



India

HOLD (previously ADD)

Consensus ratings*: Buy 12 Hold 0 Sell 0

Current price: Rs521
 Target price: ▼ Rs570
 Previous target: Rs750
 Up/downside: 9.4%
 InCred Research / Consensus: -21.5%

Reuters:
 Bloomberg: FUSION IN
 Market cap: US\$630m
 Rs52,593m
 Average daily turnover: US\$2.1m
 Rs173.5m
 Current shares o/s: 100.3m
 Free float: 0.0%

*Source: Bloomberg

Key changes in this note

Punjab uncertainty, concentrated AUM & weak customer additions pose problems.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.3	(11.0)	17.7
Relative (%)	5.8	(13.1)	(2.8)

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

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Fusion Micro Finance Ltd

Punjab & weak customer addition an issue

- Downgrade FMFL to a HOLD rating with a lower TP of Rs570 or ~1.4x FY26F BV amid Punjab uncertainty, concentrated AUM and weak customer growth.
- FMFL has reported a weak 4Q PAT of Rs13.3bn, despite healthy operating performance amid elevated provisioning, due to deteriorating asset quality.
- Exposure to Punjab reduced to ~2.8% of AUM (-80bp qoq), with collection efficiency falling to ~75% & a rise in PAR 60+ book to ~35.7% of the portfolio.

Disbursement trend improving but concentration risk stays

The disbursements of Fusion Micro Finance (FMFL) are regaining momentum post relatively weak first half, up by ~8.9% qoq at Rs29.5bn, supporting the overall AUM at Rs114.8bn (+7.3% qoq) but the concentration risk with the share of top five states remaining elevated at ~70.4% remains a cause of concern. Management remains confident of a healthy trend in disbursements in FY25F but general elections in 1QFY25F along with prolonged weakness in Punjab remains a risk to growth in the near term.

Weak customer addition, adversities visible in per borrower data

Fusion Micro Finance added ~80,000 borrowers in 4QFY24 against 90,000 in the last quarter. It added a net ~3,30,000 customers in FY24 vs. ~8,10,000 additions during FY23, which remains a disappointment. This is reflected through borrowers per branch, which has reduced to 3,204 in FY24 against 3,452 in FY23, indicating weaker branch productivity. This also indicates that incremental disbursement growth is largely contributed by the rise in loan ticket sizes instead of the rise in customer base. The average loan ticket size has increased to Rs43.4k against Rs37.9k in FY23, indicating +14.5% yoy growth. This has resulted in a steep rise in outstanding per borrower to Rs28.5K vs. Rs25.6K last year.

Margins witness sequential improvement; credit costs stay elevated

Margins during the quarter witnessed ~5bp sequential improvement amid a consistent decline in the cost of funds. There are more upticks left in the net interest margin or NIM, which will be seen in 1HFY25F due to the revision in the cost of funds. However, FMFL will utilize NIM improvement to create more provision overlay to avoid future volatility. Exposure to Punjab fell further to ~2.8% of AUM (-80bp qoq) with collection efficiency falling to ~75% from ~84.4% in Dec 2023 and a rise in the PAR 60+ book to ~35.7% of the portfolio vs. ~12.9% last quarter. FMFL has given credit cost guidance of below ~3% for FY25F, which is higher than most peers and has an upside risk considering the volatility in Punjab.

