

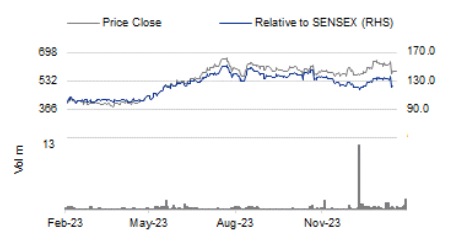
India

ADD (no change)

Consensus ratings*: Buy 12 Hold 0 Sell 0	
Current price:	Rs588
Target price:	Rs750
Previous target:	Rs800
Up/downside:	27.6%
InCred Research / Consensus:	-1.7%
Reuters:	
Bloomberg:	FUSION IN
Market cap:	US\$716m
	Rs59,448m
Average daily turnover:	US\$4.6m
	Rs382.5m
Current shares o/s:	100.3m
Free float:	0.0%
*Source: Bloomberg	

Key changes in this note

➤ Though management believes the worst is behind & normalcy will return in Punjab, we feel such adversities/uncertainties will weigh over the valuation.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.4)	(5.7)	39.6
Relative (%)	(3.0)	(14.6)	17.7

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

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Fusion Micro Finance Ltd

Volatility in Punjab to weigh over valuation

- FMFL has posted a weak 3Q PAT of Rs12.6bn due to elevated provisioning (+23% qoq) because of higher delinquencies in the state of Punjab.
- Though FMFL's management believes the worst is behind & normalcy to return in Punjab, we feel such adversities/uncertainties will weigh over the valuation.
- Operationally it is improving but Punjab uncertainty, concentrated AUM & weak customer addition are areas of concern. Retain ADD with a lower TP of Rs750.

Trend in disbursements improving but concentration risk remains

The disbursements of Fusion Micro Finance (FMFL) are regaining momentum after a relatively weak first-half, up by ~15.8% qoq to Rs27.1bn, supporting the overall AUM to Rs106.9bn (+6.7% qoq) but rising concentration risk, with the share of top five states rising to ~70.4% vs. ~70.1% in 2QFY24 quarter remains a cause of concern. We expect the disbursement trend to stay healthy in 4QFY24F aided by improvement in avg. ticket size.

Weak customer addition; adversities visible in per borrower data

FMFL added ~90,000 borrowers in 3QFY24, which is better than the previous quarter's 50,000, but is lower compared to ~1,10,000 borrowers in 1QFY24. The company has added ~2,50,000 customers in 9MFY24 vs. ~8,10,000 additions in FY23. This is reflected in the borrowers per branch, which declined to 3,260 in 3QFY24 vs. 3,513 in 1QFY24, indicating weaker branch productivity. This also indicates that incremental disbursement growth is largely contributed by the rise in ticket size instead of the increase in customer base. Average ticket size increased to Rs44.7k against Rs41.2k in 4QFY23, indicating +8.5% YTD growth. This also resulted in a steep rise in the outstanding per borrower to Rs27.2k vs. Rs26.2K in the previous quarter.

Headline NPAs rise amid Punjab blues but credit costs stay elevated

Headline non-performing assets or NPAs saw a qoq rise as the collection efficiency in Punjab remains a challenge at ~84.4% vs. ~93.7% in Mar 2023 due to non-payment of dues by many borrowers under the 'Karza Mukti Yojana' prevailing in the state, which mainly convinces MFI borrowers that they should not pay their dues. Credit costs have inched up to ~1% in 3QFY24 vs. ~85bp in the previous quarter. FMFL has utilized management overlay of Rs200m while Rs2.7bn of Stage-three loan loss is because of Punjab operations. Though FMFL's management expects normalcy to return in Punjab, the trend in credit costs may stay elevated in 4QFY24F.

Outlook & valuation

We appreciate the operational improvement through better margins (+42bp qoq) and superior disbursement growth. However, the Punjab uncertainty, concentrated AUM & weak customer addition are the areas of concern. We retain our ADD rating on the stock with a lower target price of Rs750 (Rs800 earlier), or ~2.2x Mar 2025F P/BV. Downside risks: Weak growth & a surge in fresh slippage. Considering the attractive risk-reward ratio, we continue to prefer Spandana Sphoorty Financial (ADD, TP Rs1,150) over FMFL..

