

13 September 2023

India | Equity Research | Company Update

Fusion Micro Finance

Financial Services

Focus on becoming trusted financial service provider to rural India, sustaining profitability

In its FY23 annual report, Fusion Microfinance (Fusion) has highlighted its commitment towards becoming a trusted financial service provider to rural India and also sustain industry-leading profitability going forward. While microfinance continues to be the core of the business, MSME vertical is gaining strong traction as reflected in INR 2.2bn disbursements in FY23, taking MSME AUM to INR 3bn as on Mar'23. Incremental AUM growth in FY23 remained broad-based with the north region contributing 37% of disbursements, east - 39%, central - 18% and south - 7%. As of Mar 31, '23, 93% of its total customers and 63.3% of total branches are from rural areas. As per CRIF report, rural markets grew 22% YoY vs 11% for urban market during FY23. Maintain **BUY** with an unchanged TP of INR 800 as we value the stock at 2.5x Sep'24E BVPS.

Women borrowers in India stood at 63mn (28% of total borrowers), growing at 15% over the past 5 years

As per the report by TransUnion CIBIL, the number of women borrowers in India stand at 63mn, representing 28% of total borrowers in the country, and has been growing at 15% CAGR over the last five years. Notably, the share of women borrowers in semi-urban and rural locations grew at 18% CAGR between CY2017-22 vs 14% growth in metro and urban areas. Total 400mn women reside in rural India.

Rising penetration to support 20-22% growth for NBFCs-MFIs

CRISIL Research expects MFI industry to grow at 18-20% CAGR between FY22-25 and NBFCs-MFIs are likely to grow at a much faster rate of 20-22% during the same period. It also expects the overall portfolio size to reach INR 5.0trn by FY25.

Elevated write-offs and slippages, but significantly lower than FY22 levels

Quality underwriting, stable management team and strong rural presence (less vulnerable than urban) have helped Fusion in managing stress asset formation in FY23 as reflected in gross slippage ratio moderating to 2.2% in FY23 vs 6.9% in FY22 and write-offs at 3% in FY23 vs 5% in FY22.

Key risks: 1) AUM growth deceleration and 2) stress unfolding higher than anticipation.

Financial Summary

Y/E 2023 (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	5,607	9,573	12,135	15,688
PAT (INR mn)	217	3,872	5,235	6,984
EPS (INR)	2.6	38.6	52.2	69.6
% Chg YoY	(52.9)	1,372.8	35.2	33.4
P/E (x)	245.4	16.7	12.3	9.2
P/BV (x)	4.0	2.8	2.3	1.8
Gross Stage - 3 (%)	5.7	3.5	2.7	2.7
Book value per share (INR)	161.7	231.4	283.6	353.2
RoAA (%)	0.3	4.6	4.7	4.8
RoAE (%)	1.7	21.2	20.3	21.9

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Market Data

Market Cap (INR)	65bn
Market Cap (USD)	782mn
Bloomberg Code	FUSION IN
Reuters Code	
52-week Range (INR)	691 / 321
Free Float (%)	32.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	46.9	59.4	0.0
Relative to Sensex	7.4	8.2	13.2

