25% over the medium-term and scaling up to an AUM of ~INR100b by end-FY27.
- After navigating a prolonged period of industry stress, FUSION is witnessing broad-based improvement, with healthier customer profiles, stronger collections, and a more disciplined growth. We increase our FY27/FY28 PAT estimates by ~5%/~2%, primarily to factor in higher NIM and lower credit costs. The stock currently trades at 1.0x FY28E P/B. We expect FUSION to deliver an AUM CAGR of ~27% over FY26E-28, with an RoA/RoE of ~4.3%/15% by FY28. **We reiterate our BUY rating with a TP of INR260 (based on 1.3x FY28E P/BV).**

**Asset quality improves, supported by stronger borrower quality**

- GS3 declined ~70bp QoQ to ~2.5%, while NS3 remained stable QoQ at 0.5%. Stage 3 PCR declined ~3pp QoQ to 81.4% (PQ: 84.6%). Stage 2 declined ~30bp QoQ to 0.7%, and S2 PCR declined ~6pp QoQ to ~65%. Avg. CE (MFI) improved to 99.76% in 1QFY27 (vs 99.66% in 4QFY26). Net forward flow rate was < 0.1% in 1QFY27. The company did not utilize any management overlay in the quarter and continued to maintain its management overlay at INR195m.
- Asset quality is expected to benefit from the structural improvement in the MFI borrower pool, as highly leveraged customers and those with unstable income profiles have exited the formal ecosystem.
- The shift to in-house collections, supported by dedicated teams and AI-led customer outreach, should aid recoveries and contain credit costs, while a healthier customer mix will provide further support to asset-quality trends. We expect FUSION's credit costs to decline sharply from ~6% in FY26 to ~2.6%/ 3% in FY27/FY28.

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## Higher yield and normalization of surplus liquidity to support NIM expansion

- Reported NIM expanded ~50bp QoQ to ~11.9%. Yields improved ~80bp QoQ to 22.5%, while the CoB increased ~30bp QoQ to ~10.6%, resulting in spreads improving ~50bp QoQ to ~11.9%.
- The margin trajectory is expected to improve as the benefit of higher lending yields flows through to the portfolio. The company expects this improvement to more than offset any potential increase in funding costs, with further support from a gradual reduction in surplus liquidity.
- As the re-built franchise scales up and the portfolio mix improves, management expects NIM to expand further in FY27. We expect FUSION's NIM to expand to ~14.7%/~15.3% in FY27/ FY28.

## Disbursement growth healthy at ~88% YoY; borrower base moderates

- Disbursements grew 88% YoY to ~INR17.8b. AUM remained flat YoY and rose 4% QoQ to ~INR77b. Borrower base declined to ~2m as of Jun'26 (down from ~2.15m as of Mar'26).
- We expect FUSION to deliver an AUM CAGR of ~27% over FY26-28.

## Highlights from the management commentary

- FUSION plans to open ~50-60 branches while shutting down ~100 underperforming branches, resulting in a net reduction of ~40-50 branches.
- CE remains strong at >99.7%, with no state exhibiting any deterioration.

## Valuation and view

- FUSION delivered a steady 1QFY27 performance, marked by healthier portfolio quality and operating metrics. Stronger underwriting and collections supported credit cost moderation, while higher yields and improving growth momentum provide a favorable backdrop for sustained earnings growth. Overall, FY27 has started on a stronger footing, with the business positioned for a healthy growth trajectory and improving profitability ahead.
- The stock currently trades at ~ 1.0x FY28E P/B. We expect FUSION to deliver an AUM CAGR of ~27% over FY26E-28, with an RoA/RoE of ~4.3%/ 15% by FY28E. **Reiterate our BUY rating with a TP of INR260 (based on 1.3x FY28E P/BV).**

