

# Fusion Finance

Estimate change

TP change

Rating change



|                       |            |
|-----------------------|------------|
| Bloomberg             | FUSION IN  |
| Equity Shares (m)     | 101        |
| M.Cap.(INRb)/(USD\$)  | 23.5 / 0.3 |
| 52-Week Range (INR)   | 215 / 124  |
| 1, 6, 12 Rel. Per (%) | -11/5/-21  |
| 12M Avg Val (INR M)   | 121        |

## Financials & Valuations (INR b)

| Y/E March    | FY25   | FY26E | FY27E |
|--------------|--------|-------|-------|
| Total Income | 15.3   | 12.1  | 13.2  |
| PPP          | 7.4    | 3.9   | 5.3   |
| PAT          | -12.2  | -0.3  | 2.8   |
| EPS (INR)    | -121.7 | -1.99 | 17.5  |
| EPS Gr. (%)  | -      | -     | -     |
| BV (INR)     | 163    | 149   | 167   |

## Valuations

|               |       |      |      |
|---------------|-------|------|------|
| NIM (%)       | 14.3  | 13.9 | 14.7 |
| C/I ratio (%) | 51.7  | 68.1 | 59.6 |
| RoAA (%)      | -12.2 | -0.4 | 3.6  |
| RoE (%)       | -54.5 | -1.6 | 11.1 |

## Valuations

|          |     |     |     |
|----------|-----|-----|-----|
| P/E (x)  | -   | -   | 9.5 |
| P/BV (x) | 1.0 | 1.1 | 1.0 |

## Shareholding Pattern (%)

| As On    | Sep-25 | Jun-25 | Sep-24 |
|----------|--------|--------|--------|
| Promoter | 55.0   | 55.0   | 57.7   |
| DII      | 11.9   | 12.6   | 19.2   |
| FII      | 3.9    | 3.0    | 2.8    |
| Others   | 29.2   | 29.4   | 20.3   |

FII includes depository receipts

**CMP: INR171**

**TP: INR215 (+25%)**

**Buy**

**Moves closer to profitability; business momentum to improve**

**GS3 improves ~80bp QoQ; sustained sequential decline in credit costs**

- Fusion Finance (FUSION) reported a net loss of ~INR221m in 2QFY26 (vs. est. profit of INR7m). NII in 2QFY26 declined ~38% YoY to ~INR2.5b (7% miss). Opex rose 9% YoY to INR2.1b (flat QoQ; in line) and the cost-to-income ratio declined ~60bp QoQ to ~70.2% (PQ: ~70.8% and PY: ~40.4%). PPOP declined ~69% YoY to ~INR890m (11% miss).
- Net credit costs declined sequentially to ~INR1.1b (vs. est. of ~INR1b). Annualized credit costs in 2QFY26 stood at ~6.4% (PQ: 9.4% and PY: 26%).
- Management highlighted that the new portfolio continues to perform well, reflecting the strength of the revised underwriting framework and improved collection practices. In 2QFY26, collection efficiency on the new book was 99.5%, and overall collection efficiency also improved during the quarter. The company has guided for normalized credit costs of ~3.5% from FY27 onwards. We model credit costs of 5.9%/3.5% in FY26/FY27E.
- Disbursements grew 37% QoQ to ~INR13b. AUM declined ~39% YOY and 9% QoQ to ~INR70b. **Management indicated that Fusion's business has largely stabilized and is now well-positioned to exhibit net positive growth in its AUM by the end of 3Q or early 4QFY26.**
- We cut our FY26 EPS estimate and now project a net loss in FY26 vs. our earlier expectation of a marginal profit. We also cut our FY27 EPS estimates by ~12% to factor in slightly higher opex and credit costs. We estimate an AUM CAGR of ~7% and a PPOP CAGR of ~2% over FY25-28, along with an RoA/RoE of ~4.2%/13.8% in FY28E.
- Fusion has taken meaningful steps to strengthen its operating model, including sharper underwriting filters, improved collection efficiency, and technological enhancements that support productivity and asset quality. These measures have set the foundation for sustainable growth and a return to profitability from 3QFY26 onwards.
- **At the current valuation of 1x FY27E BV, the stock offers an attractive entry point, factoring in much of the past stress but not fully reflecting the medium-term recovery potential. We reiterate our BUY rating on the stock with a revised TP of INR215 (based on 1.2x Sep'27E P/BV).**

**GS3 improves ~80bp QoQ; collection efficiency rises**

- FUSION's GS3 improved ~80bp QoQ to ~4.6%, while NS3 rose ~20bp QoQ to 0.4%. Stage 3 PCR stood at 92% in 2QFY26.
- Stage 2 declined ~25bp QoQ to 2.2% and S2 PCR declined ~160bp QoQ to ~70%. ECL/EAD (incl. management overlay of ~INR455m) declined to ~7% (PQ: ~8.2%). Write-offs for the quarter declined to ~INR2.5b (PQ: INR4.9b). Management shared that the current portfolio collection efficiency (CE) stood at ~98.5% in 2QFY26.

- FUSION's annualized credit costs in 2QFY26 stood at ~6.4% (PY: ~26% and PQ: ~9.4%). We model credit costs of 6%/3.5% for FY26/FY27.

#### **Reported NIM expands ~55bp QoQ; calculated yields rise ~50bp QoQ**

- Yields (calc.) rose ~50bp QoQ to ~22.7%, while CoF (calc.) increased ~30bp QoQ to ~10.5%, leading to a ~20bp QoQ rise in spreads to ~12.2%. Reported NIMs rose ~55bp QoQ to ~10.9%, supported by lower income reversals.
- Marginal CoB declined ~40bp QoQ to ~13.3%. Fusion shared that it aims to broadly maintain the NIMs at current levels. We model (calc.) NIM (as a % of gross loans) of 13.9%/14.7% in FY26/FY27.
- The share of public sector banks in the borrowing mix dipped ~4pp to ~22% in 2QFY26 (PQ: 26%). FUSION had a robust liquidity of ~INR8.9b, an aggregate of cash and cash equivalents and liquid assets, amounting to ~13% of the total assets.

#### **Active borrower base declines; reduction in Fusion+>=3 customers**

- The borrower base declined to 2.6m as of Sep'25 (down from 2.8m as of Jun'25). FUSION's + >=3 borrowers declined to 13.9% (vs. ~17.6% in Jun'25), and it only onboards customers if they are in the current bucket for all their MFI loans.
- FUSION's CRAR stood at ~31.3% as of Sep'25.

#### **Highlights from the management commentary**

- Management indicated that recoveries are improving across both pre-write-off and written-off pools, and it expects write-back trends to strengthen over the next 2-3 quarters.
- Fusion shared that it released ~INR150m of management overlay during the quarter, which was driven by earlier over-provisioning alongside improving collection efficiency. The company also indicated that it will continue to utilize/release the management overlay gradually over the next few quarters.
- Management reiterated that strengthening the capital position remains a core priority for supporting the next phase of growth. The next tranche of the Rights issue (~INR4bn) has been called, reflecting confidence in the business trajectory, collection efficiency, and recoveries.