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

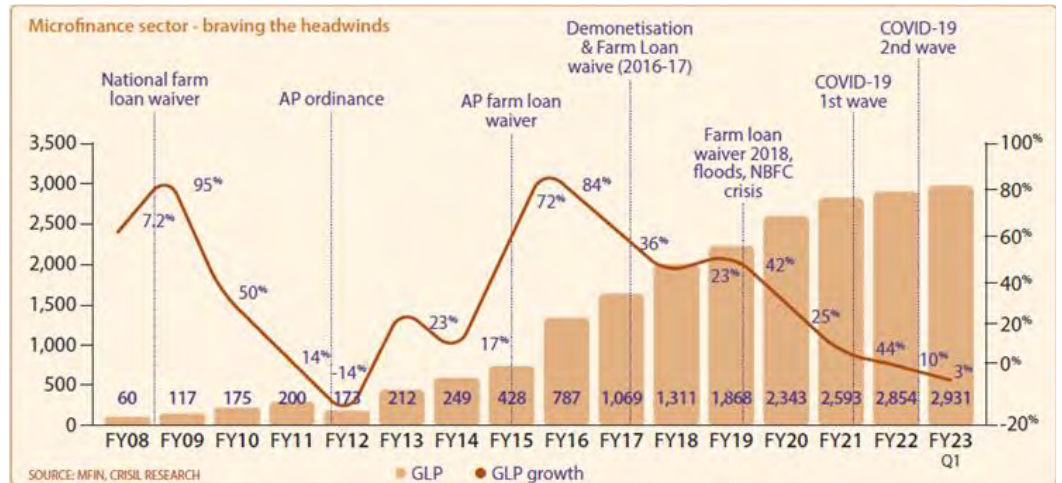
Source: Bloomberg, I-sec research

Previous Reports

04-08-2023: [Q1FY24 results review](#)

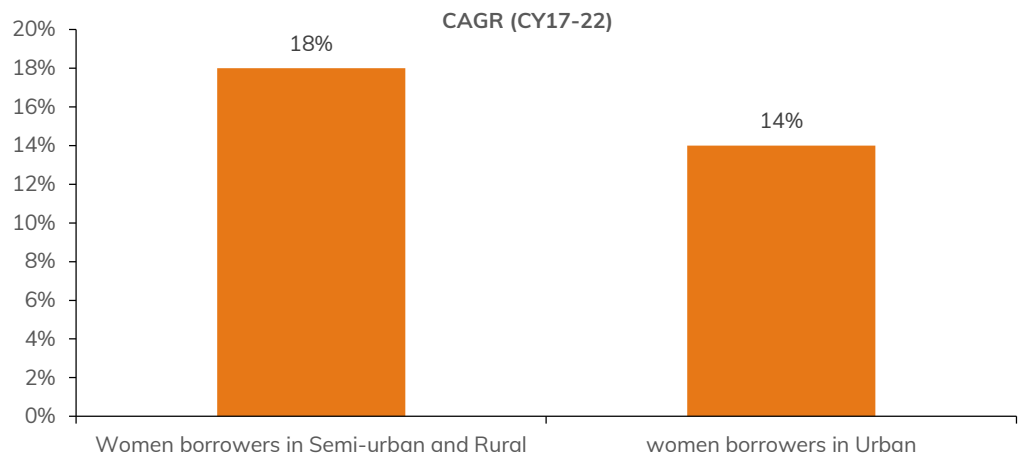
24-05-2023: [Q4FY23 results review](#)

Exhibit 1: Microfinance segment showed strong resiliency as reflected in steady AUM growth despite a series of challenging events during the last decade



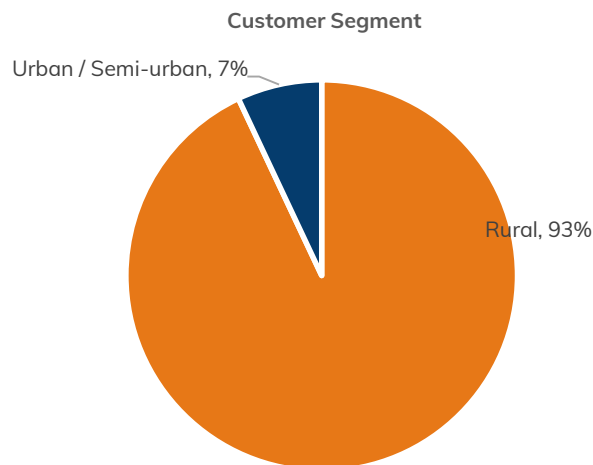
Source: Company data

Exhibit 2: Growth in rural women borrower base is outpacing urban women borrower base