**Fusion: Quarterly Performance** (INR M)

| Y/E March | FY26 | | | | FY27E | | | | FY26 | FY27E | 1QFY27E | v/s Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 4,219 | 3,808 | 3,629 | 3,625 | 3,922 | 4,138 | 4,386 | 4,758 | 15,325 | 17,205 | 3,806 | 3 |
| Interest Expenses | 1,489 | 1,343 | 1,235 | 1,321 | 1,498 | 1,557 | 1,613 | 1,688 | 5,387 | 6,356 | 1,387 | 8 |
| **Net Interest Income** | **2,730** | **2,465** | **2,394** | **2,304** | **2,424** | **2,581** | **2,774** | **3,070** | **9,938** | **10,849** | **2,419** | **0** |
| YoY Growth (%) | -31.4 | -38.2 | 6.6 | -14.4 | -11.2 | 4.7 | 15.9 | 33.3 | -23.0 | 9.2 | -11.4 | |
| Other Income | 237 | 519 | 612 | 677 | 661 | 692 | 675 | 581 | 2,000 | 2,609 | 690 | -4 |
| **Total Income** | **2,967** | **2,984** | **3,006** | **2,980** | **3,085** | **3,273** | **3,448** | **3,651** | **11,938** | **13,457** | **3,109** | **-1** |
| YoY Growth (%) | -38.6 | -37.4 | 11.8 | 0.5 | 4.0 | 9.7 | 14.7 | 22.5 | -21.7 | 12.7 | 5 | |
| Operating Expenses | 2,101 | 2,094 | 2,071 | 2,050 | 2,064 | 2,096 | 2,118 | 2,128 | 8,315 | 8,406 | 2,021 | 2 |
| **Operating Profit** | **866** | **890** | **936** | **931** | **1,021** | **1,178** | **1,331** | **1,523** | **3,622** | **5,052** | **1,088** | **-6** |
| YoY Growth (%) | -70.9 | -68.6 | 44.5 | 3.3 | 17.9 | 32.3 | 42.2 | 63.6 | -50.8 | 39.5 | 25.7 | |
| Provisions & Loan Losses | 1,789 | 1,112 | 795 | 556 | 397 | 456 | 493 | 541 | 4,252 | 1,887 | 389 | 2 |
| **Profit before Tax** | **-923** | **-221** | **141** | **374** | **624** | **721** | **838** | **982** | **-629** | **3,165** | **699** | **-11** |
| Tax Provisions | 0 | 0 | 0 | -768 | 0 | 0 | 0 | 0 | -768 | 0 | 0 | |
| **Net Profit** | **-923** | **-221** | **141** | **1,142** | **624** | **721** | **838** | **982** | **139** | **3,165** | **699** | **-11** |
| YoY Growth (%) | 159 | -93 | -102 | -169 | -168 | -426 | 496 | -14 | -101 | 2,185.2 | -176 | |
| **Key Parameters (%)** | | | | | | | | | | | | |
| Yield on loans | 20.6 | 21.2 | 21.6 | 21.7 | 22.5 | | | | | | | |
| Cost of funds | 10.3 | 10.4 | 10.3 | 10.3 | 10.6 | | | | | | | |
| Spread | 10.3 | 10.9 | 11.3 | 11.4 | 11.9 | | | | | | | |
| NIM | 10.3 | 10.9 | 11.3 | 11.4 | 11.9 | | | | | | | |
| Credit cost | 2.30 | 1.50 | 1.00 | 0.90 | 0.60 | | | | | | | |
| Cost to Income Ratio (%) | 70.8 | 70.2 | 68.9 | 68.8 | 66.9 | | | | | | | |
| Tax Rate (%) | 0.0 | 0.0 | 0.0 | -205.2 | 0.0 | | | | | | | |
| **Performance ratios (%)** | | | | | | | | | | | | |
| Avg o/s per borrower (INR '000) | 25 | 25 | 27 | 31 | 35 | | | | | | | |
| AUM/ RO (INR m) | 0.8 | 0.8 | 0.9 | 1.0 | 1.1 | | | | | | | |
| AUM/ Branch (INR m) | 5 | 4 | 4 | 5 | 5 | | | | | | | |
| Borrower/ Branch (INR m) | 1,932 | 1,759 | 1,602 | 1,487 | 1,406 | | | | | | | |
| **Balance Sheet Parameters** | | | | | | | | | | | | |
| **AUM (INR B)** | **76.9** | **70.4** | **68.8** | **74.1** | **77.0** | **82.4** | **89.2** | **97.5** | | | | |
| Change YoY (%) | -36.9 | -39.2 | -35.1 | -17.5 | 0.2 | 17.0 | 29.7 | 31.6 | | | | |
| **Disbursements (INR B)** | **9.5** | **13.0** | **15.9** | **21.4** | **17.8** | **20.5** | **22.6** | **25.2** | | | | |
| Change YoY (%) | -68.2 | -21.9 | 36.5 | 85.2 | 87.7 | 58.0 | 42.0 | 17.7 | | | | |
| **Borrowings (INR B)** | **52.7** | **49.3** | **51.8** | **55.7** | **58.4** | | | | | | | |
| Change YoY (%) | -42.3 | -42.9 | -29.2 | -13.0 | 10.9 | | | | | | | |
| Borrowings/Loans (%) | 81.4 | 83.1 | 91.8 | 92.8 | 91.2 | | | | | | | |
| Debt/Equity (x) | 2.7 | 2.6 | 2.2 | 2.3 | 2.3 | | | | | | | |
| **Asset Quality (%)** | | | | | | | | | | | | |
| **GS 3 (INR M)** | **3,830** | **2,940** | **2,620** | **2,010** | **1,670** | | | | | | | |
| G3 % | 5.4 | 4.6 | 4.4 | 3.2 | 2.5 | | | | | | | |
| NS 3 (INR M) | 130 | 230 | 360 | 310 | 310 | | | | | | | |
| NS3 % | 0.20 | 0.39 | 0.64 | 0.52 | 0.48 | | | | | | | |
| **PCR (%)** | **96.6** | **92.2** | **86.3** | **84.6** | **81.4** | | | | | | | |
| ECL (%) | 8.2 | 7.0 | 5.9 | 4.3 | 3.5 | | | | | | | |
| **Return Ratios - YTD (%)** | | | | | | | | | | | | |
| ROA (Rep) | -4.7 | -1.2 | 0.8 | 5.7 | 2.9 | | | | | | | |
| ROE (Rep) | -20.6 | -4.6 | 2.6 | 19.1 | 10.0 | | | | | | | |