#### **Valuation and view**

- Fusion reported a relatively soft quarter with AUM continuing to contract; however, the company moved closer to profitability, driven by a further decline in credit costs. Disbursements improved during the quarter, and the company continues to ramp up volumes while maintaining a cautious underwriting stance, which is evident in stable PAR trends and strong collection efficiency. Margins also strengthened, aided by lower interest income reversals.
- **At the current valuation of 1x FY27E BV, the stock offers an attractive entry point, factoring in much of the past stress but not fully reflecting the medium-term recovery potential. We reiterate our BUY rating on the stock with a revised TP of INR215 (based on 1.2x Sep'27E P/BV).**

**Fusion: Quarterly Performance**

(InR m)

| Y/E March                       | FY25         |               |               |               | FY26E        |              |              |              | FY25           | FY26E         | 2QFY26E      | v/s Est.   |
|---------------------------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|----------------|---------------|--------------|------------|
|                                 | 1Q           | 2Q            | 3Q            | 4Q            | 1Q           | 2Q           | 3Q           | 4Q           |                |               |              |            |
| Interest Income                 | 6,213        | 6,261         | 4,382         | 4,487         | 4,219        | 3,808        | 3,675        | 3,662        | 21,342         | 15,364        | 3,974        | -4         |
| Interest Expenses               | 2,234        | 2,274         | 2,137         | 1,794         | 1,489        | 1,343        | 1,282        | 1,220        | 8,439          | 5,334         | 1,310        | 2          |
| <b>Net Interest Income</b>      | <b>3,979</b> | <b>3,987</b>  | <b>2,245</b>  | <b>2,693</b>  | <b>2,730</b> | <b>2,465</b> | <b>2,392</b> | <b>2,442</b> | <b>12,904</b>  | <b>10,030</b> | <b>2,664</b> | <b>-7</b>  |
| YoY Growth (%)                  | 34.6         | 30.4          | -33.7         | -25.4         | -31.4        | -38.2        | 6.6          | -9.3         | -0.8           | -22.3         | -33          |            |
| Other Income                    | 854          | 776           | 443           | 273           | 237          | 519          | 616          | 712          | 2,347          | 2,083         | 377          | 38         |
| <b>Total Income</b>             | <b>4,833</b> | <b>4,764</b>  | <b>2,688</b>  | <b>2,966</b>  | <b>2,967</b> | <b>2,984</b> | <b>3,008</b> | <b>3,154</b> | <b>15,250</b>  | <b>12,113</b> | <b>3,041</b> | <b>-2</b>  |
| YoY Growth (%)                  | 30.9         | 25.3          | -34.7         | -35.6         | -38.6        | -37.4        | 11.9         | 6.3          | -6.0           | -20.6         | -36          |            |
| Operating Expenses              | 1,855        | 1,925         | 2,041         | 2,065         | 2,101        | 2,094        | 2,043        | 2,006        | 7,886          | 8,245         | 2,038        | 3          |
| <b>Operating Profit</b>         | <b>2,978</b> | <b>2,838</b>  | <b>648</b>    | <b>901</b>    | <b>866</b>   | <b>890</b>   | <b>965</b>   | <b>1,148</b> | <b>7,365</b>   | <b>3,869</b>  | <b>1,003</b> | <b>-11</b> |
| YoY Growth (%)                  | 26.5         | 17.4          | -75.1         | -69.0         | -70.9        | -68.6        | 49.0         | 27.4         | -28.4          | -47.5         | -65          |            |
| Provisions & Loan Losses        | 3,485        | 6,941         | 5,723         | 2,547         | 1,789        | 1,112        | 800          | 546          | 18,695         | 4,247         | 993          | 12         |
| <b>Profit before Tax</b>        | <b>-507</b>  | <b>-4,102</b> | <b>-5,075</b> | <b>-1,646</b> | <b>-923</b>  | <b>-221</b>  | <b>164</b>   | <b>601</b>   | <b>-11,330</b> | <b>-378</b>   | <b>10</b>    | <b>-</b>   |
| Tax Provisions                  | -151         | -1,052        | 2,118         | 0             | 0            | 0            | 8            | -65          | 915            | -57           | 2            |            |
| <b>Net Profit</b>               | <b>-356</b>  | <b>-3,050</b> | <b>-7,193</b> | <b>-1,646</b> | <b>-923</b>  | <b>-221</b>  | <b>156</b>   | <b>666</b>   | <b>-12,245</b> | <b>-321</b>   | <b>7</b>     | <b>-</b>   |
| YoY Growth (%)                  | -130         | -343          | -669          | -224          | 159          | -93          | -102         | -140         | -342           | -97.4         | -100         |            |
| <b>Key Parameters (%)</b>       |              |               |               |               |              |              |              |              |                |               |              |            |
| Yield on loans                  | 21.7         | 21.5          | 19.1          | 19.1          | 20.6         | 21.2         |              |              |                |               |              |            |
| Cost of funds                   | 10.1         | 10.1          | 10.3          | 10.5          | 10.3         | 10.4         |              |              |                |               |              |            |
| Spread                          | 11.6         | 11.4          | 8.8           | 8.6           | 10.3         | 10.9         |              |              |                |               |              |            |
| NIM                             | 11.6         | 11.5          | 8.9           | 8.6           | 10.3         | 10.9         |              |              |                |               |              |            |
| Credit cost                     | 3.28         | 6.55          | 5.70          | 2.80          | 2.30         | 1.50         |              |              |                |               |              |            |
| Cost to Income Ratio (%)        | 38.4         | 40.4          | 75.9          | 69.6          | 70.8         | 70.2         |              |              |                |               |              |            |
| Tax Rate (%)                    | 29.8         | 25.6          | -41.7         | 0.0           | 0.0          | 0.0          |              |              |                |               |              |            |
| <b>Performance ratios (%)</b>   |              |               |               |               |              |              |              |              |                |               |              |            |
| Avg o/s per borrower (INR '000) | 30           | 29            | 27            | 26            | 25           | 25           |              |              |                |               |              |            |
| AUM/ RO (INR m)                 | 1.2          | 1.1           | 1.1           | 0.9           | 0.8          | 0.8          |              |              |                |               |              |            |
| AUM/ Branch (INR m)             | 9            | 8             | 7             | 6             | 5            | 4            |              |              |                |               |              |            |
| Borrower/ Branch (INR m)        | 3,017        | 2,805         | 2,590         | 2,175         | 1,932        | 1,759        |              |              |                |               |              |            |
| <b>Balance Sheet Parameters</b> |              |               |               |               |              |              |              |              |                |               |              |            |
| <b>AUM (INR B)</b>              | <b>121.9</b> | <b>115.7</b>  | <b>106.0</b>  | <b>89.8</b>   | <b>76.9</b>  | <b>70.4</b>  | <b>70.1</b>  | <b>74.0</b>  |                |               |              |            |
| Change YoY (%)                  | 25.5         | 15.4          | -0.9          | -21.8         | -36.9        | -39.2        | -33.9        | -17.5        |                |               |              |            |
| <b>Disbursements (INR B)</b>    | <b>29.9</b>  | <b>16.6</b>   | <b>11.7</b>   | <b>11.6</b>   | <b>9.5</b>   | <b>13.0</b>  | <b>15.9</b>  | <b>18.8</b>  |                |               |              |            |
| Change YoY (%)                  | 30.7         | -29.1         | -56.9         | -60.9         | -68.2        | -21.9        | 36.0         | 62.7         |                |               |              |            |
| <b>Borrowings (INR B)</b>       | <b>91.2</b>  | <b>86.4</b>   | <b>73.1</b>   | <b>64.0</b>   | <b>52.7</b>  | <b>49.3</b>  |              |              |                |               |              |            |
| Change YoY (%)                  | 26.9         | 14.8          | -8.9          | -25.7         | -42.3        | -42.9        |              |              |                |               |              |            |
| Borrowings/Loans (%)            | 89.0         | 94.6          | 92.3          | 88.2          | 81.4         | 83.1         |              |              |                |               |              |            |
| Debt/Equity (x)                 | 3.2          | 3.4           | 4.0           | 3.9           | 2.7          | 2.6          |              |              |                |               |              |            |
| <b>Asset Quality (%)</b>        |              |               |               |               |              |              |              |              |                |               |              |            |
| <b>GS 3 (INR M)</b>             | <b>5,952</b> | <b>9,672</b>  | <b>11,920</b> | <b>6,457</b>  | <b>3,830</b> | <b>2,940</b> |              |              |                |               |              |            |
| G3 %                            | 5.5          | 9.4           | 12.6          | 7.9           | 5.4          | 4.6          |              |              |                |               |              |            |
| NS 3 (INR M)                    | 1,301        | 2,302         | 1,450         | 224           | 130          | 230          |              |              |                |               |              |            |
| NS3 %                           | 1.27         | 2.52          | 1.83          | 0.31          | 0.20         | 0.39         |              |              |                |               |              |            |
| <b>PCR (%)</b>                  | <b>78.1</b>  | <b>76.2</b>   | <b>87.8</b>   | <b>96.5</b>   | <b>96.6</b>  | <b>92.1</b>  |              |              |                |               |              |            |
| ECL (%)                         | 5.9          | 11.1          | 16.4          | 10.9          | 8.2          | 7.0          |              |              |                |               |              |            |
| <b>Return Ratios - YTD (%)</b>  |              |               |               |               |              |              |              |              |                |               |              |            |
| ROA (Rep)                       | -1.2         | -10.3         | -27.6         | -7.4          | -4.7         | -1.2         |              |              |                |               |              |            |
| ROE (Rep)                       | -5.0         | -45.7         | -132.9        | -38.2         | -20.6        | -4.6         |              |              |                |               |              |            |