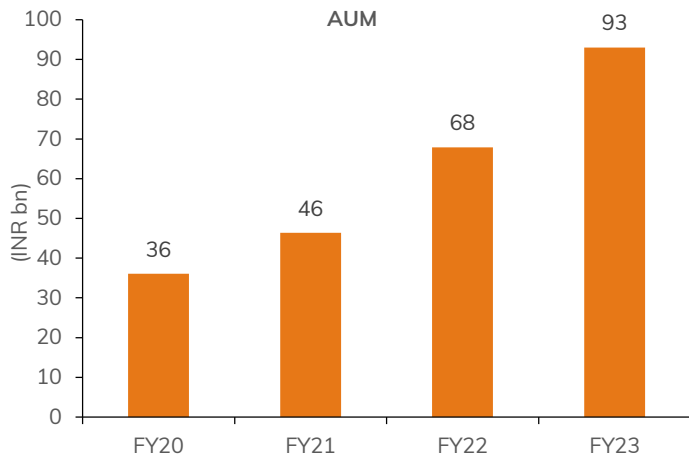
Source: Company data, I-Sec research

Exhibit 3: Fusion continued to focus on under-penetrated markets as reflected in >90% of its customer base located in rural areas



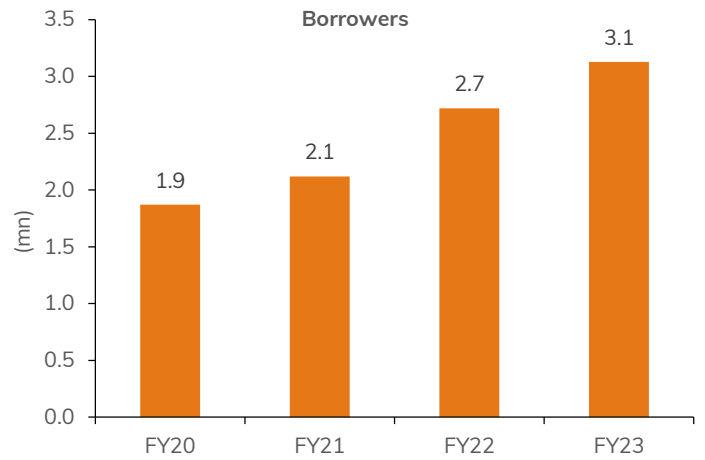
Source: Company data, I-Sec research

Exhibit 4: Fusion has delivered steady AUM growth at 37% CAGR between FY20-23 despite covid-led challenges...



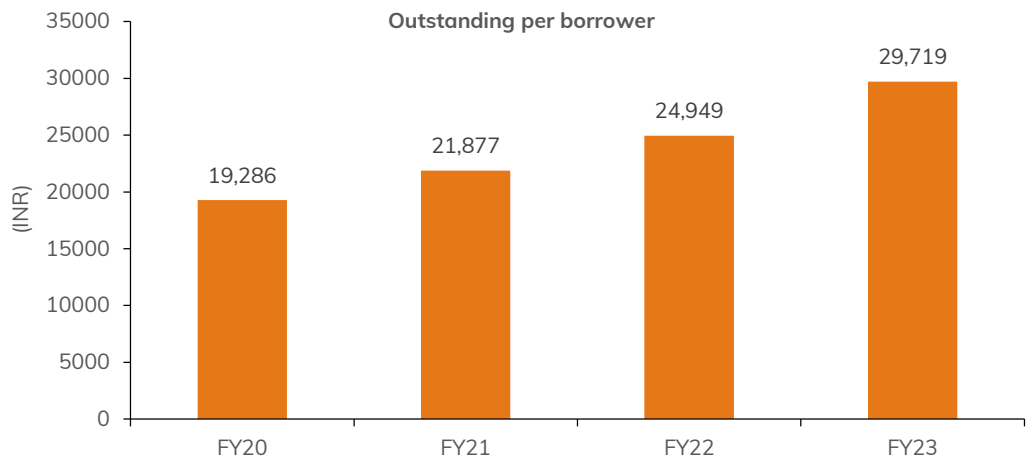
Source: Company data, I-Sec research

Exhibit 5: ...driven by new customer acquisition as reflected in borrower base increasing by 15% YoY in FY23