E: MOFSL Estimates

CONFERENCE CALL

## Highlights from the management commentary

### Guidance

- FUSION remains confident of achieving ~20-25% CAGR over the medium term, with an AUM target of ~INR100b by end-FY27.
- The company has guided for FY27 credit costs of ~2%.
- FUSION increased lending yields by ~55bp, and blended yields are expected to improve further as the higher disbursement yields translate into higher portfolio yields. NIM is expected to expand ~15-25bp, even after offsetting any increase in the cost of funds.
- Management expects RoA to improve from ~3% currently to ~4% by the end of FY27.
- FY26 was focused on rebuilding the franchise, while FY27 is expected to demonstrate the benefits of the rebuilt platform.

### Business updates

- The MFI industry has undergone a significant structural change, with heavily leveraged customers and those without steady income streams moving out of the formal MFI sector. The remaining customer base is better positioned to navigate the current headwinds.
- FUSION has used the stressed period to strengthen its portfolio through more selective customer acquisition, granular market expansion, tighter underwriting guardrails and technology-led processes.
- The company believes the strategy is working, with 1QFY27 reflecting strengthening across key operating parameters and continued improvement in asset quality.
- Even with muted demand, the decline in industry supply is creating opportunities for well-capitalized lenders with scaled operations, appropriate infrastructure and disciplined underwriting.
- Industry-wide deleveraging has reduced competition from weaker players, while new customer additions continue to increase.

### Portfolio quality and collections

- FUSION has tightened credit guardrails, resulting in a ~4-5% decline in approval rates, while customers acquired over the past nine months have performed well.
- Around ~85% of customers disbursed to in 1QFY27 had fewer than two lenders, with ~37% being new to FUSION, supporting the targeted 40:60 mix of new versus existing customers.
- Collection efficiency remains strong at >99.7%, with no state exhibiting any deterioration.
- Net NPA stood at ~0.4%, while credit costs declined for the seventh consecutive quarter and remained in line with the expected annualized guidance of ~2%.
- The company has strengthened provisions on certain receivables, including insurance-related amounts, which formed a small component of credit costs.
- FUSION expects higher write-backs to continue, while the management overlay remained intact in 1QFY27 after a release of INR100m in the previous quarter.
- Collection operations have been moved completely in-house from external agencies, supported by AI-led customer outreach and dedicated collection teams.

- The company has a potential recovery pool of ~INR6b and estimates that a ~30% settlement rate could translate into ~INR1.8b of recoveries, or around INR100m per month, over the next 15-18 months.
- The collections model combines dedicated teams that engage directly with customers for resolution and AI systems that handle initial identification and contact before the branch team takes over.

## MFI Business

- MFI remains one of the two core businesses going forward, alongside MSME, with the company continuing to focus on higher-quality and lower-leverage customers. The company has identified specific customer segments where it sees an opportunity to increase wallet share.
- In category-A branches, which account for ~80% of the branch network, FUSION has also started serving Fusion+2 borrowers.
- The company does not expect to rely on individual loan products to achieve the INR100b AUM target, as growth can be supported by the existing franchise and improved customer acquisition.
- MFI branches are being rationalized to focus on locations with adequate growth headroom, while the company continues to enter new markets selectively.
- FUSION plans to open ~50-60 branches while shutting down ~100 underperforming branches, resulting in a net reduction of ~40-50 branches. The objective is to have the right branches in the right locations serving the right customers, with MFI branches taking around 15 days to establish.

## MSME Business

- MSME is emerging as a key growth driver, supported by the existing MFI branch infrastructure and selective expansion into new markets.
- MSME collection efficiency (CE) has remained above ~99.3%, providing confidence to pursue calibrated expansion.
- Disbursements moderated in April but returned to average monthly levels by May-June.
- The MSME portfolio has a typical ticket size of INR750-800k and has maintained collection efficiency above 99% over the past six months.
- The company plans to use its existing MFI branch network as a hub-and-spoke model for MSME sourcing.
- The company is initially starting MSME operations across 50 locations and is entering Tamil Nadu for the first time using the existing MFI branch infrastructure with a separate team.
- MSME is targeted to contribute ~15% of the business next year and 20% in the following year, with expansion focused on Tier-3 and Tier-4 markets rather than rural branches.
- The company expects the existing branch infrastructure to support MSME growth without requiring separate branches.

## Branch Network and Operating Efficiency

- Branch expansion will remain selective, with new locations being added only where adequate growth headroom exists and weaker branches are being rationalized.
- The company plans to leverage its existing branch network for both MFI and MSME, supporting capital-efficient growth and operating leverage.

- MFI branches take around 15 days to establish, while MSME branches require about one month.
- Since new products will be serviced through existing branches, the company does not expect a meaningful increase in workforce requirements. Opex-to-average AUM is expected to moderate to ~6-7% over the next few years.