E: MOSL Estimates



## Key highlights from the management commentary

### Guidance

- By the end of 3Q or early 4Q, disbursements are expected to exceed repayments, at which point the book decline will stop and AUM will begin to grow.
- The company expects the marginal COF to further trend downwards over the next two quarters.
- Guided for normalized/realistic credit costs of 3.5% going forward. However, the company is building sub 2.5% credit costs with strong guardrails.

### Opening Remarks

- The broader macro environment is showing steady improvement, supported by stable rural output and gradual moderation in inflation, which is aiding consumption momentum.
- The rationalization of GST rates has improved affordability, particularly in semi-urban and rural regions, which is translating into better demand trends.
- Management emphasized that the recovery in consumption is not merely a temporary or one-off bounce but appears more sustained in nature.
- The MFI sector has strengthened meaningfully, with PAR levels declining across players and collection efficiencies improving, which demonstrates increased borrower discipline.
- The company remains positive on the rural economy, where improving visibility of rural cash flows is enhancing the overall quality of the loan portfolio.
- The primary strategic focus continues to be on quality-led growth while retaining a strong collection discipline and maintaining a robust, data-backed collection framework.

### Asset Quality and Credit Costs

- Credit costs are expected to trend down significantly in the near term. CE levels have improved materially, providing confidence in lower forward credit costs.
- Credit costs declined to INR1.1b in 2Q, marking the fourth consecutive quarter of reduction. Collection efficiency was 98.5% overall, with CE on the new book at 99.5%.
- Forward flow (roll forward) from the current book is contained at 0.5-0.6%, indicating controlled slippage.
- Recovery from written-off accounts doubled to INR130m in the quarter.
- Total write-offs during the quarter amounted to INR2.5b.
- Total incremental provision, including write-offs and overlay adjustments, was INR1.3b.
- The new book now accounts for 63-65% of the total loan book and is performing with a CE of 99.47%; the older book's CE is at 98%. Overall CE improved to 98.89% from 98.65% QoQ.
- Roll forward rates reduced to 1.12% from 1.35% QoQ, driving improvement in CE. Roll-back rates have declined by ~15bps due to seasonal impacts from festivals and floods rather than portfolio stress.
- In first-bucket behavior, the company is performing 10-20% better than industry benchmarks.

- UP continues to perform better than the national portfolio benchmark; some districts in East UP had a temporary impact, but without structural concerns.
- Recoveries are improving both pre-write-off and post-write-off, and write-back numbers are expected to continue strengthening over the next 2-3 quarters.

### Financial Highlights

- Disbursements increased 7% QoQ to INR13b in 2Q, supported by improved productivity and efficiency. The company acquired ~75k customers during the quarter compared to ~55k in 1Q, reflecting recovering demand and strengthened sourcing capability.
- 75% of 2Q disbursements were made to existing customers, indicating continued focus on low-risk repeat borrowers. The company remains focused on Fusion and Fusion+1 customers to strengthen customer stickiness and repayment history.
- State-level and district-level expansion and portfolio strategies remain data-driven, enabling selective scaling.
- Approval rates improved to 27% QoQ, indicating better application quality and underwriting performance.
- ATS increased to INR56k, driven mainly by second-cycle customers who qualify for higher repeat limits.
- Waiver coverage for covenant breaches has improved to ~89%, with most major waivers now in place and similar trends expected in upcoming quarters.
- Interest income reversal was INR190-200m during the quarter.

### Opex

- Cost-to-income ratio stood at 70.2%; the slight increase in opex was driven by a temporarily lower AUM base and is expected to normalize as the book expands.
- Some MSME branches were shut, and others merged to optimize the branch network and reduce opex.

### ECL Provisioning

- The release of management overlay this quarter was due to prior over-provisioning, combined with improving collection efficiency and overall performance.
- The company released INR150m of management overlay during the quarter.
- The company had intentionally over-provisioned last year and will continue to release overlay gradually in line with ECL trends.