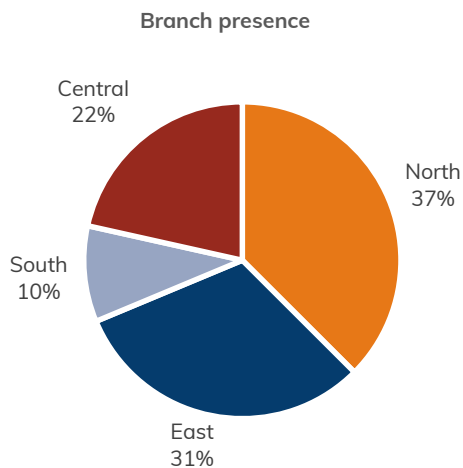
Source: Company data, I-Sec research

Exhibit 6: Outstanding per borrower at INR 29,719 as on Mar'23 is significantly lower than industry average

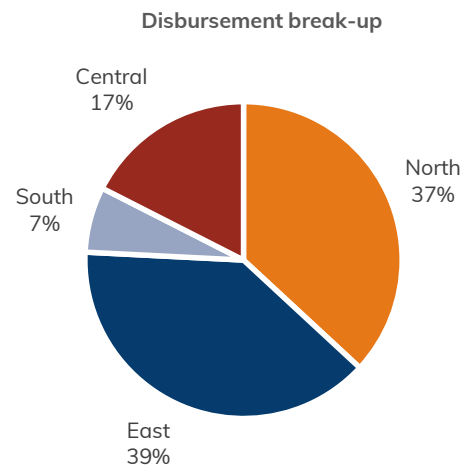


Source: Company data, I-Sec research

Exhibit 7: North and East remain key operating geographies as reflected in combined branch network in these 2 regions contributing 69% of total branches

