

Turnaround to be prolonged and challenging

BFSI - NBFCs ▶ Management Meet Update ▶ June 29, 2025

CMP (Rs): 206 | TP (Rs): 170

We met with Fusion Finance's new CEO Sanjay Garyali (ex LTFH, Kotak), to understand his business turnaround plan. He indicated that immediate focus is on managing asset quality and restoring profitability, while adopting a disciplined and diversified portfolio growth approach in the long run. However, we believe the geographic/product diversification away from MFI would lead to elevated operational cost in the initial phase and hurt margins; this would in turn moderate the RoA/RoE trajectory (to 0.9-2.5%/4-10% over FY26-28E from the highs of ~5%/20-21% in FY23-24). Considering the easing going concern issues following the capital infusion (of Rs8bn) by pedigreed investors and the reducing incremental MFI stress flow, we haul up our TP by ~26% to Rs170 from Rs135, valuing Fusion at 1x FY27E ABV; we though retain REDUCE.

Focus on geographic/portfolio diversification to reduce portfolio cyclicity

The new CEO has an eclectic background, including his long stint at banks (KMB, HDFCB) in liability, at GE Capital in assets (housing, 2Ws, consumer finance), and at LTFH in urban finance. Current MD cum Founder Devesh Sachdev will relinquish his position and eventually assume the role of Non-Executive Chairman to preserve institutional expertise in the company. The new MD assured that though he has not directly run the MFI business, he has been part of many business build-up and transformational journeys; hence his expertise should help turn around Fusion. He indicated that the new stress flow rate is easing, though FY26 could largely be a year of consolidating the MFI portfolio, while the company would consciously focus on reducing its MFI portfolio concentration in the states of Bihar, MP, Gujarat, Rajasthan, Odisha, and Maharashtra over the next two years. With the RBI relaxing the threshold for NBFC-MFIs to hold 75% of the assets in MFI loans to 60%, the process of product diversification (eg MSME, mortgage) would accelerate and thus provide portfolio stability in the long run.

Stress flow easing, though credit cost to remain elevated in the near term

Fusion was early to report stress built up in 1Q due to the impact of the heat wave, followed by imposition of MFIN guardrails, with its GNPA ratio touching a high of 12.6% in 3Q and even leading to change in the management. Fusion logged one of the highest shares of borrowers with +3 lenders @31.5%, which remains elevated at 18% as of Mar-25. Thus, the unwinding could impact growth/asset quality in the near-to-medium term. The management claims that the new stress flow into 0+ DPD as well as within the 0-90 DPD pool has eased and should hence lead to lower NPA formation in FY26. However, we expect overall credit cost to remain elevated at ~5%, given higher write-offs. Per its strategy, the company also has plans to onboard a Chief Credit Officer, to improve credit underwriting practices and expand its on-field recovery team for driving up hard bucket recovery. Fusion has 19% of its MFI portfolio in the state of Bihar which we believe should be watched, given the ensuing elections.

Target Price – 12M	Mar-26
Change in TP (%)	25.9
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(17.5)

Stock Data	FUSION IN
52-week High (Rs)	452
52-week Low (Rs)	124
Shares outstanding (mn)	101.0
Market-cap (Rs bn)	29
Market-cap (USD mn)	336
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	236.8
ADTV-3M (USD mn)	2.8
Free float (%)	41.9
Nifty-50	25,637.8
INR/USD	85.5

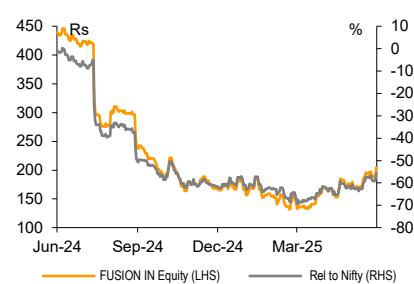
Shareholding, May-25

Promoters (%)	55.2
FPIs/MFs (%)	2.6/16.1

Price Performance

(%)	1M	3M	12M
Absolute	19.6	46.0	(53.0)
Rel. to Nifty	15.9	34.3	(55.9)

1-Year share price trend (Rs)



