

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 0 Sell 0

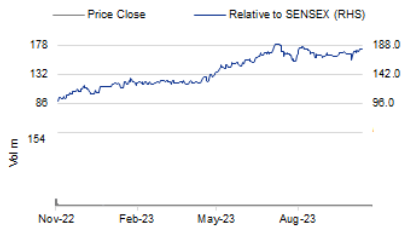
Current price:	Rs624
Target price:	Rs800
Previous target:	Rs800
Up/downside:	28.2%
InCred Research / Consensus:	2.6%

Reuters:	
Bloomberg:	FUSION IN
Market cap:	US\$757m
	Rs63,014m
Average daily turnover:	US\$1.9m
	Rs155.5m
Current shares o/s:	100.3m
Free float:	0.0%

*Source: Bloomberg

Key changes in this note

➤ The loan disbursement trend was weak (+14.2% yoy) amid an uneven monsoon in East India while elevated write-offs (Rs1bn) led to an improvement in the NPA numbers.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.6	0.7	0.0
Relative (%)	7.3	2.3	0.0

Major shareholders	% held
Honeyrose	39.4
Creation investment	13.8
Devesh Sachdev	4.9

Analyst(s)



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Fusion Micro Finance Ltd

Growth revival likely in 2HFY24F

- FMFL posted an in-line 2QFY24 PAT of Rs12.6bn aided by a sequential improvement in margins by ~23bp along with steady operating leverage.
- Disbursement trend was weak (+14.2% yoy) amid uneven monsoon in East India while elevated write-offs (Rs1bn) led to an improvement in NPA numbers.
- With better margins compensating for higher provisioning, we are factoring in a RoE of ~21-22% for FY24F-26F. Retain ADD rating with a TP of Rs800.

Disbursement trend to improve in 2HFY24F, concentration risk stays

Loan disbursements of Fusion Micro Finance (FMFL) were up by ~14.2% yoy to Rs23.4bn in 2QFY24, supporting the overall AUM growth of ~24.6% yoy to Rs100bn. The weak trend in disbursements is attributable to floods in the eastern states of India (East Uttar Pradesh & Bihar). Rising concentration risk, with the share of the top five states rising to ~70.1% vs. ~69.8% last quarter, is a cause of concern. We expect the disbursement growth to accelerate in 2HFY24F amid festive demand & a rising contribution from new states. FMFL has reported flat average ticket size qoq at Rs42.2k, which has also affected the growth.

Weak new customer additions; sustainable margin improvement

FMFL has added ~50,000 borrowers in 2QFY24, which is lower compared to ~1,10,000 borrowers added in 1QFY24 and ~2.90,000 borrowers added in 2QFY23. This has also resulted in a steep increase in the outstanding per borrower to Rs26.2k vs. Rs25.8k last quarter. We expect the momentum in customer additions to pick up in 2HFY24F. FMFL reported ~10bp sequential reduction in the marginal cost of funds to ~10.6%, despite a tighter monetary policy environment, which remains an achievement. This, coupled with ~20bp sequential surge in revenue yields, aided the sequential margin improvement.

Headline NPAs ease amid elevated write-offs

Headline non-performing assets or NPA numbers witnessed a sequential improvement, with GNPA at 2.68% (against ~3.2% in 1QFY24) due to elevated write-offs at Rs1.03bn., against Rs0.59bn last quarter, which need to ease gradually. FMFL's management has indicated that the write-offs pertain to the pre-Covid loan book along with the restructured portfolio, and the future trend will have a more granular movement in NPAs.

Outlook & valuation

We expect the loan disbursement growth to surge by 2HFY24F amid festive demand as well as a rising contribution from the new states. With elevated margins compensating for higher provisioning & with leverage improving, we factor in a RoE in the range of ~21-22% for FY24F-26F. We have an ADD rating on the stock with a target price of Rs800, or ~2.2x P/BV on Mar 2025F. Downside risks: Weak growth and a surge in fresh slippage. Considering the robust growth profile, return ratios improving and attractive risk-reward, we continue to prefer Spandana Sphoorty (ADD, TP Rs1,150) over Fusion Micro Finance.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	5,684	9,573	12,613	15,161	18,455
Total Non-Interest Income (Rsm)	1,370	1,999	3,071	3,741	4,574
Operating Revenue (Rsm)	7,054	11,572	15,683	18,902	23,029
Total Provision Charges (Rsm)	(3,687)	(2,004)	(3,071)	(3,242)	(3,659)
Net Profit (Rsm)	219	3,871	5,121	6,281	7,803
Core EPS (Rs)	2.66	38.58	50.65	62.11	77.17
Core EPS Growth	(52%)	1,353%	31%	23%	24%
FD Core P/E (x)	234.92	16.17	12.32	10.04	8.08
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	162.3	231.4	280.3	342.4	419.6
P/BV (x)	3.84	2.70	2.23	1.82	1.49
ROE	1.7%	21.2%	19.9%	20.0%	20.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,861.2	2,424.5	2,522.5	2,765.0	2,955.2	3,057.9	26.1%	3.5%
<i>NIM (% of AUM) Calculated</i>	9.4%	10.2%	10.3%	10.6%	10.9%	11.1%		
Fee-Based Income	309.0	524.7	461.8	699.5	737.8	744.6	41.9%	0.9%
Operating Expenses	969.5	1,077.2	1,146.2	1,253.3	1,339.1	1,384.6	28.5%	3.4%
Operating Profit	1,200.7	1,872.0	1,838.1	2,211.2	2,353.9	2,417.9	29.2%	2.7%
Provisions	200.6	611.8	499.3	692.0	759.3	762.0	24.6%	0.4%
Exceptional Items	-	-	-	-	-	-		
PBT	1,000.1	1,260.2	1,338.8	1,519.3	1,594.6	1,655.9	31.4%	3.8%
Tax	250.2	310.0	313.9	374.0	390.0	399.0	28.7%	2.3%
<i>Tax Rate (%)</i>	25.0%	24.6%	23.4%	24.6%	24.5%	24.1%		
PAT	749.9	950.2	1,024.9	1,145.2	1,204.6	1,256.9	32.3%	4.3%
AUM (Rs b)	73.9	80.5	86.5	93.0	97.1	100.3	24.6%	3.2%
Disbursements (Rs bn)	19.8	20.5	21.9	23.7	22.8	23.4	14.2%	2.6%