### New Products and Business Diversification

- FUSION has received Board approval to launch an individual loan product, with the product expected to be introduced by the first week of September 2026.
- Individual loans will have a dedicated credit team, with strong credit assessment before launch and pricing expected to be broadly similar to, or up to ~100bp lower than MFI.
- Beyond JLG lending, all new products will undergo stringent credit evaluation before launch. The initial ticket size for the new individual product is expected at around INR150k.
- The company will also evaluate opportunities to increase wallet share among identified customer segments through these new offerings.

### Funding, Liquidity, and Capital

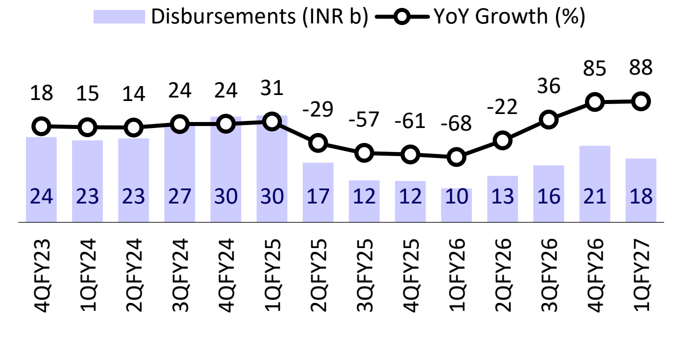
- FUSION continues to prioritize maintaining a strong liquidity buffer, reducing the cost of funds, and diversifying its funding franchise.
- Funding remains well-diversified across financial institutions, with INR4.8b of sanctions received under the Credit Guarantee Scheme and another INR5.2b in the pipeline from private sector banks.
- The credit guarantee funding is available at attractive pricing and should lower the marginal cost of borrowing while increasing the share of public sector banks in the overall funding mix.
- Liquidity has been maintained at slightly elevated levels, in line with the policy of keeping liquidity equivalent to a few months of disbursements.
- Following the improvement in the geopolitical environment, borrowings in July remained below INR500m, reflecting the company's limited incremental funding requirement during the month.
- CRAR remained strong at 36.95%, well above regulatory requirements, providing sufficient capital to support future growth.
- The company had no financial covenant breaches as of Jun'26, while a capital raise is expected only after 12-18 months.
- Rating agencies remained positive on the company from an entity perspective, with their concerns primarily linked to the external operating environment.

### Profitability and Other Financials

- Credit costs continued to decline for the seventh consecutive quarter, supported by improving portfolio quality and collections.
- The MTM impact of ~INR39m recorded in 1QFY27 is not expected to recur in 2QFY27. The excess liquidity drag of around INR35-40m should also normalize if the company reduces its liquidity.
- The company did not release any amount from the management overlay in 1QFY27.