### MSME vertical

- The MSME vertical continues to scale with an AUM of INR7.1b; the portfolio carries an average LTV of ~42% and yields an IRR of ~23%.
- The company remains focused on lending to small entrepreneurs and traders where cash flow visibility and customer engagement are stronger.
- The MSME business currently operates with a 56% approval rate and ~78% booking rate, reflecting strong underwriting and conversion discipline.

### Disbursements and AUM Growth

- Disbursement growth has come despite a reduction in overall manpower, indicating improved field productivity and operational efficiency.
- The foundational work undertaken over the past several quarters is expected to support sustainable and profitable scaling going forward.
- There is no specific state concentration behind branch closures; rationalization has been more about merging branches across top states such as UP, Bihar, and MP.
- Repeat lending to existing customers tends to drive higher prepayments and pre-closures, impacting near-term book growth.
- Repayment rates are around INR20b quarterly, which currently exceeds disbursements.
- Continuous month-on-month improvement in disbursements is being observed, and management expects a significant step-up in 3Q.
- The company is actively working to increase the contribution from new-to-credit (NTC) customers and sees improving underwriting confidence in this segment.
- Over the next 1-1.5 quarters, ~75% of disbursements are expected to be to existing customers. From 4Q onward, this ratio is likely to move toward ~65% existing customers, with the balance comprising new-to-Fusion and NTC customers.

### Strategic Outlook

- Internal models suggest credit costs could trend below 2.5%, although a more realistic near-term assumption remains ~3.5%.
- Strategic priorities for FY26 and beyond include accelerating customer acquisition and expanding presence across identified high-potential districts.
- The company continues to strengthen its underwriting and analytics models, which it believes are now stronger than most industry peers.
- Investments in people capability and AI-led process enablement remain a cornerstone of the operating model.
- Strengthening of capital position remains a key pillar for the next growth phase. The next tranche of the rights issue (INR4b) has been called, reflecting confidence in business performance and capital positioning.
- The MFI business has stabilized, and the MSME business is emerging as a strong second growth engine.
- The company expects meaningful book rebuilding next year, supported by improving disbursements.
- Book growth is expected to start turning positive around December-January.
- Once monthly disbursements reach the INR7-8b run-rate, the current team capacity is expected to be sufficient, leading to operating leverage and opex improvement.

### Margins and Cost of Funds

- Cost of funds remained broadly stable at 10.35% during the quarter. Marginal cost of funds declined to 12.9%. Marginal cost of funds is expected to trend lower over the next few quarters.
- NIM improved to 10.9% supported by higher yields on incremental disbursements and lower income reversal from Stage 3 accounts.

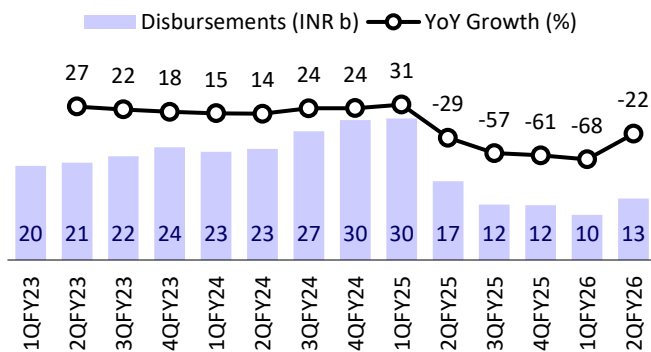
- Yields on new loans are the easiest lever to adjust, and internal discussions are currently underway regarding pricing strategy for new and NTC customers.
- Industry-wide, many players have increased rates by 75bps to 300bps for NTC customers.
- Some MFI players are currently facing borrowing challenges.
- The company raised INR14b during the quarter and continues to have access to funding. Additional disbursement capacity will be supported by INR4b from the rights issue.
- Sanctions in hand amount to INR27.3b, indicating adequate liquidity for near-term growth.
- The company aims to broadly maintain NIM within  $\pm 10$  bps of current levels.
- The majority of borrowings during the quarter were fixed-rate, with only INR4-4.5b raised via variable-rate nature.

### Technology

- The company is enhancing origination and servicing systems using AI for real-time KYC validation and process automation.
- AI model training is currently progressing well, and early results are encouraging.
- 90+ DPD recoveries maintained strong momentum; 30+ DPD performance outperformed the industry by 10-12%.