Outlook & valuation

Punjab uncertainty, concentrated AUM & weak customer additions pose problems. We downgraded FMFL's rating to HOLD (ADD earlier) with a lower target price of Rs570 (Rs750 earlier) or ~1.4x FY26F BV due to these problems. We continue to prefer Spandana Sphoorty (ADD, TP Rs1,300) Upside risks: Superior growth & a decline in fresh slippage. Downside risks: Deterioration in asset quality and slow growth.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	9,573	13,011	16,375	20,202	24,598
Total Non-Interest Income (Rsm)	1,999	3,205	3,643	4,250	5,066
Operating Revenue (Rsm)	11,572	16,216	20,018	24,452	29,664
Total Provision Charges (Rsm)	(2,004)	(3,649)	(4,294)	(5,313)	(6,485)
Net Profit (Rsm)	3,871	5,053	6,064	7,292	8,631
Core EPS (Rs)	38.58	50.27	60.33	72.54	85.86
Core EPS Growth	1,353%	20%	20%	20%	18%
FD Core P/E (x)	13.49	10.36	8.63	7.18	6.06
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)	231.4	283.4	343.7	416.2	502.1
P/BV (x)	2.25	1.84	1.51	1.25	1.04
ROE	21.2%	19.5%	19.2%	19.1%	18.7%

% 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	4QFY24	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	3,611.8	30.6%	6.7%
<i>NIM (% of AUM) Calculated</i>	9.4%	10.2%	10.3%	10.6%	10.9%	11.1%	11.5%	11.2%		
Fee-Based Income	309.0	524.7	461.8	699.5	737.8	744.6	732.0	990.8	41.6%	35.4%
Operating Expenses	969.5	1,077.2	1,146.2	1,253.3	1,339.1	1,384.6	1,515.2	1,695.8	35.3%	11.9%
Operating Profit	1,200.7	1,872.0	1,838.1	2,211.2	2,353.9	2,417.9	2,602.6	2,906.8	31.5%	11.7%
Provisions	200.6	611.8	499.3	692.0	759.3	762.0	937.6	1,189.7	71.9%	26.9%
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	1,000.1	1,260.2	1,338.8	1,519.3	1,594.6	1,655.9	1,665.0	1,717.1	13.0%	3.1%
Tax	250.2	310.0	313.9	374.0	390.0	399.0	400.5	390.2	4.3%	-2.6%
<i>Tax rate (%)</i>	25.0%	24.6%	23.4%	24.6%	24.5%	24.1%	24.1%	22.7%		
PAT	749.9	950.2	1,024.9	1,145.2	1,204.6	1,256.9	1,264.5	1,326.9	15.9%	4.9%
AUM (Rs bn)	73.9	80.5	86.5	93.0	97.1	100.3	106.9	114.8	23.5%	7.3%
Disbursements (Rs bn)	19.8	20.5	21.9	23.7	22.8	23.4	27.1	29.5	24.5%	8.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

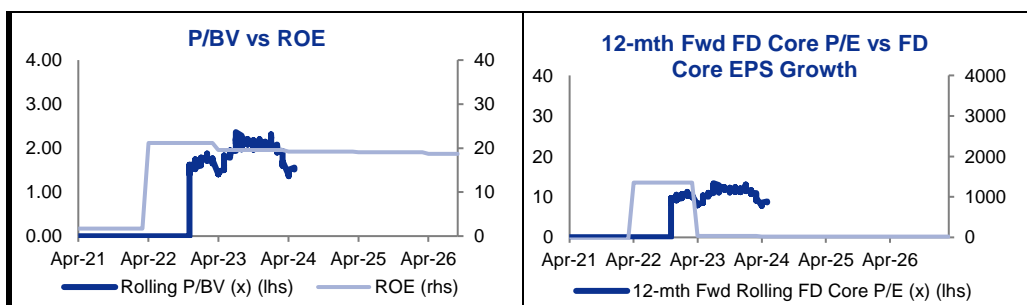
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	15,161	16,375	8.0%	18,455	20,202	9.5%	NA	24,598	NA
Non-interest income	3,741	3,643	-2.6%	4,574	4,250	-7.1%	NA	5,066	NA
PPOP	11,730	12,379	5.5%	14,204	15,035	5.9%	NA	17,992	NA
PAT	6,281	6,064	-3.5%	7,803	7,292	-6.5%	NA	8,631	NA
EPS (Rs)	62.1	60.3	-2.9%	77.2	72.5	-6.0%	NA	85.9	NA
BV (Rs)	342.4	343.7	0.4%	419.6	416.2	-0.8%	NA	502.1	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