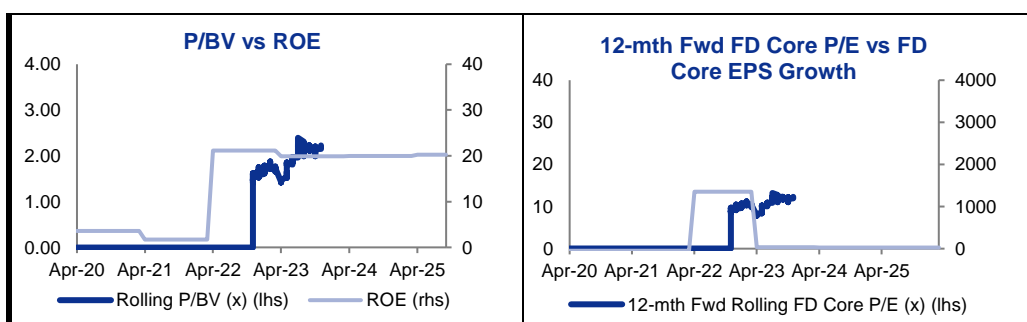
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	13,609	12,613	-7.3%	17,791	15,161	-14.8%	22,519	18,455	-18.0%
Non-Interest Income	2,589	3,071	18.6%	2,538	3,741	47.4%	2,892	4,574	58.1%
PPOP	10,414	9,899	-4.9%	13,133	11,730	-10.7%	16,437	14,204	-13.6%
PAT	5,471	5,121	-6.4%	7,214	6,281	-12.9%	9,220	7,803	-15.4%
EPS (Rs)	54.1	50.6	-6.4%	71.3	62.1	-12.9%	91.2	77.2	-15.4%
BV (Rs)	283.7	280.3	-1.2%	355.1	342.4	-3.6%	446.3	419.6	-6.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	5,684	9,573	12,613	15,161	18,455
Total Non-Interest Income	1,370	1,999	3,071	3,741	4,574
Operating Revenue	7,054	11,572	15,683	18,902	23,029
Total Non-Interest Expenses	(3,122)	(4,448)	(5,784)	(7,172)	(8,825)
Pre-provision Operating Profit	3,932	7,124	9,899	11,730	14,204
Total Provision Charges	(3,687)	(2,004)	(3,071)	(3,242)	(3,659)
Operating Profit After Provisions	245	5,120	6,828	8,488	10,544
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	245	5,120	6,828	8,488	10,544
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	245	5,120	6,828	8,488	10,544
Exceptional Items					
Pre-tax Profit	245	5,120	6,828	8,488	10,544
Taxation	(26)	(1,248)	(1,707)	(2,207)	(2,742)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	219	3,871	5,121	6,281	7,803
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	219	3,871	5,121	6,281	7,803
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets					
Avg Liquid Assets/Avg IEAs	124.2%	115.9%	115.4%	118.3%	121.2%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	59,181	80,416	96,671	119,753	147,229
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	59,181	80,416	96,671	119,753	147,229
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	59,181	80,416	96,671	119,753	147,229
Intangible Assets					
Other Non-Interest Earning Assets	1,129	1,200	1,499	1,874	2,343
Total Non-Interest Earning Assets	1,321	1,409	1,730	2,128	2,622
Cash And Marketable Securities	11,535	10,650	16,600	23,065	33,579
Long-term Investments					
Total Assets					
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	57,757	67,784	80,488	102,622	131,598
Total Interest-Bearing Liabilities	57,757	67,784	80,488	102,622	131,598
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,768	2,632	6,172	7,702	9,407
Total Liabilities	59,525	70,416	86,660	110,325	141,005
Shareholders Equity	13,379	23,219	28,340	34,621	42,424
Minority Interests					
Total Equity					

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	25.6%	68.4%	31.7%	20.2%	21.7%
Operating Profit Growth	41.6%	81.2%	39.0%	18.5%	21.1%
Pretax Profit Growth	(57%)	1,991%	33%	24%	24%
Net Interest To Total Income	80.6%	82.7%	80.4%	80.2%	80.1%
Cost Of Funds	9.72%	10.24%	10.60%	10.00%	9.50%
Return On Interest Earning Assets	20.7%	22.9%	23.1%	22.5%	22.2%
Net Interest Spread	10.99%	12.68%	12.52%	12.47%	12.66%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	94%	28%	31%	28%	26%
Interest Return On Average Assets					
Effective Tax Rate	10.6%	24.4%	25.0%	26.0%	26.0%
Net Dividend Payout Ratio					
Return On Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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