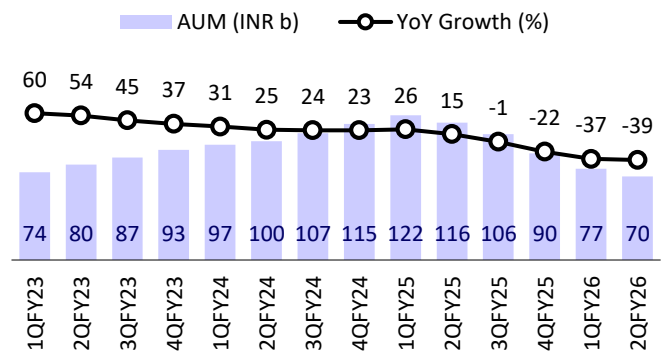
## Story in charts

**Exhibit 1: Disbursements declined 22% YoY...**



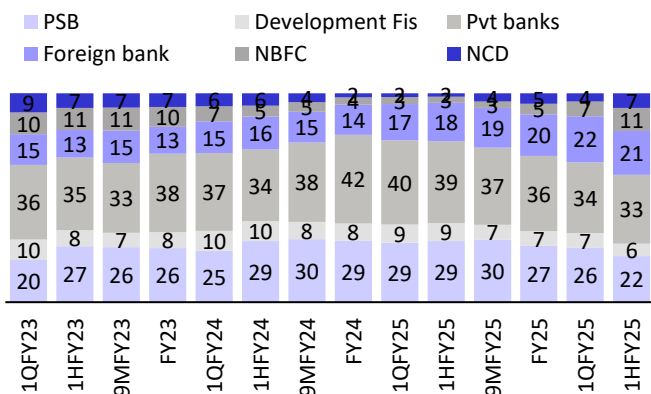
Source: MOFSL, Company

**Exhibit 2: ...leading to a decline of ~39% YoY in AUM**



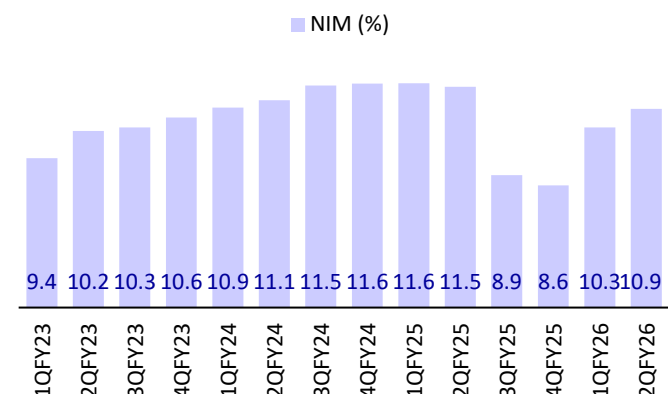
Source: MOFSL, Company

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



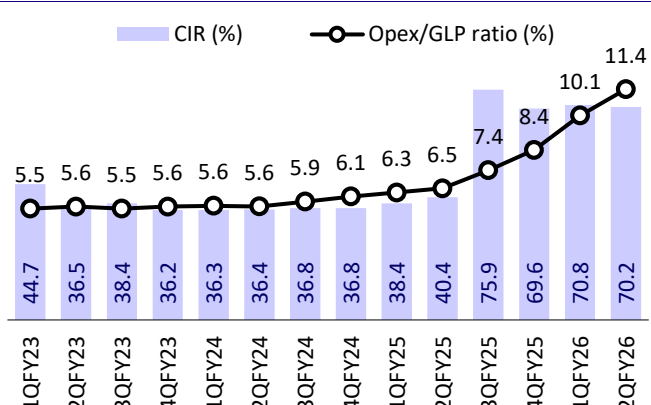
Source: MOFSL, Company

**Exhibit 4: Reported NIM rose ~55bp QoQ (%)**



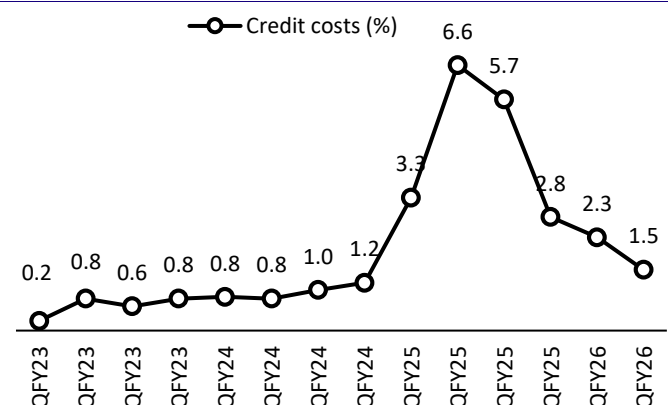
Source: MOFSL, Company

**Exhibit 5: Opex/AUM rose ~130bp QoQ (%)**



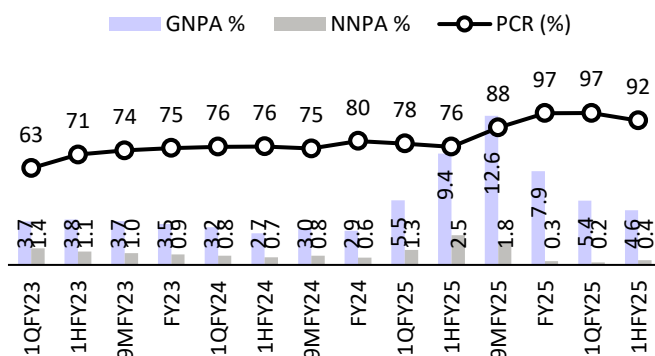
Source: MOFSL, Company

**Exhibit 6: Credit costs declined to ~1.5% in 2QFY26**



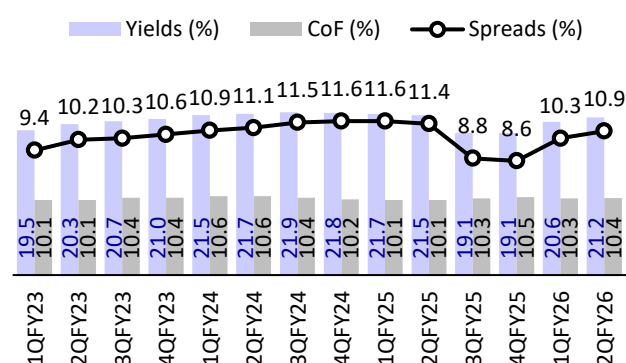
Source: MOFSL, Company

**Exhibit 7: GS3 declined ~80bp QoQ to 4.6% (%)**



Source: MOFSL, Company

**Exhibit 8: Spreads rose ~55bp QoQ**



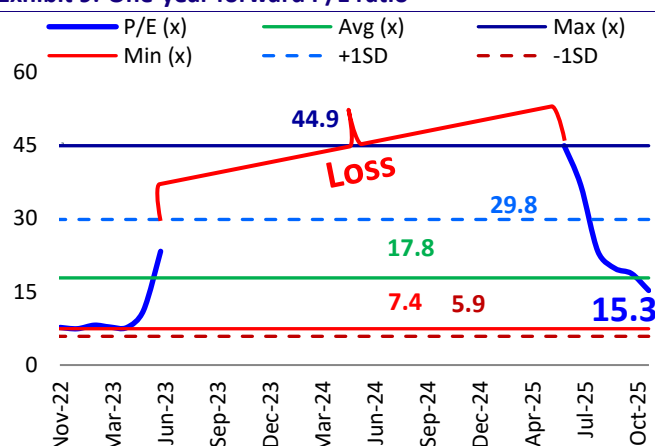
Source: MOFSL, Company

**We cut our FY26 and FY27 EPS estimates to factor in lower AUM growth and slightly higher opex and credit costs**

| INR B                    | Old Est.    |             |             | New Est.    |             |             | % Change    |              |             |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|
|                          | FY26        | FY27        | FY28        | FY26        | FY27        | FY28        | FY26        | FY27         | FY28        |
| NII                      | 10.6        | 11.1        | 13.7        | 10.0        | 10.7        | 13.1        | -5.7        | -3.7         | -4.9        |
| Other Income             | 1.6         | 2.1         | 2.8         | 2.1         | 2.5         | 3.1         | 27.4        | 16.8         | 10.0        |
| <b>Total Income</b>      | <b>12.3</b> | <b>13.3</b> | <b>16.6</b> | <b>12.1</b> | <b>13.2</b> | <b>16.2</b> | <b>-1.3</b> | <b>-0.4</b>  | <b>-2.4</b> |
| Operating Expenses       | 8.0         | 7.7         | 8.5         | 8.2         | 7.9         | 8.5         | 2.8         | 2.4          | 0.3         |
| <b>Operating Profits</b> | <b>4.3</b>  | <b>5.6</b>  | <b>8.1</b>  | <b>3.9</b>  | <b>5.3</b>  | <b>7.7</b>  | <b>-9.0</b> | <b>-4.2</b>  | <b>-5.1</b> |
| Provisions               | 4.2         | 2.4         | 2.8         | 4.2         | 2.5         | 2.8         | 1.9         | 6.5          | 2.5         |
| <b>PBT</b>               | <b>0.1</b>  | <b>3.2</b>  | <b>5.4</b>  | <b>-0.4</b> | <b>2.8</b>  | <b>4.9</b>  | <b>-</b>    | <b>-12.0</b> | <b>-9.1</b> |
| Tax                      | 0.0         | 0.0         | 1.0         | -0.1        | 0.0         | 0.9         | -           | -            | -9.1        |
| <b>PAT</b>               | <b>0.1</b>  | <b>3.2</b>  | <b>4.4</b>  | <b>-0.3</b> | <b>2.8</b>  | <b>4.0</b>  | <b>-</b>    | <b>-12.0</b> | <b>-9.1</b> |
| AUM                      | 76          | 93          | 113         | 74          | 90          | 111         | -2.3        | -2.6         | -2.6        |
| Borrowings               | 47          | 55          | 68          | 44          | 54          | 69          | -5.5        | -1.8         | 1.4         |
| RoA                      | 0.1         | 4.1         | 4.6         | -0.4        | 3.6         | 4.2         | -           | -11.6        | -8.1        |
| RoE                      | 0.4         | 13.4        | 14.7        | -1.6        | 11.1        | 13.8        | -           | -16.8        | -6.0        |