- The guided range for RoA is 4.25-4.5% and for RoE it is 18-20%, with AUM growing 25%.
- The focus area for the Punjab portfolio is collections and continuously monitoring the situation while the call on fresh disbursements will be taken post general elections.
- Total impact of Punjab in credit costs stood at 8-10bp.
- No other state is facing any major issue except for some patches of stress witnessed in Rajasthan (due to floods) and Haryana. However, management sees good potential in these states and improving performance in Gujarat.
- The company will continue to maintain its hybrid collection policy on a monthly and fortnightly basis as there is a small difference in the collection efficiency.
- The fortnightly collection model is present in ~20% of the branches, which largely relates to new branches opened in Andhra Pradesh, Telangana and Maharashtra.
- The loan write-offs during the quarter stood at Rs751.1m, with an income de-recognition of Rs152.2m. The policy is to write off post 365 days of delinquency, which was earlier at 270 days.
- Opex was high due to investments in the SME business, higher investment in technology, branch and employee addition and higher relationship officers per customer.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	9,573	13,011	16,375	20,202	24,598
Total Non-Interest Income	1,999	3,205	3,643	4,250	5,066
Operating Revenue	11,572	16,216	20,018	24,452	29,664
Total Non-Interest Expenses	(4,448)	(5,935)	(7,639)	(9,417)	(11,672)
Pre-provision Operating Profit	7,124	10,281	12,379	15,035	17,992
Total Provision Charges	(2,004)	(3,649)	(4,294)	(5,313)	(6,485)
Operating Profit After Provisions	5,120	6,633	8,086	9,722	11,507
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	5,120	6,633	8,086	9,722	11,507
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	5,120	6,633	8,086	9,722	11,507
Exceptional Items					
Pre-tax Profit	5,120	6,633	8,086	9,722	11,507
Taxation	(1,248)	(1,580)	(2,021)	(2,431)	(2,877)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	3,871	5,053	6,064	7,292	8,631
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	3,871	5,053	6,064	7,292	8,631
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets					
Avg Liquid Assets/Avg IEAs	115.9%	114.6%	113.3%	109.0%	106.9%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	80,416	99,479	126,543	159,706	196,970
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	80,416	99,479	126,543	159,706	196,970
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	80,416	99,479	126,543	159,706	196,970
Intangible Assets					
Other Non-Interest Earning Assets	1,200	1,592	2,069	2,690	3,497
Total Non-Interest Earning Assets	1,409	1,816	2,349	3,026	3,900
Cash And Marketable Securities	10,650	15,532	14,478	11,389	13,054
Long-term Investments					
Total Assets					
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	67,784	86,159	102,145	124,037	153,250
Total Interest-Bearing Liabilities	67,784	86,159	102,145	124,037	153,250
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,632	3,103	6,679	8,247	10,206
Total Liabilities	70,416	89,262	108,825	132,283	163,456
Shareholders Equity	23,219	28,482	34,546	41,838	50,468
Minority Interests					
Total Equity					

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	68.4%	35.9%	25.9%	23.4%	21.8%
Operating Profit Growth	81.2%	44.3%	20.4%	21.5%	19.7%
Pretax Profit Growth	1,991%	30%	22%	20%	18%
Net Interest To Total Income	82.7%	80.2%	81.8%	82.6%	82.9%
Cost Of Funds	10.24%	10.27%	9.90%	9.60%	9.30%
Return On Interest Earning Assets	22.9%	23.3%	22.7%	21.7%	21.0%
Net Interest Spread	12.68%	12.98%	12.84%	12.10%	11.72%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	28%	35%	35%	35%	36%
Interest Return On Average Assets					
Effective Tax Rate	24.4%	23.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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