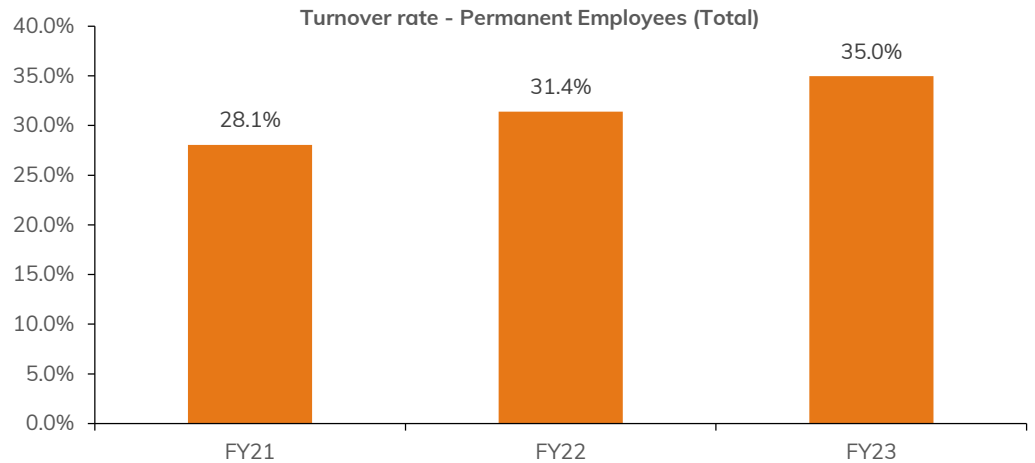


Source: Company data, I-Sec research



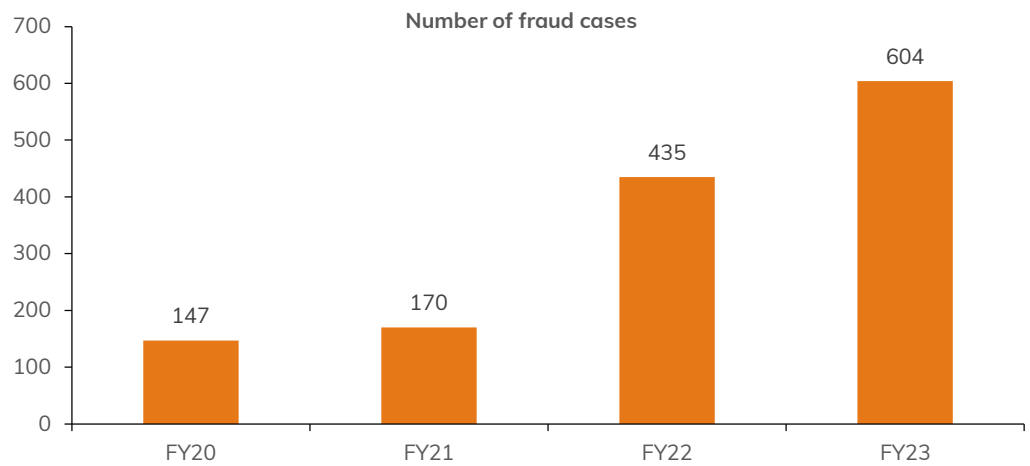
Source: Company data, I-Sec research

Exhibit 8: Attrition rate has increased marginally post covid, but is broadly in-line with industry average



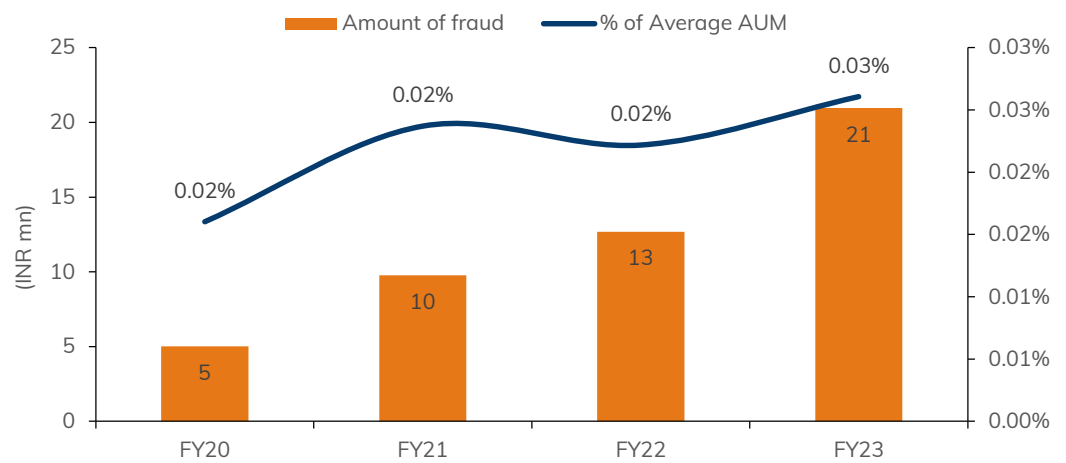
Source: Company data, I-Sec research

Exhibit 9: While the number of frauds increased in FY23...