Fusion Finance: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profits	5,091	(12,245)	720	1,587	2,794
AUM growth (%)	23.5	(21.8)	(5.0)	15.0	25.0
NII growth (%)	35.9	(0.8)	(12.4)	7.2	20.2
NIMs (%)	12.7	13.2	14.0	13.8	13.7
PPOP growth (%)	44.3	(28.4)	(40.9)	(3.1)	29.7
Adj. EPS (Rs)	50.7	(121.7)	5.5	10.8	17.3
Adj. EPS growth (%)	19.8	NM	NM	97.3	59.5
Adj. BV (INR)	275.2	159.2	151.9	160.7	177.3
Adj. BVPS growth (%)	23.1	(42.2)	(4.6)	5.8	10.3
RoA (%)	4.8	(12.2)	0.9	1.7	2.5
RoE (%)	19.7	(54.5)	3.5	6.1	9.9
P/E (x)	4.1	(1.7)	37.5	19.0	11.9
P/ABV (x)	0.7	1.3	1.4	1.3	1.2

Source: Company, Emkay Research

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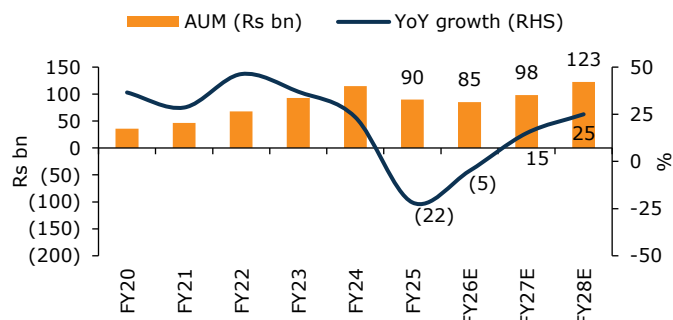
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Story in charts

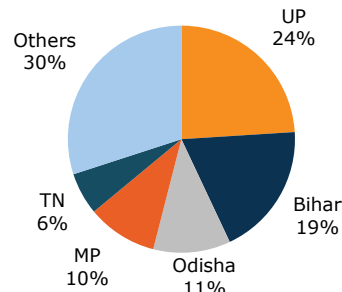
Exhibit 1: AUM growth to recover from H2FY26, as MFI stress eases



Source: Company, Emkay Research

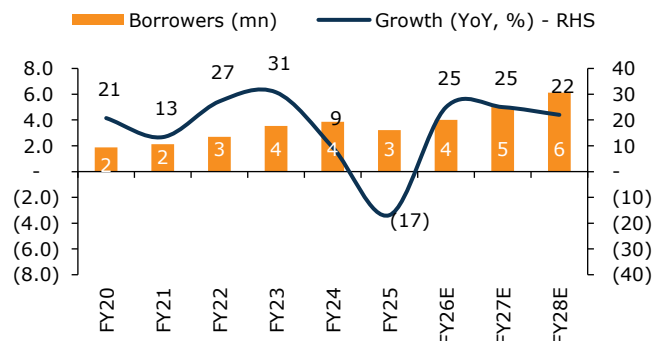
Exhibit 2: The top 5 states contribute ~70% of the portfolio

State-wise Loan Exposure - Mar '25



Source: Company, Emkay Research

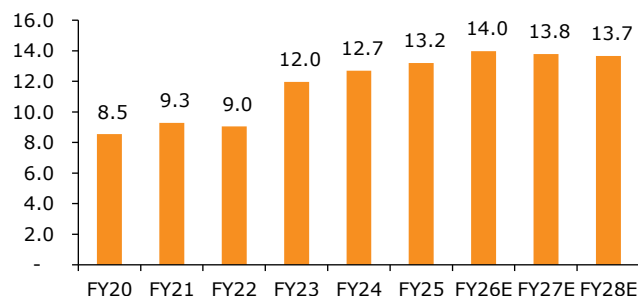
Exhibit 3: Number of borrowers declined in FY25 due to MFIN guardrails, albeit expected to gradually recover