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	5,684	9,573	13,066	16,002	19,722
Total Non-Interest Income (Rsm)	1,370	1,999	3,101	3,849	4,781
Operating Revenue (Rsm)	7,054	11,572	16,167	19,851	24,504
Total Provision Charges (Rsm)	(3,687)	(2,004)	(3,617)	(4,105)	(4,702)
Net Profit (Rsm)	219	3,871	5,014	6,140	7,743
Core EPS (Rs)	2.66	38.58	49.88	61.09	77.03
Core EPS Growth	(52%)	1,353%	29%	22%	26%
FD Core P/E (x)	221.62	15.25	11.80	9.63	7.64
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	280.9	342.0	419.0
P/BV (x)	3.63	2.54	2.10	1.72	1.40
ROE	1.7%	21.2%	19.5%	19.6%	20.2%
% 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	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,861.2	2,424.5	2,522.5	2,765.0	2,955.2	3,057.9	3,385.8	34.2%	10.7%
<i>NIM (% of AUM) Calculated</i>	9.4%	10.2%	10.3%	10.6%	10.9%	11.1%	11.5%		
Fee-Based Income	309.0	524.7	461.8	699.5	737.8	744.6	732.0	58.5%	-1.7%
Operating Expenses	969.5	1,077.2	1,146.2	1,253.3	1,339.1	1,384.6	1,515.2	32.2%	9.4%
Operating Profit	1,200.7	1,872.0	1,838.1	2,211.2	2,353.9	2,417.9	2,602.6	41.6%	7.6%
Provisions	200.6	611.8	499.3	692.0	759.3	762.0	937.6	87.8%	23.0%
Exceptional Items	-	-	-	-	-	-	-		
PBT	1,000.1	1,260.2	1,338.8	1,519.3	1,594.6	1,655.9	1,665.0	24.4%	0.5%
Tax	250.2	310.0	313.9	374.0	390.0	399.0	400.5	27.6%	0.4%
<i>Tax Rate (%)</i>	25.0%	24.6%	23.4%	24.6%	24.5%	24.1%	24.1%		
PAT	749.9	950.2	1,024.9	1,145.2	1,204.6	1,256.9	1,264.5	23.4%	0.6%
AUM (Rs bn)	73.9	80.5	86.5	93.0	97.1	100.3	106.9	23.6%	6.7%
Disbursements (Rs bn)	19.8	20.5	21.9	23.7	22.8	23.4	27.1	24.0%	15.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

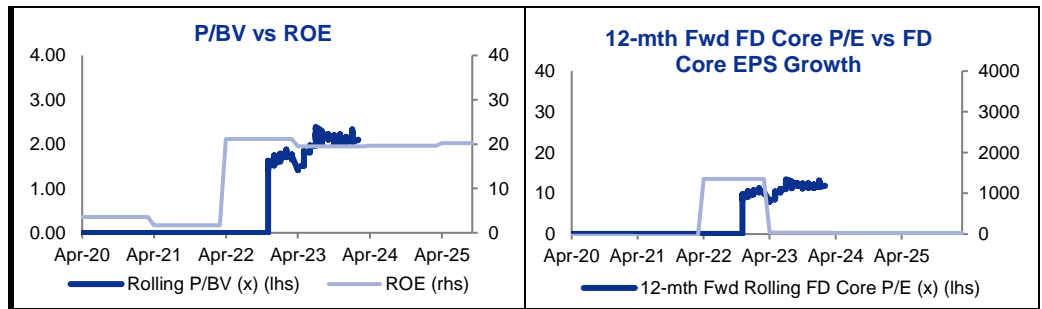
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	12,613	13,066	3.6%	15,161	16,002	5.6%	18,455	19,722	6.9%
Non-Interest Income	3,071	3,101	1.0%	3,741	3,849	2.9%	4,574	4,781	4.5%
PPOP	9,899	10,215	3.2%	11,730	12,292	4.8%	14,204	15,026	5.8%
PAT	5,121	5,014	-2.1%	6,281	6,140	-2.2%	7,803	7,743	-0.8%
EPS (Rs)	50.6	49.9	-1.5%	62.1	61.1	-1.7%	77.2	77.0	-0.2%
BV (Rs)	280.3	280.9	0.2%	342.4	342.0	-0.1%	419.6	419.0	-0.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fusion Micro Finance's 3QFY24 earnings-call highlights:

- Branch expansion is focused on the non-top five states of its operations, where these states had a share of 70% when it comes to new branches opened.
- Net interest margin or NIM during the quarter stood at 11.54%, where the guidance range was 11.2%-11.5%.
- Improvement in the cost-to-income ratio stood at just 291bp in 9MFY24 because of branch expansions in 2Q/3QFY24.
- The collection efficiency guidance in 2QFY24 was for Punjab, Rajasthan, Haryana and Gujarat, but except for Punjab, the collection efficiency in other states has stabilized.
- Due to the ongoing problems on the collection front, disbursements in Punjab have been frozen until the situation normalizes. The rise in gross non-performing assets or GNPA's is mostly due to Punjab.
- Based on the last 10 days' collection efficiency in Punjab, FMFL's management expects it to remain stable but it is monitoring the situation closely.
- The company is focused on diversification by expanding in Karnataka, Andhra and Telangana, where 67 branches out of 156 branches have been set up so far in the current financial year.
- The rise in employee benefit expenses is due to the addition made in the workforce, with 1,155 employees joining the company.
- The company has provided management overlay of Rs200m for Punjab while Rs2.7bn of Stage-three loan loss is because of Punjab.
- The net credit cost guidance for FY24F of up to 3.5% is largely because of Punjab.
- Top five states' loan book contribution is as follows: Uttar Pradesh at Rs23.26 bn, Bihar at Rs21.04bn, Odisha at Rs12.17bn, Madhya Pradesh at Rs9.69bn and Tamil Nadu at Rs6.85bn.
- The company stated that it will come out with its guidance for FY25F in 1QFY 25F.
- It gave MSME loan mix guidance as 60-65% secured and 30-35% unsecured.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	5,684	9,573	13,066	16,002	19,722
Total Non-Interest Income	1,370	1,999	3,101	3,849	4,781
Operating Revenue	7,054	11,572	16,167	19,851	24,504
Total Non-Interest Expenses	(3,122)	(4,448)	(5,952)	(7,559)	(9,478)
Pre-provision Operating Profit	3,932	7,124	10,215	12,292	15,026
Total Provision Charges	(3,687)	(2,004)	(3,617)	(4,105)	(4,702)
Operating Profit After Provisions	245	5,120	6,598	8,187	10,324
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	245	5,120	6,598	8,187	10,324
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	245	5,120	6,598	8,187	10,324
Exceptional Items					
Pre-tax Profit	245	5,120	6,598	8,187	10,324
Taxation	(26)	(1,248)	(1,583)	(2,047)	(2,581)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	219	3,871	5,014	6,140	7,743
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	219	3,871	5,014	6,140	7,743
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%	115.0%	116.3%	117.3%
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	98,396	124,259	154,824
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	59,181	80,416	98,396	124,259	154,824
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	59,181	80,416	98,396	124,259	154,824
Intangible Assets					
Other Non-Interest Earning Assets	1,129	1,200	1,559	2,027	2,635
Total Non-Interest Earning Assets	1,321	1,409	1,895	2,446	3,138
Cash And Marketable Securities	11,535	10,650	16,115	20,123	28,082
Long-term Investments					
Total Assets					
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	57,757	67,784	81,985	104,694	134,404
Total Interest-Bearing Liabilities	57,757	67,784	81,985	104,694	134,404
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,768	2,632	6,188	7,761	9,524
Total Liabilities	59,525	70,416	88,172	112,454	143,928
Shareholders Equity	13,379	23,219	28,233	34,374	42,117
Minority Interests					
Total Equity					

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	25.6%	68.4%	36.5%	22.5%	23.2%
Operating Profit Growth	41.6%	81.2%	43.4%	20.3%	22.2%
Pretax Profit Growth	(57%)	1,991%	29%	24%	26%
Net Interest To Total Income	80.6%	82.7%	80.8%	80.6%	80.5%
Cost Of Funds	9.72%	10.24%	10.50%	10.00%	9.50%
Return On Interest Earning Assets	20.7%	22.9%	23.4%	22.8%	22.3%
Net Interest Spread	10.99%	12.68%	12.91%	12.76%	12.77%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	94%	28%	35%	33%	31%
Interest Return On Average Assets					
Effective Tax Rate	10.6%	24.4%	24.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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