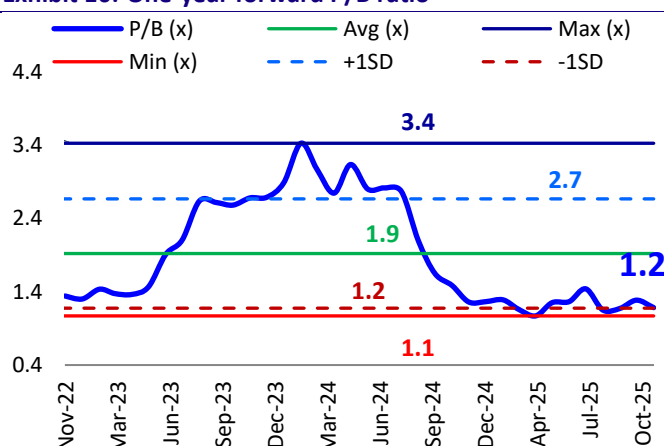
Source: MOFSL, Company

**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                  | FY18         | FY19        | FY20        | FY21       | FY22        | FY23        | FY24        | FY25         | FY26E       | FY27E       | FY28E       |
|----------------------------|--------------|-------------|-------------|------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Interest Income            | 16.2         | 17.0        | 17.0        | 16.4       | 16.2        | 19.2        | 19.8        | 21.3         | 19.9        | 20.3        | 20.5        |
| Interest Expended          | 8.7          | 9.2         | 8.6         | 7.4        | 7.6         | 7.7         | 7.5         | 8.4          | 6.9         | 6.6         | 6.7         |
| <b>Net Interest Income</b> | <b>7.5</b>   | <b>7.8</b>  | <b>8.4</b>  | <b>9.0</b> | <b>8.7</b>  | <b>11.5</b> | <b>12.3</b> | <b>12.9</b>  | <b>13.0</b> | <b>13.7</b> | <b>13.8</b> |
| Other Operating Income     | 0.8          | 0.9         | 1.4         | 0.6        | 1.3         | 1.7         | 2.1         | 1.8          | 1.2         | 1.6         | 1.8         |
| Other Income               | 0.0          | 0.1         | 0.3         | 0.3        | 0.8         | 0.7         | 0.9         | 0.5          | 1.5         | 1.6         | 1.5         |
| <b>Net Income</b>          | <b>8.3</b>   | <b>8.8</b>  | <b>10.0</b> | <b>9.9</b> | <b>10.7</b> | <b>13.9</b> | <b>15.3</b> | <b>15.2</b>  | <b>15.7</b> | <b>16.9</b> | <b>17.1</b> |
| Operating Expenses         | 10.3         | 5.6         | 5.1         | 4.4        | 4.8         | 5.3         | 5.6         | 7.9          | 10.7        | 10.1        | 9.0         |
| <b>Operating Income</b>    | <b>-2.0</b>  | <b>3.2</b>  | <b>4.9</b>  | <b>5.5</b> | <b>6.0</b>  | <b>8.6</b>  | <b>9.7</b>  | <b>7.3</b>   | <b>5.0</b>  | <b>6.8</b>  | <b>8.2</b>  |
| Provisions/write offs      | 1.4          | 0.7         | 2.4         | 4.4        | 5.6         | 2.4         | 3.5         | 18.6         | 5.5         | 3.2         | 3.0         |
| <b>PBT</b>                 | <b>-3.4</b>  | <b>2.5</b>  | <b>2.5</b>  | <b>1.1</b> | <b>0.4</b>  | <b>6.1</b>  | <b>6.3</b>  | <b>-11.3</b> | <b>-0.5</b> | <b>3.6</b>  | <b>5.2</b>  |
| Tax                        | -0.9         | 0.6         | 0.8         | 0.3        | 0.0         | 1.5         | 1.5         | 0.9          | -0.1        | 0.0         | 0.9         |
| <b>RoA</b>                 | <b>-2.5</b>  | <b>1.8</b>  | <b>1.8</b>  | <b>0.9</b> | <b>0.3</b>  | <b>4.6</b>  | <b>4.8</b>  | <b>-12.2</b> | <b>-0.4</b> | <b>3.6</b>  | <b>4.2</b>  |
| Leverage                   | 6.3          | 6.2         | 4.3         | 4.1        | 5.1         | 4.6         | 4.1         | 4.5          | 3.8         | 3.1         | 3.3         |
| <b>RoE</b>                 | <b>-15.9</b> | <b>11.3</b> | <b>7.6</b>  | <b>3.6</b> | <b>1.7</b>  | <b>21.2</b> | <b>19.5</b> | <b>-54.5</b> | <b>-1.6</b> | <b>11.1</b> | <b>13.8</b> |