Source: Company, Emkay Research

Exhibit 4: Loan diversification (MSME, mortgages) shall lead to higher operational costs and hurt margins

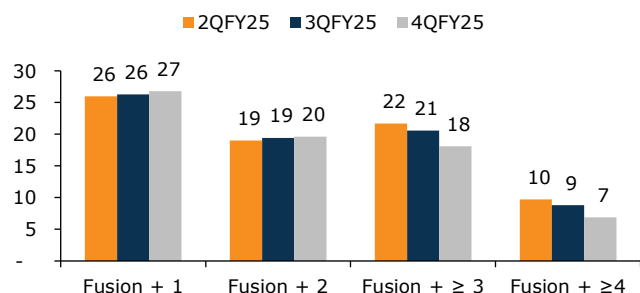
NIMs (%)



Source: Company, Emkay Research

Exhibit 5: Fusion +3/4 borrowers continue to decline QoQ...

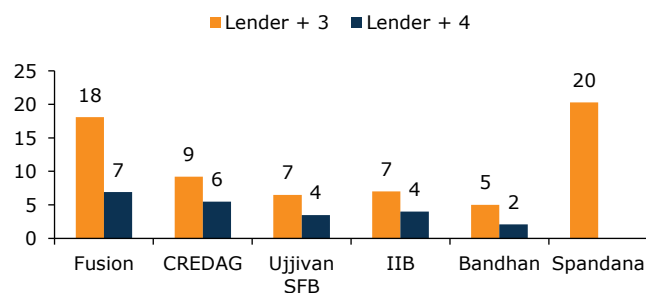
Customer Composition (%)



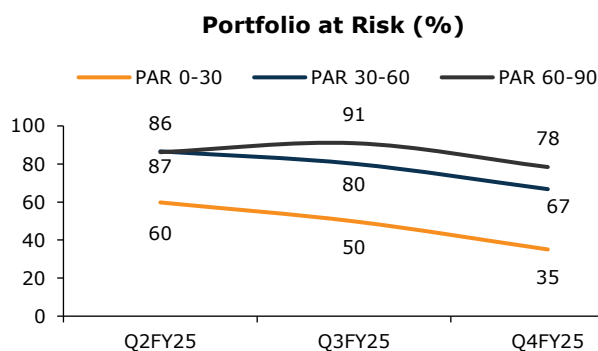
Source: Company, Emkay Research

Exhibit 6: ...albeit still higher than peers

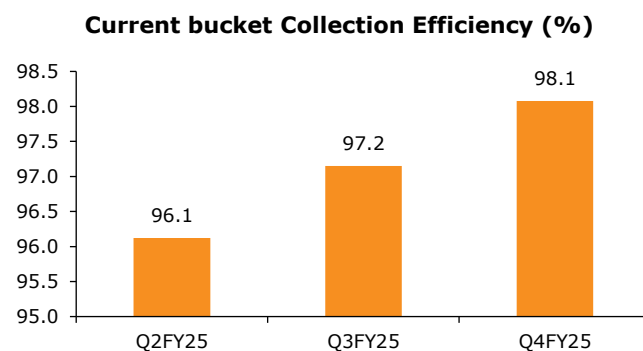
Customer composition - Fusion vs peers



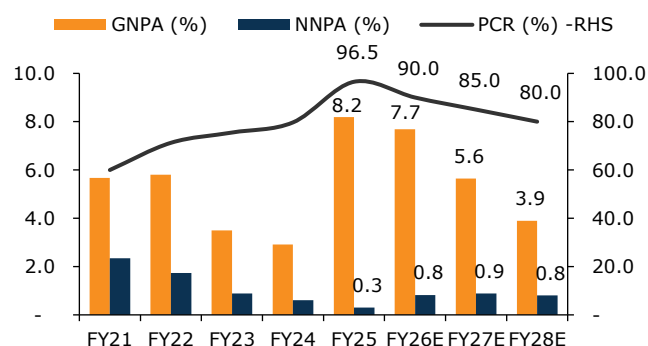
Source: Company, Emkay Research

Exhibit 7: PAR bucket flow is improving...