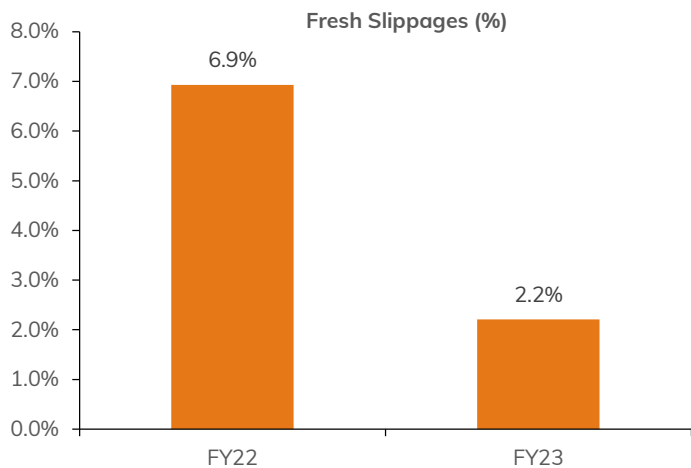
Source: Company data, I-Sec research

Exhibit 10: ...actual credit losses remained much lower at 2-3bps of AUM



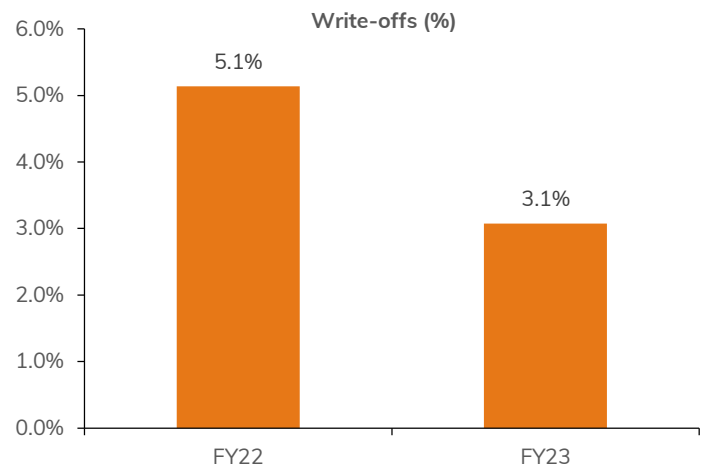
Source: Company data, I-Sec research

Exhibit 11: Fresh slippages moderated to 2% in FY23



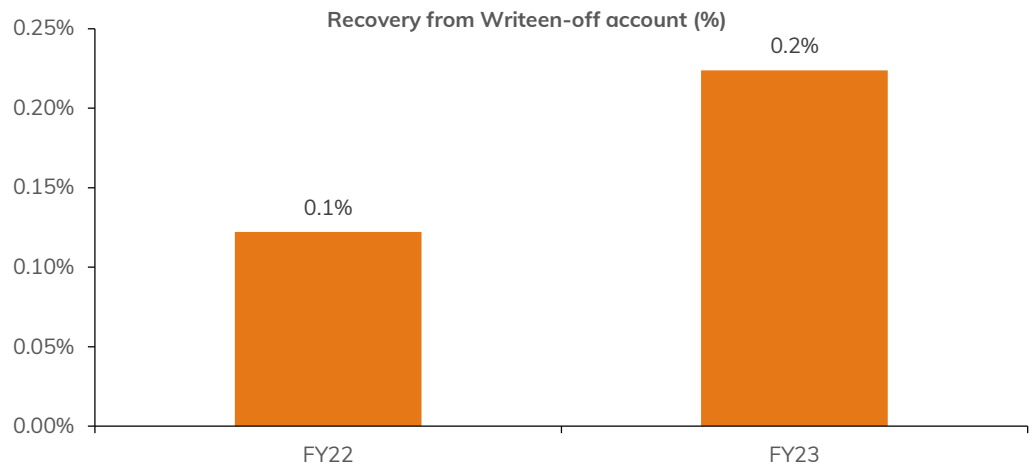
Source: Company data, I-Sec research

Exhibit 12: Write-offs too fell sharply to 3% in FY23 vs 5% in FY22



Source: Company data, I-Sec research

Exhibit 13: Accelerated write-offs in FY22 led to higher recovery in FY23



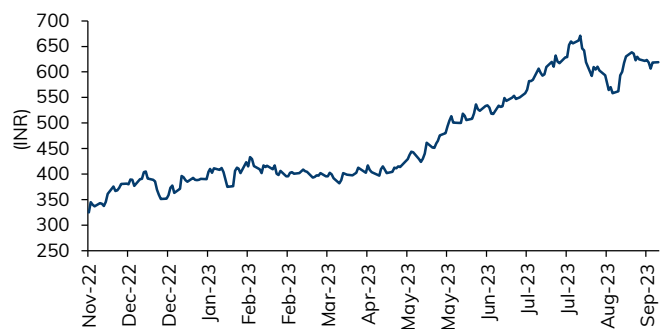
Source: Company data, I-Sec research

Exhibit 14: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	68.2	68.2	68.2
Institutional investors	18.1	19.5	20.9
MFs and other	9.6	9.9	11.2
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	2.3	2.9	2.9
FIIIs	6.2	6.7	6.8
Others	13.7	12.3	10.9