## Financials and valuations

| Income Statement           |              |              |              |              |               |               |                |               |               | (INR M)       |
|----------------------------|--------------|--------------|--------------|--------------|---------------|---------------|----------------|---------------|---------------|---------------|
| Y/E March                  | FY19         | FY20         | FY21         | FY22         | FY23          | FY24          | FY25           | FY26E         | FY27E         | FY28E         |
| Interest Income            | 4,694        | 6,665        | 8,276        | 10,643       | 16,001        | 20,919        | 21,342         | 15,364        | 15,864        | 19,338        |
| Interest Expenses          | 2,540        | 3,377        | 3,751        | 4,960        | 6,428         | 7,908         | 8,439          | 5,334         | 5,165         | 6,281         |
| <b>Net Interest Income</b> | <b>2,154</b> | <b>3,288</b> | <b>4,525</b> | <b>5,684</b> | <b>9,573</b>  | <b>13,011</b> | <b>12,904</b>  | <b>10,030</b> | <b>10,699</b> | <b>13,056</b> |
| Change (%)                 | 82.7         | 52.7         | 37.6         | 25.6         | 68.4          | 35.9          | -0.8           | -22.3         | 6.7           | 22.0          |
| Other Operating Income     | 249          | 538          | 282          | 869          | 1,418         | 2,248         | 1,855          | 929           | 1,236         | 1,719         |
| Other Income               | 27           | 100          | 173          | 501          | 580           | 957           | 491            | 1,155         | 1,270         | 1,410         |
| <b>Net Income</b>          | <b>2,431</b> | <b>3,926</b> | <b>4,980</b> | <b>7,054</b> | <b>11,572</b> | <b>16,216</b> | <b>15,250</b>  | <b>12,113</b> | <b>13,205</b> | <b>16,185</b> |
| Change (%)                 | 86.0         |              | 26.8         | 41.6         | 64.1          | 40.1          | -6.0           | -20.6         | 9.0           | 22.6          |
| <b>Operating Expenses</b>  | <b>1,540</b> | <b>1,999</b> | <b>2,204</b> | <b>3,123</b> | <b>4,448</b>  | <b>5,935</b>  | <b>7,886</b>   | <b>8,245</b>  | <b>7,864</b>  | <b>8,483</b>  |
| Change (%)                 | -5.2         |              | 10.2         | 41.7         | 42.5          | 33.4          | 32.9           | 4.6           | -4.6          | 7.9           |
| Employee Expenses          | 1,033        | 1,483        | 1,686        | 2,331        | 3,255         | 4,312         | 5,732          | 6,048         | 5,564         | 6,009         |
| Depreciation               | 24           | 26           | 39           | 54           | 74            | 90            | 117            | 140           | 161           | 185           |
| Other Operating Expenses   | 483          | 490          | 479          | 738          | 1,119         | 1,532         | 2,037          | 2,057         | 2,139         | 2,289         |
| <b>Operating Income</b>    | <b>891</b>   | <b>1,927</b> | <b>2,776</b> | <b>3,931</b> | <b>7,124</b>  | <b>10,281</b> | <b>7,365</b>   | <b>3,869</b>  | <b>5,341</b>  | <b>7,702</b>  |
| Change (%)                 | -381.4       |              | 44.0         | 41.6         | 81.2          | 44.3          | -28.4          | -47.5         | 38.1          | 44.2          |
| Provisions and w/offs      | 207          | 927          | 2,208        | 3,687        | 2,004         | 3,649         | 18,695         | 4,247         | 2,505         | 2,822         |
| <b>PBT</b>                 | <b>684</b>   | <b>1,000</b> | <b>568</b>   | <b>244</b>   | <b>5,120</b>  | <b>6,633</b>  | <b>-11,330</b> | <b>-378</b>   | <b>2,836</b>  | <b>4,880</b>  |
| Tax Provisions             | 177          | 304          | 128          | 27           | 1,248         | 1,580         | 915            | -57           | 0             | 878           |
| Tax Rate (%)               | 25.9         | 30.4         | 22.6         | 10.9         | 24.4          | 23.8          | -8.1           | 15.0          | 0.0           | 18.0          |
| <b>PAT</b>                 | <b>507</b>   | <b>696</b>   | <b>439</b>   | <b>218</b>   | <b>3,871</b>  | <b>5,053</b>  | <b>-12,245</b> | <b>-321</b>   | <b>2,836</b>  | <b>4,002</b>  |
| Change (%)                 | -229         | 37           | -37          | -50          | 1,680         | 31            | -342           | -             | -982          | 41            |

| Balance Sheet                |               |               |               |               |               |                 |               |               |               | (INR M)         |
|------------------------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|---------------|---------------|-----------------|
| Y/E March                    | FY19          | FY20          | FY21          | FY22          | FY23          | FY24            | FY25          | FY26E         | FY27E         | FY28E           |
| Equity Share Capital         | 616           | 790           | 790           | 828           | 1,003         | 1,006           | 1,006         | 1,617         | 1,617         | 1,617           |
| Reserves & Surplus           | 5,643         | 11,199        | 11,673        | 12,552        | 22,216        | 27,475          | 15,427        | 22,493        | 25,329        | 29,331          |
| <b>Net Worth</b>             | <b>6,259</b>  | <b>11,989</b> | <b>12,464</b> | <b>13,380</b> | <b>23,219</b> | <b>28,482</b>   | <b>16,433</b> | <b>24,110</b> | <b>26,946</b> | <b>30,948</b>   |
| <b>Borrowings</b>            | <b>29,286</b> | <b>29,737</b> | <b>44,323</b> | <b>57,758</b> | <b>67,784</b> | <b>86,159</b>   | <b>64,020</b> | <b>44,279</b> | <b>54,096</b> | <b>69,070</b>   |
| Change (%)                   | 83.3          |               | 49.0          | 30.3          | 17.4          | 27.1            | -25.7         | -30.8         | 22.2          | 27.7            |
| Other liabilities            | 561           | 674           | 1,593         | 1,767         | 2,632         | 3,103           | 2,473         | 2,968         | 3,562         | 4,274           |
| <b>Total Liabilities</b>     | <b>36,105</b> | <b>42,400</b> | <b>58,379</b> | <b>72,905</b> | <b>93,635</b> | <b>1,17,743</b> | <b>82,927</b> | <b>71,357</b> | <b>84,604</b> | <b>1,04,292</b> |
| <b>Cash and Bank balance</b> | <b>9,905</b>  | <b>8,177</b>  | <b>13,353</b> | <b>11,536</b> | <b>10,650</b> | <b>15,532</b>   | <b>8,531</b>  | <b>8,394</b>  | <b>7,252</b>  | <b>8,932</b>    |
| Investments                  | 5             | 5             | 0             | 0             | 0             | 21              | 21            | 21            | 21            | 21              |
| <b>Loans</b>                 | <b>25,720</b> | <b>33,430</b> | <b>43,607</b> | <b>59,182</b> | <b>80,416</b> | <b>99,479</b>   | <b>72,612</b> | <b>60,987</b> | <b>75,181</b> | <b>92,974</b>   |
| Change (%)                   | 99.2          |               | 30.4          | 35.7          | 35.9          | 23.7            | -27.0         | -16.0         | 23.3          | 23.7            |
| Fixed Assets                 | 55            | 60            | 183           | 192           | 212           | 224             | 298           | 343           | 377           | 415             |
| Other Assets                 | 420           | 727           | 1,237         | 1,995         | 2,357         | 2,488           | 1,466         | 1,612         | 1,774         | 1,951           |
| <b>Total Assets</b>          | <b>36,105</b> | <b>42,400</b> | <b>58,379</b> | <b>72,905</b> | <b>93,635</b> | <b>1,17,743</b> | <b>82,927</b> | <b>71,357</b> | <b>84,604</b> | <b>1,04,292</b> |