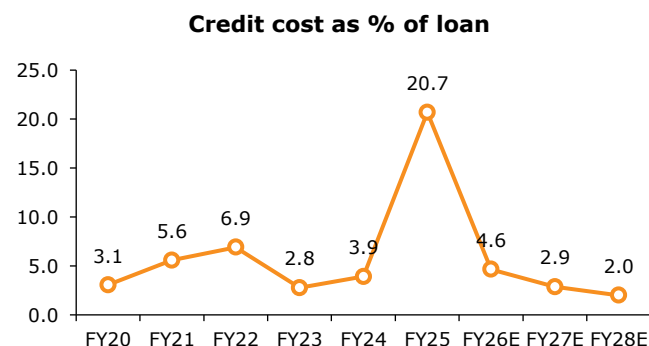
Source: Company, Emkay Research

Exhibit 8: ...which, coupled with improvement, in CE...

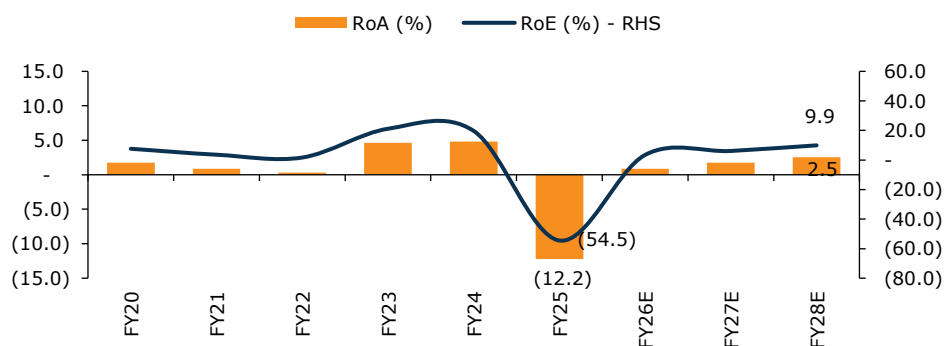
Source: Company, Emkay Research

Exhibit 9: ...shall lead to lower NPA ratios...

Source: Company, Emkay Research

Exhibit 10: ...and thus to lower credit costs

Source: Company, Emkay Research

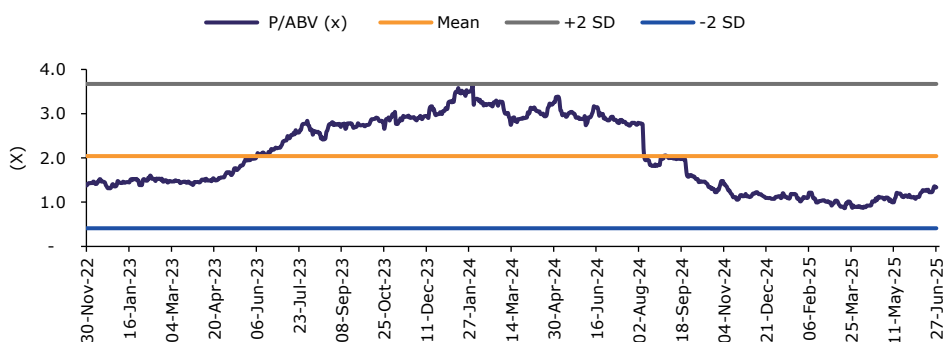
Exhibit 11: Lower incremental MFI stress, easing going concern issues, and gradual overall business recovery would lead to improvement in return ratios

Source: Emkay Research

Exhibit 12: The recent right issue of Rs 8bn (Rs 4bn paid up) aided in easing the going concern issues

Name of investors	Incremental share held of total right issue shares
Honey Rose Investment	39.1%
Creation Investments Fusion, LLC	6.7%
Creation Investments Fusion II, LLC	5.3%
HDFC Mutual Fund	4.7%
Four Dimensions Securities (India)	4.4%
ICICI Prudential Banking and Financial Services Fund	1.8%
ACM Global Fund VCC	1.2%
Nippon Life India Trustee	1.2%
Group Secure Fund	1.1%
Others (AIF/LLPs/bodies corporates/HUF/Trusts/NRIs, etc)	34.5%