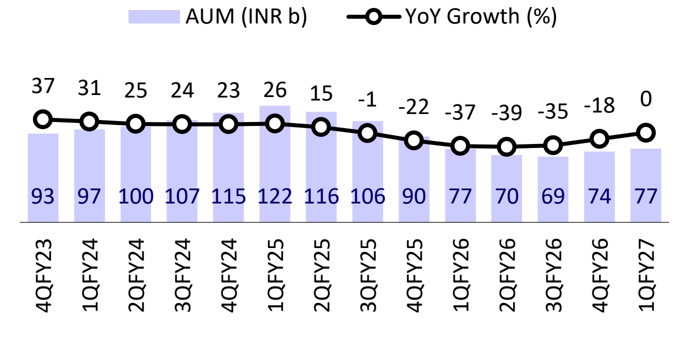
## Story in charts

**Exhibit 1: Disbursements grew ~88% YoY…**



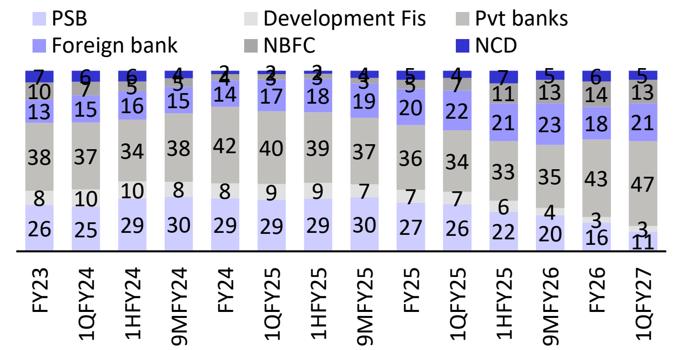

Source: MOFSL, Company

**Exhibit 2: …while AUM remained flat YoY**



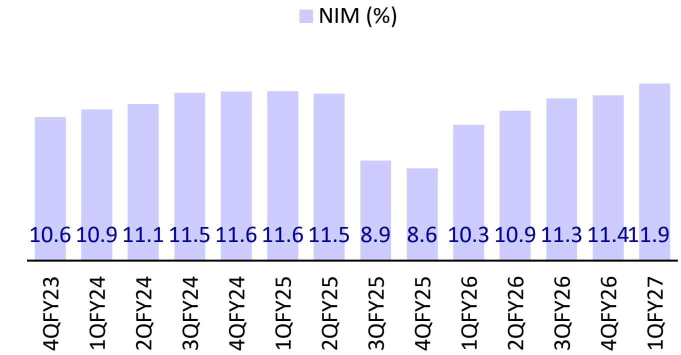

Source: MOFSL, Company

**Exhibit 3: Borrowing mix (%)**



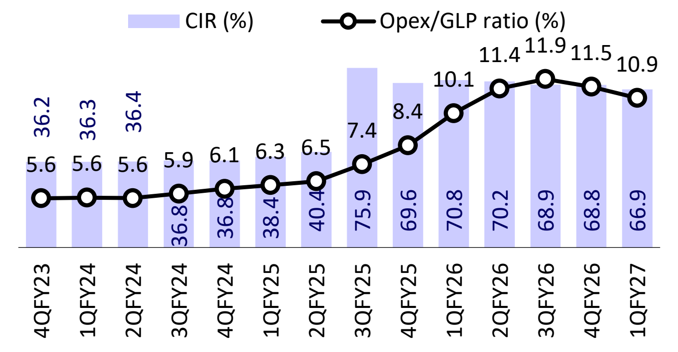

Source: MOFSL, Company

**Exhibit 4: Reported NIM expanded ~50bp QoQ (%)**



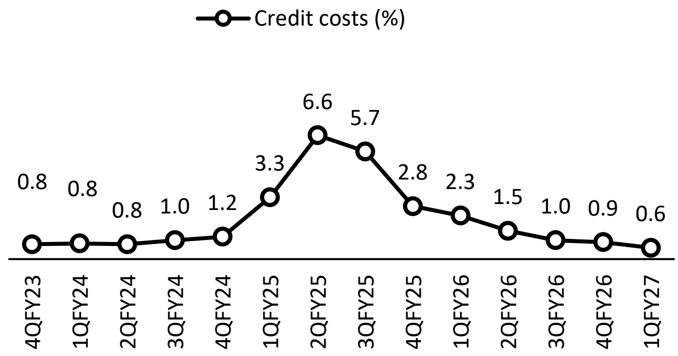

Source: MOFSL, Company

**Exhibit 5: CI ratio declined ~190bp QoQ (%)**



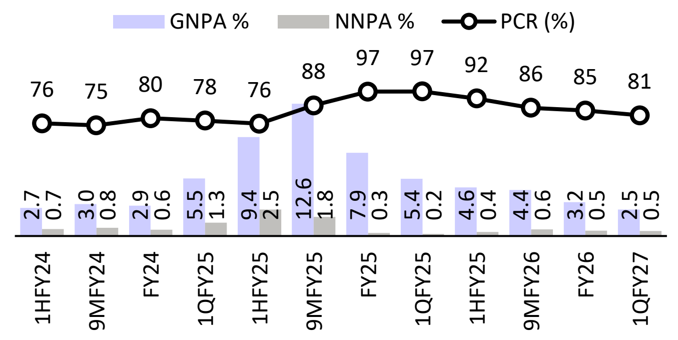

Source: MOFSL, Company

**Exhibit 6: Credit costs declined to ~0.6% (non-annualized)**



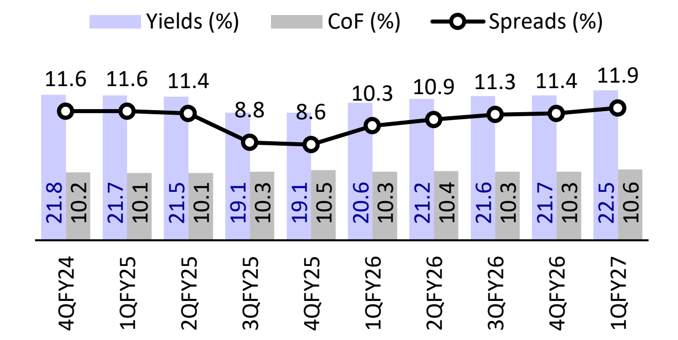

Source: MOFSL, Company

**Exhibit 7: GS3 declined ~70bp QoQ to 2.5%**




Source: MOFSL, Company

**Exhibit 8: Spreads rose ~50bp QoQ**

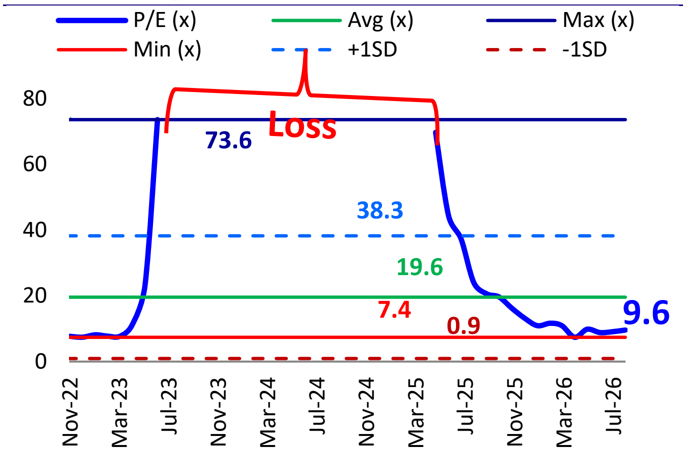



Source: MOFSL, Company

**We increase our FY27/FY28 PAT estimates by 5%/2%, primarily to factor in higher NIM and lower credit costs**

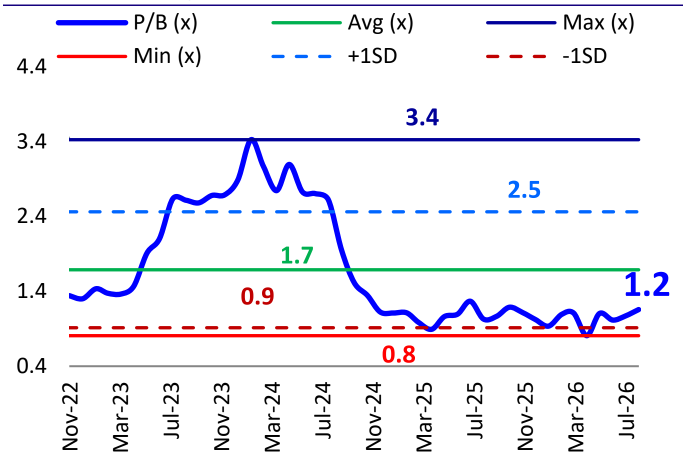
| INR B | Old Est. | | New Est. | | % change | |
|---|---|---|---|---|---|---|
| | FY27 | FY28 | FY27 | FY28 | FY27 | FY28 |
| NII | 10.6 | 14.2 | 10.8 | 14.6 | 2.1 | 2.9 |
| Other Income | 2.9 | 2.6 | 2.6 | 2.5 | -9.0 | -4.5 |
| **Total Income** | **13.5** | **16.7** | **13.5** | **17.0** | **-0.2** | **1.7** |
| Operating Expenses | 8.3 | 9.5 | 8.4 | 9.6 | 0.7 | 0.7 |
| **Operating Profits** | **5.1** | **7.2** | **5.1** | **7.5** | **-1.8** | **3.1** |
| Provisions | 2.1 | 2.8 | 1.9 | 2.9 | -11.6 | 4.1 |