Source: Bloomberg, I-Sec research

Exhibit 15: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending 2023)

	FY22A	FY23A	FY24E	FY25E
Interest Income	10,566	16,001	21,443	27,463
Interest Expenses	(4,960)	(6,428)	(9,307)	(11,775)
Net Interest Income (NII)	5,607	9,573	12,135	15,688
Other Income	1,447	1,999	2,510	3,139
Total Income (net of interest expenses)	7,054	11,572	14,646	18,827
Employee benefit expenses	(2,331)	(3,255)	(4,079)	(5,035)
Depreciation and amortization	(54)	(74)	(96)	(120)
Other operating expenses	(738)	(1,119)	(1,456)	(1,820)
Total Operating Expense	(3,123)	(4,448)	(5,631)	(6,976)
Pre Provisioning Profits (PPoP)	3,931	7,124	9,014	11,852
Provisions and write offs	(3,687)	(2,004)	(2,092)	(2,616)
Profit before tax (PBT)	244	5,120	6,922	9,236
Total tax expenses	(27)	(1,248)	(1,688)	(2,252)
Profit after tax (PAT)	217	3,872	5,235	6,984

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending 2023)

	FY22A	FY23A	FY24E	FY25E
Share capital	828	1,003	1,003	1,003
Reserves & surplus	12,552	22,216	27,450	34,434
Shareholders' funds	13,380	23,219	28,454	35,438
Borrowings	59,092	70,175	99,049	1,25,238
Provisions & Other Liabilities	433	241	241	241
Total Liabilities and Stakeholder's Equity	72,905	93,635	1,27,744	1,60,917
Cash and balance with RBI	11,536	10,650	12,844	16,058
Fixed assets	122	133	139	146
Loans	59,182	80,416	98,802	1,23,521
Deferred tax assets (net)	868	777	785	793
Other Assets	1,197	1,659	15,173	20,398
Total Assets	72,905	93,635	1,27,744	1,60,917

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending 2023)

	FY22A	FY23A	FY24E	FY25E
AUM and Disbursements (INR mn)				
AUM	67,860	92,960	1,16,238	1,45,319
Disbursements	61,798	85,960	1,07,450	1,34,313
Repayments	40,316	60,860	84,172	1,05,231
Growth (%):				
Total AUM (%)	46.3	37.0	25.0	25.0
Disbursements (%)	67.0	39.1	25.0	25.0
Repayments (%)	51.0	51.0	38.3	25.0
Loan book (on balance sheet) (%)	46.3	37.0	25.0	25.0
Total Assets (%)	24.9	28.4	36.4	26.0
Net Interest Income (NII) (%)	30.1	70.8	26.8	29.3
Non-interest income (%)	115.7	38.1	25.6	25.0
Total Income (net of interest expenses) (%)	41.6	64.1	26.6	28.5
Operating Expenses (%)	41.7	42.5	26.6	23.9
Employee Cost (%)	38.2	39.7	25.3	23.4
Non-Employee Cost (%)	54.2	51.6	30.1	25.0
Pre provisioning operating profits (PPoP) (%)	41.6	81.2	26.5	31.5
Provisions (%)	67.0	(45.7)	4.4	25.0
PBT (%)	(57.0)	1,996.1	35.2	33.4
PAT (%)	(50.7)	1,685.7	35.2	33.4
EPS (%)	(52.9)	1,372.8	35.2	33.4
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	9.5	11.9	12.3	12.7
NIM on IEA (%)	8.1	10.5	10.4	10.8
NIM on AUM (%)	9.8	11.9	11.6	12.0
Yield on loan assets (%)	17.9	19.9	21.7	22.2
Yield on IEA (%)	15.2	17.5	18.4	18.9
Yield on AUM (%)	18.5	19.9	20.5	21.0
Cost of borrowings (%)	9.5	9.9	11.0	10.5
Interest Spreads (%)	9.0	10.0	9.5	10.5
Operating efficiencies				
Non interest income as % of total income	46.7	53.2	50.7	51.3
Cost to income ratio	44.3	38.4	38.5	37.1
Op.costs/avg assets (%)	4.8	5.3	5.1	4.8
Op.costs/avg AUM (%)	5.5	5.5	5.4	5.3
No of employees (estimate) (x)	8,704	-	-	-
No of branches (x)	934	339	-	-
Salaries as % of non-interest costs (%)	74.6	73.2	72.4	72.2
NII /employee (INR mn)	0.6	-	-	-
AUM/employee(INR mn)	7.8	-	-	-
AUM/ branch (INR mn)	72.7	274.2	-	-
Capital Structure				
Average gearing ratio (x)	4.4	3.0	3.5	3.5
Leverage (x)	5.4	4.0	4.5	4.5
CAR (%)	21.9	26.8	21.8	19.6
Tier 1 CAR (%)	19.9	25.3	20.9	18.9
Tier 2 CAR (%)	2.0	1.4	0.9	0.7
RWA (estimate) - INR mn	62,049	87,663	1,31,555	1,82,289
RWA as a % of loan assets	104.8	109.0	133.1	147.6