Source: Company, Emkay Research

Exhibit 13: The stock currently trades at ~1.3x its 1Y forward ABV

Source: Company, Emkay Research

Fusion Finance: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	20,919	21,342	17,844	18,579	22,238
Interest Expense	7,908	8,439	6,539	6,455	7,663
Net interest income	13,011	12,904	11,304	12,124	14,575
NII growth (%)	35.9	(0.8)	(12.4)	7.2	20.2
Non interest income	3,205	2,347	2,324	2,746	3,028
Total income	16,216	15,250	13,629	14,870	17,603
Operating expenses	5,935	7,886	9,276	10,652	12,132
PPOP	10,281	7,365	4,353	4,218	5,472
PPOP growth (%)	44.3	(28.4)	(40.9)	(3.1)	29.7
Provisions & contingencies	3,611	18,695	3,595	2,351	1,979
PBT	6,670	(11,330)	758	1,867	3,493
Extraordinary items	-	-	-	-	-
Tax expense	1,580	915	38	280	699
Minority interest	-	-	-	-	-
Income from JV/Associates	-	-	-	-	-
Reported PAT	5,091	(12,245)	720	1,587	2,794
PAT growth (%)	31.5	NM	NM	120.3	76.1
Adjusted PAT	5,091	(12,245)	720	1,587	2,794
Diluted EPS (Rs)	50.7	(121.7)	5.5	10.8	17.3
Diluted EPS growth (%)	19.8	NM	NM	97.3	59.5
DPS (Rs)	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-
Effective tax rate (%)	23.7	(8.1)	5.0	15.0	20.0
Net interest margins (%)	12.7	13.2	14.0	13.8	13.7
Cost-income ratio (%)	36.6	51.7	68.1	71.6	68.9
PAT/PPOP (%)	49.5	(166.3)	16.5	37.6	51.1
Shares outstanding (mn)	100.6	100.7	161.7	161.7	161.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,192	1,192	1,803	1,803	1,803
Reserves & surplus	27,290	15,242	23,351	24,938	27,732
Net worth	28,482	16,434	25,154	26,741	29,535
Borrowings	86,159	64,020	58,522	68,439	89,827
Other liabilities & prov.	3,103	2,473	71	3,686	3,371
Total liabilities & equity	117,743	82,927	83,747	98,866	122,732
Net loans	99,479	72,612	70,676	84,058	106,933
Investments	21	21	21	21	21
Cash, other balances	15,532	8,531	10,664	11,773	12,263
Interest earning assets	115,031	81,163	81,360	95,851	119,217
Fixed assets	336	298	374	488	610
Other assets	2,376	1,466	2,014	2,527	2,906
Total assets	117,743	82,927	83,747	98,866	122,732
BVPS (Rs)	281.2	161.4	155.5	165.4	182.6
Adj. BVPS (INR)	275.2	159.2	151.9	160.7	177.3
Gross loans	101,848	78,847	75,926	88,296	110,370
Total AUM	114,761	89,800	85,310	98,107	122,633
On balance sheet	101,848	78,847	75,926	88,296	110,370
Off balance sheet	12,913	10,953	9,384	9,811	12,263
Disbursements	102,950	69,710	76,681	92,017	110,421
Disbursements growth (%)	19.8	(32.3)	10.0	20.0	20.0
Loan growth (%)	23.7	(27.0)	(2.7)	18.9	27.2
AUM growth (%)	23.5	(21.8)	(5.0)	15.0	25.0
Borrowings growth (%)	27.1	(25.7)	(8.6)	17.0	31.5
Book value growth (%)	22.0	(42.6)	(3.7)	6.3	10.4