E: MOFSL Estimates

| AUM and Disbursements |               |               |               |               |               |                 |               |               |               | (INR M)         |
|-----------------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|---------------|---------------|-----------------|
| Y/E March             | FY19          | FY20          | FY21          | FY22          | FY23          | FY24            | FY25          | FY26E         | FY27E         | FY28E           |
| <b>AUM</b>            | <b>26,414</b> | <b>36,065</b> | <b>46,378</b> | <b>67,860</b> | <b>92,960</b> | <b>1,14,761</b> | <b>89,800</b> | <b>74,045</b> | <b>90,159</b> | <b>1,10,513</b> |
| YoY Growth (%)        | <b>70</b>     | <b>37</b>     | <b>29</b>     | <b>46</b>     | <b>37</b>     | <b>23</b>       | <b>-22</b>    | <b>-18</b>    | <b>22</b>     | <b>23</b>       |
| <b>Disbursements</b>  | <b>25,720</b> | <b>35,740</b> | <b>37,103</b> | <b>61,798</b> | <b>85,962</b> | <b>1,02,945</b> | <b>69,710</b> | <b>57,162</b> | <b>78,312</b> | <b>97,890</b>   |
| YoY Growth (%)        | <b>99</b>     | <b>39</b>     | <b>4</b>      | <b>67</b>     | <b>39</b>     | <b>20</b>       | <b>-32</b>    | <b>-18</b>    | <b>37</b>     | <b>25</b>       |

E: MOFSL Estimates

## Financials and valuations

### Ratios

| Y/E March                   | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|-----------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| <b>Spreads Analysis (%)</b> |      |      |      |      |      |      |      |       |       |       |
| Avg. Yield on Loans         | 24.3 | 22.5 | 21.5 | 20.7 | 22.9 | 23.3 | 24.8 | 23.0  | 23.3  | 23.0  |
| Avg Cost of Funds           | 11.2 | 11.4 | 10.1 | 9.7  | 10.2 | 10.3 | 11.2 | 9.9   | 10.5  | 10.2  |
| Spread of loans             | 13.1 | 11.1 | 11.4 | 11.0 | 12.7 | 13.0 | 13.6 | 13.2  | 12.8  | 12.8  |
| NIM (on gross loans)        | 10.9 | 11.0 | 11.5 | 10.6 | 13.3 | 14.1 | 14.3 | 13.9  | 14.7  | 14.8  |

### Profitability Ratios (%)

|                            |      |      |      |      |      |      |       |      |      |      |
|----------------------------|------|------|------|------|------|------|-------|------|------|------|
| RoA                        | 1.8  | 1.8  | 0.9  | 0.3  | 4.6  | 4.8  | -12.2 | -0.4 | 3.6  | 4.2  |
| RoE                        | 11.3 | 7.6  | 3.6  | 1.7  | 21.2 | 19.5 | -54.5 | -1.6 | 11.1 | 13.8 |
| Debt: Equity (x)           | 4.7  | 2.5  | 3.6  | 4.3  | 2.9  | 3.0  | 3.9   | 1.8  | 2.0  | 2.2  |
| Leverage (x)               | 5.8  | 3.5  | 4.7  | 5.4  | 4.0  | 4.1  | 5.0   | 3.0  | 3.1  | 3.4  |
| CAR                        | 26.9 | 35.8 | 27.3 | 21.9 | 27.9 | 26.1 | 19.2  | 33.5 | 30.9 | 0.0  |
| o/w Tier 1                 | 23.8 | 33.1 | 25.5 | 19.9 | 26.6 | 25.5 | 18.6  | 32.7 | 30.3 | 0.0  |
| Int. Expended / Int.Earned | 54.1 | 50.7 | 45.3 | 46.6 | 40.2 | 37.8 | 39.5  | 34.7 | 32.6 | 32.5 |
| Other Inc. / Net Income    | 11.4 | 16.3 | 9.1  | 19.4 | 17.3 | 19.8 | 15.4  | 17.2 | 19.0 | 19.3 |

### Efficiency Ratios (%)

|                          |      |      |      |      |      |      |      |      |      |      |
|--------------------------|------|------|------|------|------|------|------|------|------|------|
| Int. Expended/Int.Earned |      |      |      |      |      |      |      |      |      |      |
| CIR                      | 63.4 | 50.9 | 44.3 | 44.3 | 38.4 | 36.6 | 51.7 | 68.1 | 59.6 | 52.4 |
| Opex/ AUM                | 7.3  | 6.4  | 5.3  | 5.5  | 5.5  | 5.7  | 7.7  | 10.1 | 9.6  | 8.5  |
| Empl. Cost/Op. Exps.     | 67.1 | 74.2 | 76.5 | 74.6 | 73.2 | 72.7 | 72.7 | 73.4 | 70.8 | 70.8 |

### Asset Quality

|                  |     |     |       |       |       |       |       |       |       |       |
|------------------|-----|-----|-------|-------|-------|-------|-------|-------|-------|-------|
| GNPA (INR m)     | 404 | 384 | 2,559 | 3,584 | 2,889 | 2,973 | 6,457 | 3,043 | 2,434 | 2,511 |
| NNPA (INR m)     | 145 | 130 | 1,024 | 1,030 | 708   | 603   | 224   | 274   | 292   | 502   |
| GNPA (%)         | 1.5 | 1.1 | 5.5   | 5.7   | 3.5   | 2.9   | 7.9   | 4.5   | 3.0   | 2.5   |
| NNPA (%)         | 0.6 | 0.4 | 2.3   | 1.7   | 0.9   | 0.6   | 0.3   | 0.4   | 0.3   | 0.5   |
| PCR (%)          | 64  | 66  | 60    | 71    | 75    | 80    | 97    | 91    | 88    | 80    |
| Credit costs (%) | 1.0 | 3.1 | 5.6   | 6.9   | 2.8   | 4.0   | 20.7  | 5.9   | 3.5   | 3.2   |

| Valuations       | FY19       | FY20       | FY21       | FY22       | FY23       | FY24       | FY25       | FY26E      | FY27E      | FY28E      |
|------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Book Value (INR) | 102        | 152        | 158        | 162        | 231        | 283        | 163        | 149        | 167        | 191        |
| BV Growth (%)    | 64         | 49         | 4          | 3          | 43         | 22         | -42        | -9         | 12         | 15         |
| <b>P/BV</b>      | <b>1.6</b> | <b>1.1</b> | <b>1.1</b> | <b>1.0</b> | <b>0.7</b> | <b>0.6</b> | <b>1.0</b> | <b>1.1</b> | <b>1.0</b> | <b>0.9</b> |

|                           |             |             |             |             |            |            |          |          |            |            |
|---------------------------|-------------|-------------|-------------|-------------|------------|------------|----------|----------|------------|------------|
| EPS (INR)                 | 8           | 9           | 6           | 3           | 39         | 50         | -122     | -2.0     | 18         | 25         |
| EPS Growth (%)            |             | 7           | -37         | -53         | 1368       | 30         | -        | -        | -          | -          |
| <b>Price-Earnings (x)</b> | <b>20.3</b> | <b>18.9</b> | <b>30.0</b> | <b>63.5</b> | <b>4.3</b> | <b>3.3</b> | <b>-</b> | <b>-</b> | <b>9.5</b> | <b>6.7</b> |

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| 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 |

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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