| **PBT** | **3.0** | **4.5** | **3.2** | **4.6** | **5.1** | **2.4** |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **PAT** | **3.0** | **4.5** | **3.2** | **4.6** | **5.1** | **2.4** |
| AUM | 95 | 116 | 97 | 119 | 2.4 | 2.8 |
| Borrowings | 65 | 76 | 66 | 80 | 2.4 | 4.2 |
| RoA | 3.4 | 4.3 | 3.5 | 4.3 | 4.1 | 0.0 |
| RoE | 11.6 | 15.0 | 12.1 | 15.3 | 4.8 | 1.7 |

**Exhibit 9: One-year forward P/E ratio**




Source: MOFSL, Company

**Exhibit 10: One-year forward P/B ratio**




Source: MOFSL, Company

**Exhibit 11: Dupont Analysis**

| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|---|---|---|---|
| Interest Income | 16.4 | 16.2 | 19.2 | 19.8 | 21.3 | 18.5 | 19.1 | 20.6 |
| Interest Expended | 7.4 | 7.6 | 7.7 | 7.5 | 8.4 | 6.5 | 7.1 | 6.9 |
| **Net Interest Income** | **9.0** | **8.7** | **11.5** | **12.3** | **12.9** | **12.0** | **12.0** | **13.7** |
| Other Operating Income | 0.6 | 1.3 | 1.7 | 2.1 | 1.8 | 1.2 | 1.7 | 1.8 |
| Other Income | 0.3 | 0.8 | 0.7 | 0.9 | 0.5 | 1.2 | 1.2 | 0.5 |
| **Net Income** | **9.9** | **10.7** | **13.9** | **15.3** | **15.2** | **14.4** | **14.9** | **16.0** |
| Operating Expenses | 4.4 | 4.8 | 5.3 | 5.6 | 7.9 | 10.0 | 9.3 | 9.0 |
| **Operating Income** | **5.5** | **6.0** | **8.6** | **9.7** | **7.3** | **4.4** | **5.6** | **7.0** |
| Provisions/write offs | 4.4 | 5.6 | 2.4 | 3.5 | 18.6 | 5.1 | 2.1 | 2.7 |
| **PBT** | **1.1** | **0.4** | **6.1** | **6.3** | **-11.3** | **-0.8** | **3.5** | **4.3** |
| Tax | 0.3 | 0.0 | 1.5 | 1.5 | 0.9 | -0.9 | 0.0 | 0.0 |
| **RoA** | **0.9** | **0.3** | **4.6** | **4.8** | **-12.2** | **0.2** | **3.5** | **4.3** |
| Leverage | 4.1 | 5.1 | 4.6 | 4.1 | 4.5 | 4.0 | 3.4 | 3.5 |
| **RoE** | **3.6** | **1.7** | **21.2** | **19.5** | **-54.5** | **0.7** | **12.1** | **15.3** |