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
GNPL - Stage 3	2,973	6,460	5,834	4,986	4,296
NNPL - Stage 3	603	224	583	748	859
GNPL ratio - Stage 3 (%)	2.9	8.2	7.7	5.6	3.9
NNPL ratio - Stage 3 (%)	0.6	0.3	0.8	0.9	0.8
ECL coverage - Stage 3 (%)	79.7	96.5	90.0	85.0	80.0
ECL coverage - 1 & 2 (%)	0	0	0	0	0
Gross slippage - Stage 3	3,271	16,816	4,176	2,825	2,759
Gross slippage ratio (%)	3.2	21.3	5.5	3.2	2.5
Write-off ratio (%)	110.3	448.4	74.3	63.0	69.2
Total credit costs (%)	3.9	20.7	4.6	2.9	2.0
NNPA to networth (%)	2.1	1.4	2.3	2.8	2.9
Capital adequacy					
Total CAR (%)	27.9	21.5	34.2	31.0	27.8
Tier-1 (%)	27.0	20.2	32.8	29.7	26.7
Miscellaneous					
Total income growth (%)	40.1	(6.0)	(10.6)	9.1	18.4
Opex growth (%)	33.4	32.9	17.6	14.8	13.9
PPOP margin (%)	9.9	7.2	5.0	4.6	5.0
Credit costs-to-PPOP (%)	35.1	253.8	82.6	55.7	36.2
Loan-to-Assets (%)	84.5	87.6	84.4	85.0	87.1
Yield on loans (%)	23.4	24.8	24.9	24.1	23.4
Cost of funds (%)	10.3	11.2	10.7	10.2	9.7
Spread (%)	13.1	13.5	14.3	13.9	13.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	4.1	(1.7)	37.5	19.0	11.9
P/B (x)	0.7	1.3	1.3	1.2	1.1
P/ABV (x)	0.7	1.3	1.4	1.3	1.2
P/PPOP (x)	2.0	2.8	7.7	7.9	6.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dupont (%)					
NII	12.3	12.9	13.6	13.3	13.2
Other income	3.0	2.3	2.8	3.0	2.7
Fee income	2.3	1.4	1.5	1.7	1.6
Opex	5.6	7.9	11.1	11.7	10.9
Employee expense	4.1	5.7	7.8	8.0	7.4
PPOP	9.7	7.3	5.2	4.6	4.9
Provisions	3.4	18.6	4.3	2.6	1.8
Tax expense	1.5	0.9	0.0	0.3	0.6
RoA (%)	4.8	(12.2)	0.9	1.7	2.5
Leverage ratio (x)	4.1	4.5	4.0	3.5	3.9
RoE (%)	19.7	(54.5)	3.5	6.1	9.9

Quarterly data					
Rs mn	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
NII	3,612	3,979	3,987	2,245	2,693
NIM (%)	11.6	11.6	11.5	8.9	8.6
PPOP	2,907	2,978	2,838	648	901
PAT	1,327	(356)	(3,050)	(7,193)	(1,646)
EPS (Rs)	13.2	(3.5)	(30.3)	(71.5)	(16.3)

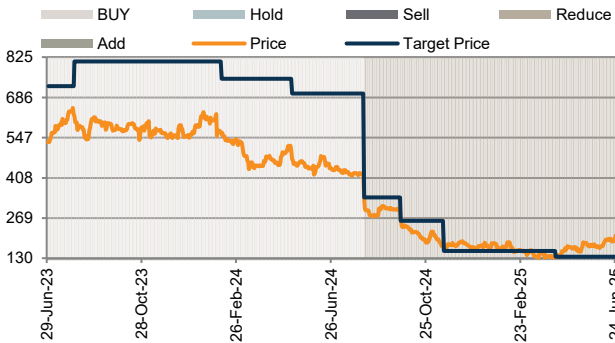
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-25	135	135	Reduce	Anand Dama
25-Dec-24	168	155	Reduce	Anand Dama
17-Nov-24	172	155	Reduce	Anand Dama
07-Oct-24	219	260	Reduce	Anand Dama
23-Sep-24	267	260	Reduce	Anand Dama
07-Aug-24	335	340	Reduce	Anand Dama
07-May-24	472	700	Buy	Anand Dama
07-Feb-24	559	750	Buy	Anand Dama
30-Nov-23	546	810	Buy	Anand Dama
07-Nov-23	551	810	Buy	Anand Dama
03-Aug-23	622	810	Buy	Anand Dama
01-Jul-23	532	725	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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