Source Company data, I-Sec research

	FY22A	FY23A	FY24E	FY25E
Asset quality and provisioning				
GNPA (%)	5.7	3.5	2.7	2.7
NNPA (%)	1.6	0.9	0.8	0.8
Coverage ratio (%)	71.9	74.9	70.4	70.4
Credit Costs as a % of avg AUM (bps)	645	249	200	200
Credit Costs as a % of avg on book loans (bps)	645	249	200	200
Return ratios				
RoAA (%)	0.3	4.6	4.7	4.8
RoAE (%)	1.7	21.2	20.3	21.9
ROAAUM (%)	0.4	4.8	5.0	5.3
Valuation Ratios				
No of shares	83	100	100	100
No of shares (fully diluted)	83	100	100	100
EPS (INR)	2.6	38.6	52.2	69.6
EPS fully diluted (INR)	2.6	38.6	52.2	69.6
Price to Earnings (x)	245.4	16.7	12.3	9.2
Price to Earnings (fully diluted) (x)	245.4	16.7	12.3	9.2
Book Value (fully diluted)	162	231	284	353
Adjusted book value	162	231	284	353
Price to Book	4.0	2.8	2.3	1.8
Price to Adjusted Book	4.0	2.8	2.3	1.8

Source Company data, I-Sec research

Exhibit 19: Key metrics

(Year ending 2023)

	FY22A	FY23A	FY24E	FY25E
DuPont Analysis				
Average Assets (INR mn)	65,642	83,270	1,10,690	1,44,330
Average Loans (INR mn)	51,395	69,799	89,609	1,11,162
Average Equity (INR mn)	12,922	18,299	25,836	31,946
Interest earned (%)	16.1	19.2	19.4	19.0
Interest expended (%)	7.6	7.7	8.4	8.2
Gross Interest Spread (%)	8.5	11.5	11.0	10.9
Credit cost (%)	5.6	2.4	1.9	1.8
Net Interest Spread (%)	2.9	9.1	9.1	9.1
Operating cost (%)	4.8	5.3	5.1	4.8
Lending spread (%)	(1.8)	3.7	4.0	4.2
Non interest income (%)	2.2	2.4	2.3	2.2
Operating Spread (%)	0.4	6.1	6.3	6.4
Tax rate (%)	11.2	24.4	24.4	24.4
ROAA (%)	0.3	4.6	4.7	4.8
Effective leverage (AA/ AE)	5.1	4.6	4.3	4.5
RoAE (%)	1.7	21.2	20.3	21.9

Source Company data, I-Sec research

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