# Financials and valuations

| Income Statement | | | | | | | | (INR M) |
|---|---|---|---|---|---|---|---|---|
| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
| Interest Income | 8,276 | 10,643 | 16,001 | 20,919 | 21,342 | 15,325 | 17,205 | 21,938 |
| Interest Expenses | 3,751 | 4,960 | 6,428 | 7,908 | 8,439 | 5,387 | 6,356 | 7,364 |
| **Net Interest Income** | **4,525** | **5,684** | **9,573** | **13,011** | **12,904** | **9,938** | **10,849** | **14,575** |
| Change (%) | 37.6 | 25.6 | 68.4 | 35.9 | -0.8 | -23.0 | 9.2 | 34.3 |
| Other Operating Income | 282 | 869 | 1,418 | 2,248 | 1,855 | 1,034 | 1,526 | 1,919 |
| Other Income | 173 | 501 | 580 | 957 | 491 | 966 | 1,082 | 541 |
| **Net Income** | **4,980** | **7,054** | **11,572** | **16,216** | **15,250** | **11,938** | **13,457** | **17,034** |
| Change (%) | 26.8 | 41.6 | 64.1 | 40.1 | -6.0 | -21.7 | 12.7 | 26.6 |
| **Operating Expenses** | **2,204** | **3,123** | **4,448** | **5,935** | **7,886** | **8,315** | **8,406** | **9,580** |
| Change (%) | 10.2 | 41.7 | 42.5 | 33.4 | 32.9 | 5.5 | 1.1 | 14.0 |
| Employee Expenses | 1,686 | 2,331 | 3,255 | 4,312 | 5,732 | 6,169 | 6,354 | 7,244 |
| Depreciation | 39 | 54 | 74 | 90 | 117 | 96 | 104 | 116 |
| Other Operating Expenses | 479 | 738 | 1,119 | 1,532 | 2,037 | 2,050 | 1,948 | 2,220 |
| **Operating Income** | **2,776** | **3,931** | **7,124** | **10,281** | **7,365** | **3,622** | **5,052** | **7,454** |
| Change (%) | 44.0 | 41.6 | 81.2 | 44.3 | -28.4 | -50.8 | 39.5 | 47.6 |
| Provisions and w/offs | **2,208** | **3,687** | **2,004** | **3,649** | **18,695** | **4,252** | **1,887** | **2,864** |
| **PBT** | **568** | **244** | **5,120** | **6,633** | **-11,330** | **-629** | **3,165** | **4,590** |
| Tax Provisions | 128 | 27 | 1,248 | 1,580 | 915 | -768 | 0 | 0 |
| Tax Rate (%) | 22.6 | 10.9 | 24.4 | 23.8 | -8.1 | 122.0 | 0.0 | 0.0 |
| **PAT** | **439** | **218** | **3,871** | **5,053** | **-12,245** | **139** | **3,165** | **4,590** |
| Change (%) | -37 | -50 | 1,680 | 31 | -342 | - | 2,185 | 45 |

| Balance Sheet | | | | | | | | (INR M) |
|---|---|---|---|---|---|---|---|---|
| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
| Equity Share Capital | 790 | 828 | 1,003 | 1,006 | 1,006 | 1,615 | 1,615 | 1,615 |
| Reserves & Surplus | 11,673 | 12,552 | 22,216 | 27,475 | 15,427 | 22,944 | 26,109 | 30,699 |
| **Net Worth** | **12,464** | **13,380** | **23,219** | **28,482** | **16,433** | **24,559** | **27,724** | **32,315** |
| **Borrowings** | **44,323** | **57,758** | **67,784** | **86,159** | **64,020** | **55,708** | **66,292** | **79,525** |
| Change (%) | 49.0 | 30.3 | 17.4 | 27.1 | -25.7 | -13.0 | 19.0 | 20.0 |
| Other liabilities | 1,593 | 1,767 | 2,632 | 3,103 | 2,473 | 2,681 | 3,217 | 3,861 |
| **Total Liabilities** | **58,379** | **72,905** | **93,635** | **1,17,743** | **82,927** | **82,948** | **97,233** | **1,15,700** |
| | | | | | | | | |
| **Cash and Bank balance** | **13,353** | **11,536** | **10,650** | **15,532** | **8,531** | **20,054** | **11,301** | **10,726** |
| Investments | 0 | 0 | 0 | 21 | 21 | 21 | 21 | 21 |
| **Loans** | **43,607** | **59,182** | **80,416** | **99,479** | **72,612** | **60,008** | **83,128** | **1,02,006** |
| Change (%) | 30.4 | 35.7 | 35.9 | 23.7 | -27.0 | -17.4 | 38.5 | 22.7 |
| Fixed Assets | 183 | 192 | 212 | 224 | 298 | 451 | 496 | 545 |
| Other Assets | 1,237 | 1,995 | 2,357 | 2,488 | 1,466 | 2,414 | 2,287 | 2,402 |
| **Total Assets** | **58,379** | **72,905** | **93,635** | **1,17,743** | **82,927** | **82,948** | **97,233** | **1,15,700** |

E: MOFSL Estimates

# Financials and valuations

**AUM and Disbursements** (INR M)

| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|---|---|---|---|
| **AUM** | 46,378 | 67,860 | 92,960 | 1,14,761 | 89,800 | 74,070 | 97,488 | 1,18,871 |
| YoY Growth (%) | **29** | **46** | **37** | **23** | **-22** | **-18** | **32** | **22** |
| **Disbursements** | 37,103 | 61,798 | 85,962 | 1,02,945 | 69,710 | 59,830 | 86,155 | 1,04,248 |
| YoY Growth (%) | **4** | **67** | **39** | **20** | **-32** | **-14** | **44** | **21** |

E: MOFSL Estimates

**Ratios**

| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|---|---|---|---|
| **Spreads Analysis (%)** | | | | | | | | |
| Avg. Yield on Loans | 21.5 | 20.7 | 22.9 | 23.3 | 24.8 | 23.1 | 24.0 | 23.7 |
| Avg Cost of Funds | 10.1 | 9.7 | 10.2 | 10.3 | 11.2 | 9.0 | 10.4 | 10.1 |
| Spread of loans | 11.4 | 11.0 | 12.7 | 13.0 | 13.6 | 14.1 | 13.6 | 13.6 |
| NIM (on gross loans) | 11.5 | 10.6 | 13.3 | 14.1 | 14.3 | 14.1 | 14.7 | 15.3 |
| **Profitability Ratios (%)** | | | | | | | | |
| RoA | 0.9 | 0.3 | 4.6 | 4.8 | -12.2 | 0.2 | 3.5 | 4.3 |
| RoE | 3.6 | 1.7 | 21.2 | 19.5 | -54.5 | 0.7 | 12.1 | 15.3 |
| Debt: Equity (x) | 3.6 | 4.3 | 2.9 | 3.0 | 3.9 | 2.3 | 2.4 | 2.5 |
| Leverage (x) | 4.7 | 5.4 | 4.0 | 4.1 | 5.0 | 3.4 | 3.5 | 3.6 |
| CAR | 27.3 | 21.9 | 27.9 | 26.1 | 19.2 | 36.3 | 29.4 | 0.0 |
| o/w Tier 1 | 25.5 | 19.9 | 26.6 | 25.5 | 18.6 | 35.5 | 28.8 | 0.0 |
| Int. Expended / Int.Earned | 45.3 | 46.6 | 40.2 | 37.8 | 39.5 | 35.2 | 36.9 | 33.6 |
| Other Inc. / Net Income | 9.1 | 19.4 | 17.3 | 19.8 | 15.4 | 16.8 | 19.4 | 14.4 |
| **Efficiency Ratios (%)** | | | | | | | | |
| Int. Expended/Int.Earned | | | | | | | | |
| CIR | 44.3 | 44.3 | 38.4 | 36.6 | 51.7 | 69.7 | 62.5 | 56.2 |
| Opex/ AUM | 5.3 | 5.5 | 5.5 | 5.7 | 7.7 | 10.1 | 9.8 | 8.9 |
| Empl. Cost/Op. Exps. | 76.5 | 74.6 | 73.2 | 72.7 | 72.7 | 74.2 | 75.6 | 75.6 |
| **Asset Quality** | | | | | | | | |
| GNPA (INR m) | 2,559 | 3,584 | 2,889 | 2,973 | 6,457 | 2,010 | 1,404 | 891 |
| NNPA (INR m) | 1,024 | 1,030 | 708 | 603 | 224 | 313 | 281 | 178 |
| GNPA (%) | 5.5 | 5.7 | 3.5 | 2.9 | 7.9 | 3.2 | 1.6 | 0.8 |
| NNPA (%) | 2.3 | 1.7 | 0.9 | 0.6 | 0.3 | 0.4 | 0.3 | 0.2 |
| PCR (%) | 60 | 71 | 75 | 80 | 97 | 84 | 80 | 80 |
| Credit costs (%) | 5.6 | 6.9 | 2.8 | 4.0 | 20.7 | 6.1 | 2.6 | 3.0 |

| Valuations | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|---|---|---|---|
| Book Value (INR) | 158 | 162 | 231 | 283 | 163 | 152 | 172 | 200 |
| BV Growth (%) | 4 | 3 | 43 | 22 | -42 | -7 | 13 | 17 |
| **P/BV** | **1.3** | **1.3** | **0.9** | **0.7** | **1.3** | **1.4** | **1.2** | **1.0** |
| EPS (INR) | 6 | 3 | 39 | 50 | -122 | 0.9 | 20 | 28 |
| EPS Growth (%) | -37 | -53 | 1368 | 30 | - | - | - | 45 |
| **Price-Earnings (x)** | **37.2** | **78.7** | **5.4** | **4.1** | **-** | **-** | **10.6** | **7.3** |

E: MOFSL Estimates

| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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